

Rising Above
the Expectations



Secretary - PIA
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Karachi - 75200, Pakistan.
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www.piac.aero

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Annual Report 2012



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Soaring to Win



Vision

PIA's vision is to be a world class profitable airline meeting customer expectations through excellent services, on-time performance, innovative products and absolute safety

Mission

Employee teams will contribute towards making PIA a global airline of choice through:

- Offering quality customer services and innovative products
- Using state-of-the-art technologies
- Ensuring cost-effective measures in procurement and operations
- Developing Safety Culture

Corporate Values

Customer Expectations

(Convenience, Care, Affordability)

Service

(Personalized, Courteous, Passionate)

Innovation

(New Ideas, Products, Value Added Services)

Cohesiveness

(Respect for Individuals, Teamwork and Effective Communication)

Integrity

(Business Ethics, Accountability, and Transparency)

Reliability

(Loyalty and Consistency)

Safety

(Passengers, Employees, Environment)

Social Responsibility

(Welfare, Health, Education)



Believing in Diversity



Notice of 56th Annual General Meeting

Notice is hereby given that 56th Annual General Meeting of the Shareholders of Pakistan International Airlines Corporation will be held at 10:00 A.M. on Tuesday, May 28, 2013 at CAA Jogging Track Lawn, Grand Ballroom, opposite CAA Club, Near Star Gate, Main Shahra-e-Faisal, Karachi to transact the following business:

1. To receive and adopt the Audited Accounts for the Financial Year ended December 31, 2012, the Report of the Auditors thereon, and the Report of the Directors.
2. To transact any other business with the permission of the Chair.

By order of the Board

Karachi
May 06, 2013

Younus M. Khan
Secretary-PIA

Notes

1. The shares transfer books of the Corporation will remain closed from Tuesday, May 21, 2013 to Tuesday, May 28, 2013 (both days inclusive). Transfer documents (Physical Scrip Transfers / CDS Transaction IDs) received in order at the office of PIA Share Registrar / Transfer Agent, Central Depository Company of Pakistan Limited, CDC House, 99-B, Block B, S.M.C.H.S. Main Shahrah-e-Faisal, Karachi, upto 05:00 PM, by Monday, May 20, 2013 will be in time for registration of transfer of shares.
2. A Shareholder entitled to attend and vote at the Meeting may appoint another shareholder as his/her proxy. Proxy and Power of Attorney, in order to be effective, must be deposited at the registered office of PIA Share Registrar / Transfer Agent alongwith copy of CNIC not less than 48 hours before the time fixed for holding the Meeting, unless the Power of Attorney has already been registered in the Corporation books, and must be stamped, signed and witnessed.
3. Any individual Beneficial Owner of CDC, entitled to attend and vote at the Meeting, must bring his / her CNIC or Passport to authenticate his / her identity alongwith CDC Account Numbers. However, if proxy is granted by such a shareholder, the same shall also have to be accompanied with an attested copy of CNIC or Passport of the granter. Representatives of Corporate Shareholders should bring the usual documents required for such purpose.
4. Shareholders are requested to promptly notify changes, if any, in their registered mailing addresses and also for the consolidation of folio numbers if any shareholder holds more than one folio to PIA Share Registrar / Transfer Agent.



Illuminating the Path to Success



Corporate Profile (as at April 26, 2013)

Board of Directors

Lt Gen Asif Yasin Malik (Retd)
Federal Secretary Defence and Chairman-PIA

Malik Nazir Ahmed

Mr Javed Akhtar

Syed Omar Sharif Bokhari

Mr Husain Lawai

Makhdum Syed Ahmad Mahmud

Khawaja Jalaluddin Roomi

Mr Yousaf Waqar

Mr Younus M. Khan
Secretary-PIAC

Mr Nayyar Hayat
Chief Internal Auditor

Executive Management

Mr Muhammad Junaid Yunus
Managing Director

AVM Qasim Masood Khan HI (M)
Deputy Managing Director (Engineering)

Mr Imraan Ahmed Khan
Deputy Managing Director (PIA-IL)

Mr Shahnawaz Rehman
Director - Corporate Planning

Mr Aftab Ahmad
Chief Financial Officer

Capt. Arshad Akram Khan
Director - Flight Operations

Lt Col (Retd) Mahmood Ahmed
Director - Coordination to Chairman

Capt. S. Adnan Haris
Director - Corporate Safety & Quality Assurance

AVM Hamid Shahab Hashmi
Director- Precision Engineering Complex

Mr S. Saminuddin Naqvi
Officiating Director - Engineering & Maintenance

Mr Rashid Ahmed
Looking after the Charge of Director - HRA & Coordination

Mr Khurram Mushtaq
Officiating Director - Marketing

Mr Omar Razzaq
Officiating Director - Procurement & Logistics

Mr Maqsood Ahmed
Director

Mr Babar Kamal Mumtaz
Director

Ms Ghazala Rashid
Director

Syed Aijaz Mazhar
Director

External Auditors

Messrs A. F. Ferguson & Co
Chartered Accounts
Member firm of PriceWaterhouse Coopers (PwC).

Messrs M. Yousuf Adil Saleem & Co
Chartered Accounts
Member firm of Deloitte Touche, Tohmatsu.

Share Registrar

Central Depository Company of
Pakistan Ltd. Shares Registrar
Department CDC House,
99 - B, Block-B Sindhi Muslim
Cooperative Housing Society,
Main Shahrah-e-Faisal
Karachi - 74400, Pakistan

Ph: Customer Support Services
(Toll Free) 0800 - CDCPL (23275)
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Head Office

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UAN: 111-786-786 / 111-FLY-PIA
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Board of Directors



Seated: Lieutenant General Asif Yasin Malik (Retired), **Chairman**
Standing (Left to Right) Mr Javed Akhtar, **Director**
Mr Husain Lawai, **Director**, Syed Omar Sharif Bokhari, **Director**
Mr. Younus M. Khan, **Secretary - PIA**



Seated (Right to Left): Mr Muhammad Junaid Yunus, **Managing Director**
Malik Nazir Ahmed, **Director**
Standing (Left to Right): Khawaja Jalaluddin Roomi, **Director**
Makhdam Syed Ahmad Mahmud, **Director**, Mr Yousaf Waqar, **Director**

Lieutenant General Asif Yasin Malik (R)

Federal Defence Secretary and Chairman-PIA



Lieutenant General Asif Yasin Malik (R), Federal Defence Secretary is appointed as Chairman-PIA since October 2012. He joined Pakistan Army in 1973 as an infantry officer. He has undergone one year training in Germany and served in Saudi Arabia for two years. He has been on all the relevant and important assignments before being appointed as the Chief of Staff of a Corps. He has commanded two Anti Tank Battalions, an Infantry Brigade and an Infantry Division. He has also been the Director General Joint Intelligence and Information Operations in the Joint Staff Headquarters and one of the Director Generals in the Inter Services Intelligence. His last assignment was Command of 11 Corps, which is presently spearheading the campaign against terrorism in the north western region of Pakistan. He has completed his tenure and retired from active service in December 2011. He is a Graduate of Command & Staff College, Quetta. He holds Masters Degree in War Studies from National Defence University, Islamabad and also in Strategic Resource Management from National Defence University, Washington DC. In recognition of his excellent professional services, he has been conferred with the award of Hilal-i-Imtiaz (Military). He is married and has a son and a daughter. He spends his leisure time in photography.

Board of Directors

Malik Nazir Ahmed

Director

Malik Nazir Ahmed is an elected Director since March, 2008. He was re-elected as Director effective April 2011. He holds Bachelors Degree in Laws from Punjab University. Malik Ahmed is a renowned Businessman and is presently CEO of Nam International (Pvt.) Ltd, Namco Associates (Pvt) Ltd, and Executive Director of Wire Manufacturing Industries Ltd. (WMIL). Malik Ahmed has attended various courses in Business and Administration from Lahore Chamber of Commerce and Industry of which WMIL is a Corporate Member. He actively participates in welfare activities. He has attended many Business Forums and Trade Exhibitions within and outside Pakistan. Malik Nazir is Chairman of Board's Brand & Advertisement Committee and also Member of Board's Finance Committee and Board's Human Resource & Remuneration Committee.

Mr Javed Akhtar

Director

Mr Javed Akhtar is a nominated Director since July, 2008 and was nominated for the second term in September, 2011. He holds a Bachelors Degree from University of Karachi. Mr Akhtar is Chairman Akhtar Group of Industries and Chairman Fashion Apparel Designing and Training Institute (FADIN). He is member board of Directors Bank of Khyber; He is also working as Director of Karachi Garment City. He is member Managing Committee of The Federation of Pakistan Chamber of Commerce & Industry (FPCCI). He was Director of Karachi Cotton Association. He held the position of Chairman, Pakistan Cotton Fashion Apparel Exporters Association during 1997-1998 and 2001-2003. He is also Member of Board's Audit Committee and Board's Human Resource & Remuneration Committee.

Syed Omar Sharif Bokhari

Director

Syed Omar Sharif Bokhari is a nominated Director since September, 2011. He holds Masters in Business Administration in Banking & Finance from Preston University and Bachelors in Economics as well as Associate of Arts in Economics from Strayer College, Washington D. C. USA. He is serving as Director Evacuee Trust Property Board since April 2010. He has also served as Chairman of Advisory Council Lahore. Syed Bokhari also served as Resident Vice President at Faysal Bank (formerly Royal Bank of Scotland), Financial Manager at North America Control Risks Group, LLC USA and Accounting Manager at Rowan & Blewitt, Incorporated USA. He is also Member of Board's Audit Committee, Board's Human Resource & Renuneration committee, Board's Finance Committee and Board's Brand & Advertisement Committee.

Mr Husain Lawai

Director

Mr Husain Lawai is a nominated Director since July, 2008 and was nominated for the second term in September, 2011. Presently, he is President and CEO of Summit Bank Limited and is a seasoned banker with vast experience in the banking and financial services industry. He holds Masters Degree in Business Administration from Institute of Business Administration, Karachi. Mr Lawai held the position of President & Chief Executive Officer at Muslim Commercial Bank and holds the distinction of establishing Faysal Islamic Bank, Pakistan branches; the first Islamic Sharia compliant bank (presently known as Faysal Bank Ltd). He also served as the General Manager, Emirates MBD Bank for Pakistan and Far East, and as Director, Security Investment and Finance Ltd, UK. Currently Mr Lawai is the Chairman of Central Depository Company of Pakistan. He is also on the Board of Directors of State Life Insurance Corporation of Pakistan, GlaxoSmithKline & Wythe Pakistan. He is also Chairman of Board's Audit Committee and Member of Board's Finance Committee.



Board of Directors

Makhdum Syed Ahmad Mahmud *Director*

Makhdum Syed Ahmad Mahmud is a nominated Director since September, 2011. He holds Bachelor Degree in Arts from Allama Iqbal Open University. Makhdum Mahmud is currently serving as Governor of Punjab. Professionally, he is an agriculturist and industrialist. He belongs to a renowned political family of Punjab. He served as Chairman District Council during 1985-88 and District Nazim during 2001-2005 of District Rahim Yar Khan. He has extensively traveled abroad. Makhdum Mahmud remained Member, Provincial Assembly of the Punjab during 1985-88, 2008-2012, and Provincial Minister for Excise & Taxation during 1988-90. He was Member, National Assembly of Pakistan during 1990-93, 1993-96, 1997-99 and also served the nation as Minister of State for Local Governments and Environment.

Khawaja Jalaluddin Roomi *Director*

Khawaja Jalaluddin Roomi is a nominated Director since May, 2010. He holds a Masters Degree in Business Administration with a specialization in Marketing from Bahauddin Zakaria University. He has attended a specialization course in Finance from United Kingdom and textile courses from Switzerland. Presently, Khawaja Roomi serves on the Boards of Mahmood Textile Mills Ltd (Group of Industries). He remained the President of Multan Chamber of Commerce & Industry as well as D.G. Khan Chamber of Commerce & Industry. He is also the Chairman of All Pakistan Bed sheets & Upholstery Association and Chairman Board of Management of Nishtar Medical College Multan and Nishtar Allied Hospital. Khawaja Roomi belongs to the respectable Khawaja family of Multan which is involved in business for more than 100 years. He is Chairman of Board's Human Resource & Renumeration Committee and Member of Board's Audit Committee.

Mr Yousaf Waqar *Director*

Mr Yousaf Waqar is an elected Director since April, 2011. He is Business graduate from Lahore School of Economics. He is a well known business man and is presently looking after his family business, Diamond Group of Industries which is a well know group of Pakistan since 1974. Mr Waqar is heading various sectors of Diamond Group i.e Eagle Motorcycle, Eagle Cycle, Diamond Foam USA & Egypt and Diamond Wash Well. He has extensively traveled to many countries of the world. He is an active member of Entrepreneurs Organization of Pakistan. Mr Waqar is very active in supporting the social sector organizations working for the development of education and health care. His passion is to serve the nation by generating new resources of employment through producing environment friendly products. He is also Chairman of Board's Finance Committee and Member of Board's Audit Committee, Board's Brand & Advertisement Committee.



Serving the WORLD!



PIA
Pakistan International Airlines

Great People to Fly With

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USA & Canada: 1-800-375-6276, Inland: 0522-991-0750, E-mail: usa@pia.com,
UK & Europe: 1-800-375-6276, Inland: 0522-991-0750, E-mail: uk@pia.com

Muhammad Junaid Yunus
Managing Director



Muhammad Junaid Yunus has 35 years of service in the airline and is a Mechanical Engineering graduate and a certified Director (in CGLS, Corporate Governance Leadership Skills) from P.I.C.G (Pakistan Institute of Corporate Governance), apart from office management qualification from Pakistan Institute of Management.

He has been in the management of PIA for more than eight years, since, August 2004. He has been on various Management positions as Chief Pilot North, General Manager Planning & Scheduling, General Manager Training, General Manager Special Projects, Director Training & Development, Director Marketing, Director Standards & Special Projects, Deputy Managing Director and presently as Managing Director, PIA and Chairman of Skyrooms (Pvt) Limited. He is a member Board of Directors PIA Investments Ltd and PCAA. This diverse and wide range of experience has made him uniquely qualified to lead this airline.

He began his career as a cadet in the PIA Flight Academy and shortly after passing out he was immediately sent on deputation as a Pilot with Malaysian Airlines System and then later on to Emirates Airlines. He has been a Designated Standards, Check and Instructor Pilot on Fokker F-27, Boeing 737, Airbus 310, Boeing 777. He has been a VVIP pilot for Heads of State. He has been one of the first Air Safari pilots. He made a documentary and composed the announcement commentary for the breathtaking spectacular flight in the Northern Areas.

As evident he not only did well as a pilot but also in the field of management where he has been awarded for: Excellence in Management Skills, Inspiring Personality in Aviation industry and Excellence in Aviation Training Services.

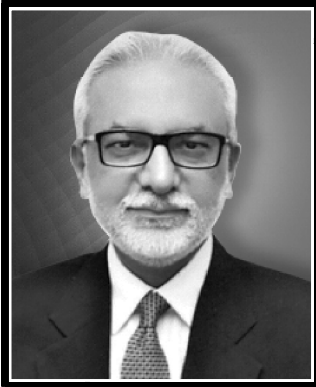
As Director Special Projects, he established the PIA Flight Academy within a very short span of time, which has quickly risen as the top flight training school of Pakistan.

As Deputy Managing Director, adopted a successful and aggressive policy for UN and Hajj Charters and won numerous bids for charters and generated substantial and unprecedented revenue for the airline. As Managing Director, he spearheaded an unprecedented successful Hajj operation in 2012 which was not only commended by the Saudi Arabia Airport Management but also led to an award from the Ministry of Religious Affairs.

He has interest in literature and journalism. He has been the chief editor and editor of various newsletters, college and university magazines. He is an avid reader of books especially those on history, current affairs, adventure and northern areas.

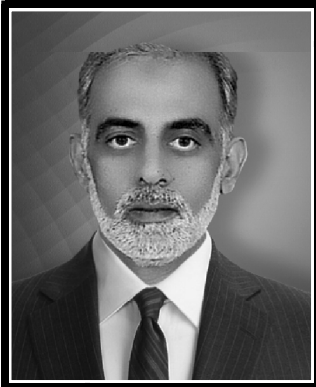
In his spare time he looks forward to spending time with his family, which he cannot get enough of.

Regulatory Appointment



Mr Aftab Ahmad
Chief Financial Officer

Mr Aftab Ahmad, a Chartered Accountant joined Pakistan International Airlines as Chief Financial Officer in December 2012. He also holds Master of Science in Management from Arthur D. Little Management Education Institute, Massachusetts, USA. Mr. Ahmad has a diverse multidiscipline exposure of 30+ years with increasing responsibilities in Finance, Financial Management and General Management. Mr. Ahmad has extensive experience in Strategic Planning, Business Development, Joint Ventures Management, Relationship Development and Financial Management. Prior to joining PIAC he has served primarily in the Oil and Gas sector where he has held various positions from General Manager Finance, General Manager Corporate Affairs to Chief Financial Officer and Executive Director Strategic Business Planning in Oil and Gas Development Company Limited (OGDCL). He has held position of OGDCL nominated director on the board of Mari Gas Company Limited (MGCL). Previous to that he was Executive Vice president (Finance and Support Services) in Orient Petroleum and Controller Finance Occidental of Pakistan Inc. (a subsidiary of Occidental Exploration and Production Company, USA). He is a board member of SkyRooms (Pvt) Ltd which runs Airport Hotel. He also holds professional memberships of Institute of Marketing Management, Institute of Taxation Management, and Institute of Chartered Secretaries and Managers.



Mr Younus M. Khan
Secretary-PIA

Mr Younus M. Khan is the 18th Corporate Secretary of PIA. Besides a Master of Business Administration he also hold Bachelor's Degree in Engineering. He is a 'Certified Director' from Pakistan Institute of Corporate Governance (PICG) in collaboration with IFC (the World Bank Group). During his career at Pakistan International Airlines he had the opportunity of working at various technical and managerial positions including the key positions like Special Assistant to Managing Director and Principal PIA Training Center. He had participated in different conferences, seminars and workshops on aviation held in Pakistan and around the World. Mr Khan is ex-officio member of CSR Committee, and ex-officio Secretary of Board's Audit Committee, Board's Human Resource & Remuneration Committee, Board's Finance Committee and Board's Brand & Advertisement Committee of the Board. He is Chairman of Women's Protection Committee and also a Member of the PIA Institute of PIA Planetaria, Astronomy & Cosmology.



Mr Nayyar Hayat
Chief Internal Auditor

Mr Nayyar Hayat, a Chartered Financial Analyst (CFA), an Associate of Cost & Management Accountants (ACMA), and an Associate of Certified Chartered Public Accountants Australia, joined Pakistan International Airlines as General Manager in Finance Department in April 2010. He has also served as Chief Financial Officer of the corporation. Mr Hayat has extensive experience in strategic planning, corporate finance, joint ventures, capital asset oversight, corporate matters, global tax structure oversight and risk management. He has got successful and diverse track record of more than fourteen years service in finance. Before joining Pakistan International Airlines, he has served in Sugar, Steel, Edible Oil, Retail, Real Estate, Education, Health and not for Profit Sectors. He has served as board member of Sky Rooms (Pvt) Ltd which runs Airport Hotel. He has also a board member of Abacus Pakistan (Pvt) Ltd which is a National Distribution Company formed as a Joint Venture between Abacus Singapore and PIA. He was appointed as Chief Internal Auditor in Jan, 2013.



Maximizing the Possibilities



Board of Directors' Committees (as at April 26, 2013)

Board's Audit Committee

Mr Husain Lawai	Chairman
Mr Javed Akhtar	Member
Syed Omar Sharif Bokhari	Member
Khawaja Jalaluddin Roomi	Member
Mr Yousaf Waqar	Member

Board's Brand & Advertisement Committee

Malik Nazir Ahmed	Chairman
Syed Omar Sharif Bokhari	Member
Mr Yousaf Waqar	Member

Board's Finance Committee

Mr Yousaf Waqar	Chairman
Mr Husain Lawai	Member
Malik Nazir Ahmed	Member
Syed Omar Sharif Bokhari	Member

Board's Human Resource & Remuneration Committee

Khawaja Jalaluddin Roomi	Chairman
Malik Nazir Ahmed	Member
Mr Javed Akhtar	Member
Syed Omar Sharif Bokhari	Member



Rejuvenating the Spirit



Directors' Report Year Ended December 31, 2012

The Corporation has weathered many storms during its existence, during the year 2012, in spite of tough market conditions competition both at domestic and international front and challenge of flying an ageing fleet, the Corporation continued to strive in a turbulent environment and achieved revenues of Rs. 112.13 billion for the year 2012, which is only a shade lower than the record breaking revenue of Rs. 116.55 billion in 2011.

Over the past decade, the airline industry has faced significant changes in its operating environment, including high and volatile fuel prices and an economic recession that reduced demand for travel. While the airlines spent only 10 percent of their operating costs on fuel in 2001, however, by 2011 this had risen to 35 percent and an all time high of 40 percent in 2008. For PIAC, during the year under review, it reached 47% of operating cost and 55% of total revenue. The impact for the Corporation is higher essentially due to the ageing fleet having high consumption. As a result of these and other factors, the industry has experienced considerable financial strain that has led to more than 50 U.S. passenger and cargo airlines filing for bankruptcy in the last 12 years. Ultimately, these changes to the operating climate have fundamentally challenged the industry's ability to sustain itself. The industry has been in flux since 2008-one that is transforming to restore profitability and adapting to survive the challenges of a sustained economic downturn. Airlines have responded to the changing economic landscape by introducing new passenger fees (e.g., baggage fees), reducing the number of scheduled flights, and filling vacant seats. Moreover, the recent series of significant airline mergers is dramatically consolidating control of the industry.

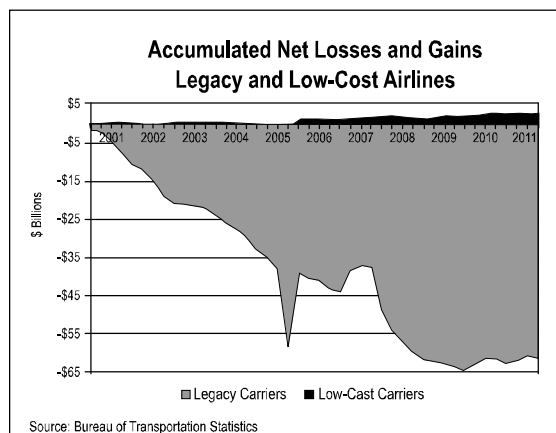
These and other airline actions have had a significant impact on the industry as a whole, as well as the traveling public. Specifically, airlines have become more aggressive in adjusting fares and flights to respond to fluctuations in fuel prices and demand. As a result the operating environment has become exceedingly competitive.

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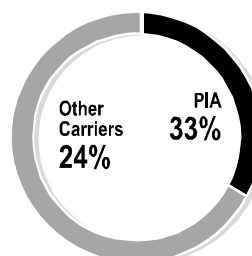
On the Domestic front the Pak Rupee continued to depreciate against the US Dollar starting the year at around 90 rupees and closing at around 97.23 rupees to a USD. The law & order situation in the country did not improve much and the economic state deteriorated further with prevailing energy crises and continuation of circular debt problem in Pakistan.

Our Performance

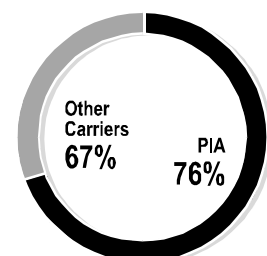
For the first time the Corporation did not witness growth in overall revenue compared to the last year. Passenger revenues decreased by PKR 2.7 billion as compared to last year resulting mainly from a decrease in capacity by 8.5%, due to the capacity constraints from cessation of Colombo and Chicago operations. However while domestic market also remained highly competitive with all the airlines striving to increase their share, the Corporation was able to hold on to its market share.



International Market Share

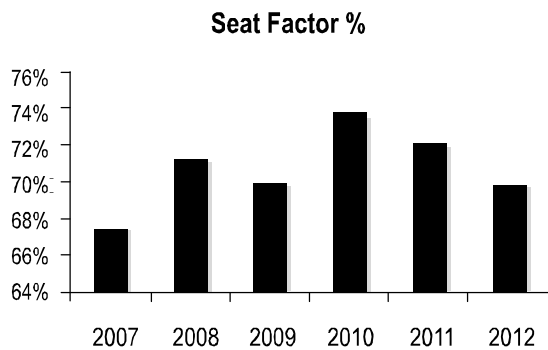


Domestic Market Share



Passenger seat factor has decreased marginally to 70% as compared to 72% last year.



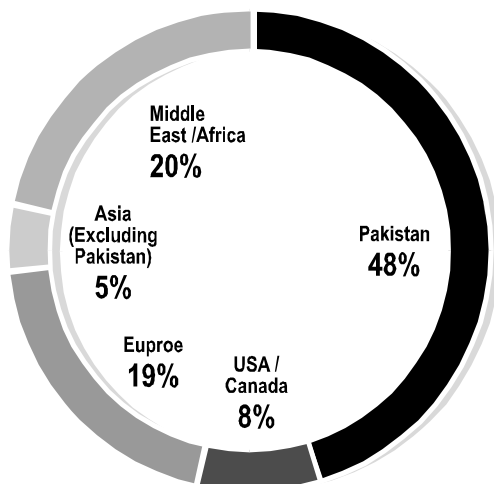


Destinations

Kandahar was introduced during the reported year while operation to Colombo and Chicago were closed due to low traffic.

Cargo capacity decreased by 7% however load factor increased from 56% to 57%. Nevertheless, there has been a healthy increase in yield per RFTK which is in continuation to last year's trend.

Revenue by Geographical Segments



The analysis of revenue by origin is derived by allocating revenue to the area in which the sale was made.

A brief review of the overall results of operations for the year ended Dec 31, 2012 is as follows:

Particulars for year ended December 31	2012	2011
	(PKR in Millions)	
Turnover - net	112,130	116,551
Operating Cost & Expenses	(130,181)	(130,805)
Other Income	3,405	546
Exchange Loss	(6,697)	(4,219)
Financial Costs	(11,381)	(10,099)
Loss Before Tax	(32,724)	(28,026)
Taxation	(458)	1,259
Loss After Tax	(33,182)	(26,767)

Flight Departures by year



The reason for the reduction in flight departures and ASKs is due to the fact that the planned induction of new aircraft to replace the ageing ones could not materialize.

PIA Subsidiaries

PIA Investment Limited operates Scribe Hotel in Paris and Roosevelt Hotel in New York. Both prestigious hotels have continued the profitability trend and have shown a combined increase of 7.48% in revenues over 2011 while profit after tax decreased slightly.

Skyroom Limited (Airport Hotel) located next to PIA Head Office in Karachi provides its services mainly to the transit passengers of PIA. Airport hotel has struggled for profitability however it has turnaround significantly and reduced its losses by 92% in 2011 and has shown profit of Rs. 871,000 in 2012. Airport hotel's room and bed occupancy rates improved during 2011 and since then has kept the same trend.



Airport Hotel	2012	2011
Guest Numbers	173,464	173,149
Room Occupancy	94%	94%
Bed Occupancy	84%	85%

Major Judgment Areas

Revaluation of Property, Plant & Equipment

The Corporation uses the policy of revaluing its assets to market values as provided for in IAS 16 - Property, Plant and Equipment. Land, buildings and aircrafts are revalued through independent professional valuers with sufficient regularity. A revaluation in respect of land and buildings was carried out during the year 2011.

The latest revaluation of aircrafts on December 31, 2012 was carried out by Ascend (a part of Reed Business Information Limited) on the basis of professional assessment of current market values which resulted in a revaluation deficit of PKR 507 million as compared to surplus of PKR 3,113 million on last year's revaluation.

The valuer has conducted an extended desktop appraisal of the aircraft and engines. This does not include a physical inspection of the aircraft or engines, but does take into account the maintenance status of the airframe and heavy components such as engines, landing gears and auxiliary power units (APUs). The revaluation is based on the current market value that an aircraft could best achieve under today's open market conditions and, therefore, takes into account a thorough review of recent market activity and known transactions involving the subject aircraft covering new sales, new orders, the limited open market and financial activity that has occurred to date. It additionally considers the perceived demand for the type of aircraft or engine, its availability in the market and further takes into account the expressed views of informed industry sources.

Frequent Flyer Program - IFRIC 13

IFRIC 13 - 'Customer Loyalty Programmes' addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. IFRIC 13 applies to sales

transactions in which the entities grant their customers award credits that, subject to meeting further qualifying conditions, can be redeemed in future for free by the customers. The Corporation operates a frequent flyer programme that grant travel awards to members of the programme based on accumulated mileage. The fair value of credits awarded is estimated by reference to the fair value of the services for which the award credits may be redeemed. Determination of the fair value of the award credits involves estimations, based on the average of air fares, the value of each award credit assuming a 100% redemption rate, and estimating the expected award credit redemption rate. These estimates are reviewed as and when a significant change in the assumptions used is observed and the liability is adjusted annually as appropriate. The provision for frequent flyer programme is determined based on the valuation carried out by an independent professional valuator.

Employee Benefits

The liabilities of defined benefit plans are determined through actuarial valuation using the Projected Unit Credit Method. The method involves making assumptions about discount rates, expected rates of return on pension plan assets, future salary increases, mortality rates, future increase in medical costs and future pension increases. Due to the long-term nature of these benefits, such estimates are subject to certain uncertainties. Expected rate of return on plan assets is based on the return earned on the market expectations and depends upon the asset portfolio of the Funds.

Compensated Absences

The liability relating to compensated absences is determined through actuarial valuation using the projected unit credit method. Under this method the projected value at retirement of the benefits under the scheme is determined for each member, projecting salary increase at the assumed rate and using the service & leave balance at retirement. This projected value is then discounted using the valuation rate of discount and adjusted for the probability of survival in service upto the retirement age. Due to the long term nature of this obligation, such estimates are subject to certain uncertainties.

Principal Risks & Uncertainties

The aviation industry has always been exposed to various risks both internal and external. These risks are due to the complexities inherent in the business and the high level of regulations prevalent



in different countries. We believe that our survival depends on how effectively and efficiently we are able to manage our risks. Our goal is to set in place a robust system of risk management that will ensure continuity of airline operations in the long term. The Corporation has adopted a pro-active approach towards managing key business, operational, financial and strategic risks. Towards this end, the airline has a dynamic Corporate Safety and Quality Assurance function whose primary responsibility is to continuously assess the environment in which the airline operates and identify and address potential risks by developing controls to mitigate the same.

Financial Risk Management

PIA is exposed to a variety of financial risks which involve the analysis, evaluation, acceptance and management of some degree of risk or a combination thereof. The Corporation's aim is to achieve an appropriate balance and minimize the adverse impact on financial performance. Risk management is carried out by Finance department under setout procedures and in consultation with other departments. Financial risks are managed by deploying quality human resources in key operational areas to ensure effective monitoring of the airline's exposure in different areas. The Corporation senior management carries out financial risk management under governance approved by Board of Directors. Senior management identifies, evaluates & hedges financial risk, wherever necessary.

Fuel Prices Risk

PIA is exposed to volatility in the price of Jet fuel. The Corporation manages the risk through fuel hedging program that operates under the guidelines set by the Board of Directors. The hedging gains and losses fluctuated during the year due to high volatility in prices.

Geographical risks, dominated by developments surrounding Iran, have put upward pressure on oil prices, although the weak demand outlook has mitigated the impact to some extent. The Corporation will continue with its fuel price risk management program.

Interest Rate Risk

PIA manages the interest rate risk by targeting a balanced portfolio approach. PIA's loan book consists of a variety of loans i.e. against PIA assets, against GoP guarantee, PKR denominated and Forex denominated. The Corporation's weighted average



Mr. Waqar Ahmed Siddiqui (General Manager Accounting) receiving the Aviation Economics' The Aviation 100 2013 Award "ASIA-PACIFIC DEAL OF THE YEAR" for Islamic Structured Trade Finance facility on behalf of the Corporation. The facility was arranged by Standard Chartered Bank for USD 35 million in June 2012.

interest rate is steadily rising due to conversion of dollar denominated fleet loans to rupee based loans which currently stands at 7.56%.

A310 Lease Deal

The Corporation opted to purchase six A-310 aircraft from Airbus after early termination of lease during 2012. This was achieved by setting off the Maintenance Reserve against the liability against subject assets. The transaction had a positive impact on bottom line worth approximately Rs. 1.3 billion.

Simplified Interline Settlement (SIS)

The newly developed SIS web interface is an electronic invoicing system that optimizes interline billing and settlement processes and is described by IATA as the biggest change in billing and settlement since 1947. In SIS, electronic billing files submitted by members are automatically processed and sent to the relevant ICH for automated settlement, and the output files are then created and submitted to the partners.

In this way, paper no longer circulates among the billing partners and, thanks to the new billing standards, account posting and reconciliation can be automated.



The Corporation also became SIS compliant well before the deadline in September 2012 and is now working on the e-invoicing module, deadline for which is September 2014.

Hajj Operation

PIA undertakes a massive Hajj operation every year and accordingly the preparations start right away with the end of previous Hajj operation. Considering the religious as well as social aspect of this holy ritual, being National Flag Carrier, PIA gives great importance to the Hajj operation with special emphasis on Hujjaj convenience and serviceability of the aircraft. Hajj operation of 2012 was completed successfully and approximately 94,196 Hujjaj were carried by PIA. PIA Hajj performance was much better than other's and despite having the maximum frequency PIA's delays were less than other operators. Due to the efficient operations at Jeddah PIA was awarded a "Certificate of Appreciation" by the Saudi General Authority of Civil Aviation.



National Assembly's Special Commission on PIA headed by honourable Syed Sumsam Bukhari (MNA) also appreciated the efforts of the team and reported that the operations had significantly improved. Other honourable members of the commission were Shahid Khaqan Abbasi (MNA), Nausheen Saeed (MNA) and Sheikh Salahuddin (MNA).

Corporate Social Responsibility

PIA is driven by the highest standards of corporate governance and social responsibility. As a public sector organization and a business leader, PIA believes in building strong relationships with customers, partners, employees, and the communities in which it operates.

PIA institutionalized the practice of good governance by establishing a Corporate Social Responsibility Committee. This high level and appropriately empowered committee comprises of one business unit head, six General Managers / Equivalents and one Deputy General Manager. Committee provides a platform to evaluate, update, and recommend best practices and CSR is woven into the fabric of daily operations at PIA. Following recent and routine activities supporting the community reflect PIA's belief in contributing for the betterment of society.

IOSA (IATA Operational Safety Audit) Certification

PIA is proudly maintaining its IOSA Certification and thus IATA Registration since 2005. The IATA Operational Safety Audit Program is an internationally recognized and accepted system for assessing the operational management and control systems of an airline.



IOSA is based on industry proven quality audit principles and structured to ensure a standardized audit with consistent results. Airlines that meet all IATA Standards Manual (ISM) standards



become registered with IATA as an IOSA Operator. IOSA Audit covers Organization and Management System, Flight Operations, Operational Control & Flight Dispatch, Aircraft Engineering & Maintenance, Cabin and Cargo Compartment Operations, Aircraft Ground Handling, Cargo Operations and Operational Security of the airline.

By virtue of PIA's IOSA Certification, PIA is able to ensure safety of passengers as well as employees.

Fire Safety in the Workplace and at Home

PIA has made a number of arrangements to handle incidental fires and allied hazards. First Aid Fire Stations have been set up in Karachi, Lahore and Islamabad, and Fixed Fire Protection Systems have been installed at sensitive premises. PIA's locations are equipped with portable fire extinguishers and a range of other fire safety devices. All the installed equipment is inspected regularly and maintained in accordance with international standards. Fire Safety Courses are conducted regularly to equip employees with fire fighting skills and to impart critical knowledge of preventive measures. Fire Prevention Courses are also conducted at the Staff Township and PIA Model Schools so that employees and their families can take appropriate fire prevention measures at home.

PIA's Corporate Safety & Quality Assurance Division also actively engages in advocacy sessions to create awareness through print publications and sharing of experiences. Working in collaboration with the Fire Protection Association of Pakistan, PIA is committed to creating and promoting a culture of safety at a nation-wide level. The division's future plans include running fire and safety awareness sessions at government and private schools.

Emergency Response Planning

Passenger care is an airline's most crucial responsibility. Acknowledging the significance of Emergency Response Planning (ERP), PIA has set up a discrete section to handle emergencies. The Emergency Response Planning Section has developed an Emergency Response Manual and manages Emergency Response Center Teams, Field Teams, Family Assistance and Support Teams, and Volunteers. The ERP Section also trains volunteers in the areas of aircraft emergencies, rescue, basic first aid, and fire fighting to effectively respond to natural disasters.

Education & Training

PIA is contributing a lot in educating thousands of people in

multifarious disciplines of professional skills and awareness programs through following of entities:

- PIA Planetariums - Viewing of virtual universes and a cosmic experience
- PIA Training Centre - Training in aviation and management fields
- PIA Model Secondary School - Scattered on 10 acres for 1500 children

PIA Employee Health and Medical Services

The health and welfare of our employees have always been a matter of utmost importance and significance at PIA. Its medical facilities cover the parents and spouses, children up to the age of 27, unmarried daughters, and disabled, mentally challenged children of any age in collaboration with reputable hospitals, diagnostic labs, and medical institutions. Retired employees and their spouses are also eligible for medical care at PIA's Medical Centers.

Sports

PIA's cricket team won Quaid-e-Azam National Trophy and Faysal Bank One Day Cup during the year while the hockey team won the 59th National Championship. PIA's football team also won the all Pakistan National Bank Gold Cup, PIA badminton team won the National badminton championship Single Event.



Sports officials, coaches and players representatives captured with Managing Director Capt. Nadeem Ahmed Yousafzai.

PIA won Trophies at the national level tournaments of cricket, football, badminton and hockey.

Pattern of Shareholding

A Statement showing the pattern of shareholding in the corporation and additional information as at December 31, 2012 appears on page 32. The highest and lowest market prices for ordinary 'A'



class share of PKR 10/- each were PKR 4.76 and PKR 1.75 per share, respectively. The highest and lowest market price for ordinary 'B' class shares of PKR 5/- each were PKR 7.42 and PKR 4.42 per share respectively. Government of Pakistan through Ministry of Defense holds 84.64% of shares, PEET holds 8.06% Public Sector Companies and Corporation holds 1.03% individual and others hold 6.24% whereas financial institutions hold 0.03%.

Changes in Board of Directors

During the Financial Year 2012, the following changes took place in PIA' Board of Directors:

Ch. Ahmed Mukhtar Chairman-PIA & CEO & Member	Relinquished
Air Chief Marshal (Retd) Rao Qamar Suleman Chairman & CEO & Member	
Dr. Waqar Masood Khan Federal Secretary Finance & Member	
Capt Nadeem Khan Yousafzai Managing Director & Member	
Lt Gen (Retd) Naeem Khalid Lodhi Federal Secretary Defence & Member	
Mrs Nargis Sethi Federal Secretary Defence & Member	Nominated
Lt Gen Asif Yasin Malik (Retd) Federal Secretary Defence, Chairman-PIA CEO & Member	
Air Chief Marshal (Retd) Rao Qamar Suleman Chairman PIA & CEO & Member	
Abdul Wajid Rana Federal Secretary Finance & Member	
Mrs Nargis Sethi Federal Secretary Defence & Member	

Corporate and Financial Reporting Framework

To comply with the Code of Corporate Governance, the Directors to the best of their knowledge and belief state that:

- The Financial Statements prepared by the Management of Pakistan International Airlines Corporation present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Corporation have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- We acknowledge the responsibility of establishment of sound and effective internal control system and continuous efforts are being made for further improvement and refinement in design and effectiveness of existing system.
- There are no significant doubts upon the Corporation's ability to continue as a going concern other than those, along with the corresponding mitigating factor, as discussed in note 1.2 to the unconsolidated financial statements.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data of last six years in summarized form is annexed to this Report.
- The reason for non-declaration of dividend / non issuance of bonus shares is net loss during the year.
- During the year, the Board of Directors held 9 (nine) meetings. The attendance record of Directors is annexed to this Report
- The pattern of shareholding as required under Section 236 of Companies Ordinance 1984 and Article XIX of the Code of Corporate Governance is annexed to the Report.
- The Board Members, CEO, MD, CFO, Head of Internal Audit, Company Secretary, their spouses and minor children have not traded in PIA Shares during the year.
- The value of investment of recognized provident fund and pension fund as at December 31, 2012, based on unaudited accounts, were PKR 20,499 million and PKR 13,213 million respectively.
- Presently two Directors of the Board are certified directors from Pakistan Institute of Corporate Governance and Corporation is planning to get all the directors certified by year 2016, as required by the Code of Corporate Governance.
- The Board of Directors has recommended the reappointment of the external auditors for the year, 2013, as suggested by the Audit Committee of the board.



- p) There is no statutory payment outstanding against the Corporation except those disclosed in note 27 of the unconsolidated financial statements.
- q) The Corporation is in the process of restructuring TFCs and Sukuk as provided in notes 22.1 & 22.2 of the unconsolidated financial statements.

Compliance with Best Practices of Corporate Governance A Statement showing the status of compliance with the best practices of the Corporate Governance set out in the Code of Corporate Governance is being published and circulated along with this Report.

Statement of Internal Control

The Board is responsible for establishing effective internal control system in the Corporation to achieve its objectives in the following categories:

- Efficiency and effectiveness of operations
- Compliance with laws and regulations
- Reliability of financial reporting

The Board has established an Audit Committee comprising five non-executive Directors. The terms of reference of Audit Committee are in line with the requirements of the Code of Corporate Governance. The Committee is responsible for oversight of internal audit function as well as external financial reporting.

The Corporation's internal audit function is handled by a qualified Cost and Management Accountant who is also an associate of certified Public Accountant Australia. The internal audit has been further strengthened by hiring co-sourcing partner Messrs KPMG Taseer Hadi & Chartered Accountants since 2010.

Way Forward

Considering the critical and strategic nature of its operations, the Corporation's management commenced work on the development of a comprehensive business restructuring and turnaround plan to set in place the right strategies and controls needed to bring the Corporation back on the path of profit-table operations. The turnaround plan was presented to the honourable Prime Minister of Pakistan and later to the Economic Coordination Committee. Economic Coordination Committee (ECC) of the cabinet in its meeting held Feb. 26, 2013, among other agenda items took up PIA's request to extend expired and expiring GoP guarantees

and fresh funding for the acquisition of new aircraft on dry lease. PIA presented an interim business plan for the period 2014 through 2018 at the Feb. 26 2013 meeting. PIA submitted that at its last Board of Director's meeting. The Board desired that PIA's business plan be reviewed and vetted by a firm of foreign consultants with aviation business exposure, which shall also help PIAC develop a long-term view of its business for next 15 ~ 20 years. ECC while noting the BOD direction for later engagement of a foreign consultant, appreciated the interim business plan and the strategic direction envisaged by the new management in turning around the airline in due course of time.

GoP support for PIA is manifested by issuance of letters of comfort (LOC) and guarantees to enable PIA to obtain financing. The ECC approved the extension in all GoP guarantees as requested by PIA amounting to approximately PKR 76 billion, it also approved the management request to provide support for additional funding to provide fiscal space to the Corporation to make payments to major vendors amounting to approximately PKR 12 billion. The ECC also accorded in principle approval to provide financial support for the acquisition of newer narrow body aircraft on dry lease amounting to approximately PKR 5 billion. This lease acquisition of newer aircraft will help the airline improve schedule reliability and save on fuel costs.

In 1st phase four ~ five narrow body aircraft will be inducted, later additional aircraft will be added to replace the ageing fleet. Funds are being arranged for the acquisition of the aircraft which is imperative for the turnaround of the airline.

On behalf of the Board of Directors, I would like to take this opportunity to place on record our appreciation and gratitude to our customers for their patronage; our employees for their hard work and dedication; all our stakeholders for their valued services and support; and lastly the Government of Pakistan for its continued support and commitment to the Corporation.

With your support we shall rise.

For and on behalf of the board

Chairman

Lt Gen Asif Yasin Malik (Retd)
26th April 2013



Board Meetings Attendance

Meetings Date	BM 337 25/02/12	BM 338 02/04/12	BM 339 30/04/12	BM 340 14/06/12	BM 341 07/08/12	BM 342 28/08/12	BM 343 25/10/12	BM 344 26/11/12	BM 345 21/12/12
Ch Ahmed Mukhtar Minister for Defence & Chairman-PIA	✓	✓	✓	Relinquished 25/05/2012	-	-	-	-	-
Malik Nazir Ahmed	Leave Of Absence	✓	✓	✓	✓	✓	✓	✓	✓
Mr Javed Akhtar	✓	✓	Leave of Absence	✓	✓	✓	Leave of Absence	✓	✓
Abdul Wajid Rana Federal Secretary Finance	✓	Leave of Absence	✓	Leave of Absence	Leave of Absence	Leave of Absence	Leave of Absence	Leave of Absence	Leave of Absence
Syed Omar Sharif Bokhari	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr Husain Lawai	✓	✓	Leave of Absence	Leave of Absence	✓	Leave of Absence	Leave of Absence	✓	✓
Makhdum Syed Ahmad Mahmud	Leave of Absence	✓	✓	Leave of Absence	Leave of Absence	✓	Leave of Absence	Leave of Absence	Leave of Absence
Khawaja Jalaluddin Roomi	✓	✓	Leave of Absence	✓	Leave of Absence	✓	Leave of Absence	✓	Leave of Absence
Mr Yousaf Waqar	Leave of Absence	✓	✓	Leave of Absence	Leave of Absence	✓	✓	✓	✓
Mrs Nargis Sethi Federal Secretary Defence	✓	✓	✓	Leave of Absence	Relinquished 30/07/2012	-	-	-	-
Capt. Nadeem Khan Yousufzai Managing Director-PIA	✓	Relinquished 06/04/2012	-	-	-	-	-	-	-
AC M (Retd.) Rao Qamar Suleman Chairman & CEO PIA and Member	-	Leave of Absence Nominated	Leave of Absence Nominated 06/04/2012	✓	✓	✓	Relinquished 23/10/2012	-	-
Lt Gen Asif Yasin Malik (Retd) Federal Secretary Defence & Chairman-PIA and Member	-	-	-	-	Leave of Absence Nominated 06/04/2012	✓	✓	✓	✓

Attendance of Directors at Audit Committee Meeting

Meetings Date	55th 19/01/2012	56th 02/04/2012	57th 26/04/2012	58th 27/08/2012	59th 25/09/2012	60th 25/09/2012	61st 25/09/2012	62nd 24/10/2012
Mr Husain Lawai Chairman	✓	✓	✓	✓	✓	✓	✓	Leave of Absence
Mr Javed Akhtar	✓	✓	✓	✓	✓	✓	✓	Leave of Absence
Syed Omar Sharif Bokhari	✓	✓	Leave of Absence	✓	Leave of Absence	Leave of Absence	Leave of Absence	✓
Khawaja Jalaluddin Roomi	Leave Of Absence	✓	Leave of Absence	✓	Leave of Absence	Leave of Absence	Leave of Absence	Leave of Absence
Mr Yousaf Waqar	Leave of Absence	✓	Leave of Absence	✓	Leave of Absence	Leave of Absence	Leave of Absence	✓

Attendance of Directors at Human Resource & Remuneration Committee Meeting

Meetings Date	25th 14/03/2012	26th 20/12/2012
Makhdum Syed Ahmad Mahmud, Chairman	✓	✓
Malik Nazir Ahmed	✓	✓
Mr Javed Akhtar	✓	✓
Syed Omar Sharif Bokhari	-	✓
Khawaja Jalaluddin Roomi	-	Leave of Absence
Capt. Nadeem Khan Yousufzai, Managing Director-PIA	✓	Relinquished 06/04/2012



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Chartered Accountants
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Karachi - 75350

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH 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 for the year ended December 31, 2012 prepared by the Board of Directors of Pakistan International Airlines Corporation ('the Corporation') to comply with the Listing Regulation No. 35 of Karachi, Lahore and Islamabad Stock Exchanges where the Corporation is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Corporation. 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 Corporation's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Corporation's personnel and review of various documents prepared by the Corporation 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 the risks and controls or to form an opinion on the effectiveness of such internal controls, the Corporation's corporate governance procedures and risks.

Further, Listing Regulation 35 of Karachi, Lahore and Islamabad Stock Exchanges requires the Corporation to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required to ensure compliance of requirement to the extent of approval of the related party transactions by the Board of Directors and placement of such transactions before the audit committee. We are not required to carry out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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

As stated in paragraphs 5, 6, 10, 18 and 23 of the annexed statement, requirements of certain clauses of the Code of Corporate Governance have not been complied with.

Chartered Accountants

Date: April 26, 2013
Karachi

Chartered Accountants



Statement of Compliance

With the Code of Corporate Governance 2012 [Under Clause (XI) of the Code] Pakistan International Airlines Corporation year ending December 31, 2012

This statement is being presented to comply with the Code of Corporate Governance 2012 (the Code) contained in Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges 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.

Pakistan International Airlines Corporation (the Corporation) has applied the principles contained in the Code in the following manner:

1. The Corporation has been incorporated under Pakistan International Airlines Corporation Act, 1956 (the PIAC Act) which stipulates that chairman and eight directors are nominated by the Federal Government whereas two directors are elected by the shareholders other than the Federal government. As at December 31, 2012 the board includes:

Category	Names
Independent directors	None
Executive directors	Lt Gen Asif Yasin Malik (Retd)
Non-executive directors	Malik Nazir Ahmed Mr Javed Akhtar Syed Omar Sharif Bokhari Mr Husain Lawai Makhdum Syed Ahmad Mahmud Abdul Wajid Rana Khawaja Jalaluddin Roomi Mr Yousaf Waqar

2. The directors who were appointed before the notification of the Code had confirmed that none of them was serving as a director in more than ten listed companies, including the Corporation. Lt Gen Asif Yasin Malik (Retd) who has been appointed subsequent to the notification of the Code has confirmed that he is serving as a director in no more than seven listed companies, including the Corporation (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the directors of the Corporation are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year two casual vacancies of nominated directors have occurred on the Board. Nomination by the Federal Government is awaited.
5. The Corporation has prepared a 'Code of Conduct' subsequent to December 31, 2012 which was approved by the Board in its meeting held on April 4, 2013. Following its approval, the Corporation has ensured that appropriate steps have been taken to disseminate it throughout the Corporation along with its supporting policies and procedures.



6. The Board has developed a Vision / Mission Statement, overall corporate strategy and significant policies of the Corporation. A complete record of particulars of significant policies along with the dates on which they were approved or amended is being compiled.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board except as noted in 23(a) to (c) below. The appointment of the Air Chief Marshal Rao Qamar Suleman as Chairman & CEO was made by the Federal Government.
8. The meetings of the Board were presided over by the Chairman [also the Chief Executive (CE), as per the PIAC Act] and it 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.
9. The Board has arranged Director's Training Program whereby two directors namely Syed Omar Sharif Bokhari and Yousaf Waqar have been awarded Certificate of Director Education by Pakistan Institute of Corporate Governance.
10. The Board has approved appointment of the Chief Financial Officer (CFO), the Secretary - PIA and Head of Internal Audit (HoIA), including their remuneration and terms and conditions of employment. During the year officiating, acting and looking after arrangements were made for the positions of CFO and HoIA, which were not approved by the Board.
11. 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.
12. The financial statements of the Corporation were duly endorsed by Chairman (who is the CE of the Corporation) and the CFO before approval of the Board.
13. The directors, chief executive and executives do not hold any interest in the shares of the Corporation other than that disclosed in the pattern of shareholding.
14. The Corporation has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises five members who are all non-executive directors including the Chairman of the Committee.
16. The meetings of the Board's Audit Committee were held at least once every quarter prior to approval of interim and final results of the Corporation and as required by the Code. The terms of reference of the Committee have been formed and advised to the committee for compliance.
17. The Board has formed Human Resource and Remuneration Committee. It comprises four members, who are all non-executive directors including the Chairman of the Committee.
18. The Board has set up an internal audit function. As at the year end, the position of the head of internal audit was vacant which was filled subsequent to the year end. The internal audit function has been co-sourced with a professional services firm that is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Corporation.



19. The Statutory Auditors of the Corporation have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Corporation 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 the ICAP.
20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Corporation's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchanges.
23. We confirm that all other material principles enshrined in the Code have been complied with except for the following, toward which efforts are being made by the Corporation to seek compliance by the end of next accounting year:
 - (a) As required by clause (ix) of the Code significant issues have to be placed for information, consideration and decision of the Board. However, certain matters relating to delay in the payment against borrowings, show causes / demands from revenue / regulatory authorities and implication of one court case / claim settlement were not placed before the Board for its consideration within the time-frame prescribed in the Code. [Partial non-compliance of clause (ix) of the Code]
 - (b) The details of the related party transactions were not placed before the audit committee and the Board for their recommendation / review and approval. [Non-compliance of clause (x) (a) of the Code]
 - (c) In July 2012 the removal of the then CFO was not approved by the Board. Subsequently, the appointment and removal of an acting CFO was also not approved by the Board. Further, the appointment of two acting HoIA during the year was also not approved by the Board. [Non-compliance of clause (xii) of the Code]
 - (d) Clause (xiii) of the Code includes certain experience requirements for the CFO. The CFO of the Corporation holding office at the time of introduction of the Code and the subsequent acting CFO (until the appointment of present CFO w.e.f. December 1, 2012) did not meet such experience criteria. [Non-compliance of clause (xiii) of the Code]
 - (e) Clause (xiv) of the Code includes certain qualification and experience requirements for HoIA. The Corporation had three Heads of Internal Audit (including two acting Heads) during the year, however, two of them did not meet the required qualification criteria and none of them met the required experience criteria. [Non-compliance of clause (xiv) of the Code]
 - (f) Recommendation for appointment of the current CFO who was appointed w.e.f. December 1, 2012 and Secretary-PIA was not made by the Human Resource and Remuneration Committee [Non-compliance of clause (xxv) (iii) of the Code]

Dated: April 26, 2013

**Lt Gen Asif Yasin Malik (Retd)
Chairman-PIA**



Pattern of Shareholding

As at December 31, 2012

Shareholdings		No. of Shareholders	Ordinary 'A' Class	Ordinary 'B' Class
From	To		Shares Rs.10/- each Total Shares Held	Shares Rs.5/- each Total Shares Held
1	100	13,852	2 68,892	1 3,111
101	500	30,622	8 596,092	9 971
501	1000	4,692	3 994,296	1 916
1001	5000	4,768	11,457,569	12,486
5001	10000	825	6 371,087	-
10001	15000	232	2 910,193	-
15001	20000	165	3 030,261	-
20001	25000	105	2 503,259	-
25001	30000	64	1 826,413	-
30001	35000	25	8 28,307	-
35001	40000	26	1 010,860	-
40001	45000	22	9 46,049	-
45001	50000	57	2 824,244	-
50001	55000	17	8 96,163	-
55001	60000	12	7 05,800	-
60001	65000	3	1 91,265	-
65001	70000	9	6 12,930	-
70001	75000	6	442,667	-
75001	80000	6	474,038	-
80001	85000	2	166,500	-
85001	90000	5	448,095	-
90001	95000	4	372,109	-
95001	100000	40	3 992,303	-
100001	105000	7	727,606	-
105001	110000	2	215,002	-
110001	115000	3	339,500	-
115001	120000	2	237,500	-
120001	125000	4	491,000	-
125001	130000	2	256,967	-
130001	135000	1	130,500	-
135001	140000	1	138,500	-
140001	145000	1	140,020	-
145001	150000	5	743,667	-
150001	155000	2	308,500	-
155001	160000	2	316,265	-
160001	165000	3	489,500	-



Pattern of Shareholding

As at December 31, 2012

Shareholdings		No. of Shareholders	Ordinary 'A' Class Shares Rs.10/- each Total Shares Held	Ordinary 'B' Class Shares Rs.5/- each Total Shares Held
From	To			
175001	180000	2	356,000	-
180001	185000	2	368,500	-
185001	190000	1	189,500	-
190001	195000	1	195,000	-
205001	210000	2	415,240	-
210001	215000	3	638,443	-
215001	220000	1	220,000	-
245001	250000	1	250,000	-
250001	255000	1	252,000	-
270001	275000	2	547,700	-
275001	280000	1	279,997	-
295001	300000	4	1,200,000	-
300001	305000	1	301,000	-
310001	315000	1	311,500	-
315001	320000	1	316,500	-
325001	330000	1	329,500	-
370001	375000	1	372,500	-
375001	380000	1	376,500	-
385001	390000	1	386,000	-
395001	400000	3	1,196,635	-
410001	415000	1	413,500	-
420001	425000	1	425,000	-
450001	455000	1	450,678	-
495001	500000	2	1,000,000	-
500001	505000	1	500,500	-
565001	570000	1	567,504	-
595001	600000	1	600,000	-
605001	610000	1	608,000	-
625001	630000	1	626,000	-
630001	635000	1	630,067	-
705001	710000	1	705,500	-
825001	830000	1	829,500	-
885001	890000	1	888,500	-
960001	965000	1	965,000	-
1095001	1100000	1	1,100,000	-
1250001	1255000	1	1,252,091	-
1465001	1470000	1	1,470,000	-



Pattern of Shareholding As at December 31, 2012

Shareholdings		No. of Shareholders	Ordinary 'A' Class Shares Rs.10/- each Total Shares Held	Ordinary 'B' Class Shares Rs.5/- each Total Shares Held
From	To			
1760001	1765000	1	1,765,000	-
1795001	1800000	1	1,800,000	-
2290001	2295000	1	2,293,278	-
2410001	2415000	1	2,410,150	-
2995001	3000000	1	3,000,000	-
3935001	3940000	1	3,938,039	-
4105001	4110000	1	4,105,500	-
5010001	5015000	1	5,010,500	-
5445001	5450000	1	5,450,000	-
8495001	8500000	1	8,500,000	-
8840001	8845000	1	8,844,200	-
15670001	15675000	1	15,674,500	-
20370001	20375000	1	20,372,500	-
21085001	21090000	1	21,089,594	-
24960001	24965000	1	24,962,000	-
231855001	231860000	1	231,855,493	-
2435205001	2435210000	1	2,435,208,439	1,462,515
		55,660	2,877,217,467	1,499,999



Pakistan International Airlines Corporation

Categories of Shareholders As at December 31, 2012

Categories of Shareholders	Number of Shareholders	Number of Shares Held		Percentage
		Ordinary 'A' Class	Ordinary 'B' Class	
Associated Companies, undertakings and related parties	-	-	-	-
Mutual Funds				
CDC - Trustee AKD Index Tracker Fund	1	7	-	0.00
Prudential Stock Fund Ltd.	1	5,000	-	0.00
Safeway Fund (Pvt) Ltd.	1	2	-	0.00
Directors and their spouse(s) and minor children				
Malik Nazir Ahmad, Director	1	1,800,000	-	0.06
Yousaf Waqar Shaffi, Director	1	10,000	-	0.00
Executives				
Younus M. Khan, Secretary - PIA	1	135	-	0.00
Public Sector Companies and Corporations	10	29,745,672	100	1.03
Banks, development finance institutions, non-banking finance companies, Insurance Companies, takaful, modarabas, and pension funds	20	828,664	3	0.03
Shareholders holding five percent or more voting rights				
Secretary, Ministry of Defence, Government of Pakistan	1	2,435,208,439	1,462,515	84.64
PIA Employees Empowerment Trust (PEET)	1	231,855,493	-	8.06
Individual	55418	90,238,451	34,454	3.14
Others	204	87,525,604	2,927	3.04
Totals	55660	2,877,217,467	1,499,999	100.00

The above two statements include 7,214 Shareholders holding 184,757,224 Ordinary 'A' Class Shares and 2,424 Ordinary 'B' Class Shares through the Central Depository Company of Pakistan Limited



Share Capital

December 2012	December 2011		December 2012	December 2011
----- Number of Shares -----			----- Rupees in 000 -----	
Authorized Capital				
Ordinary Share Capital				
2,949,250,000	2,949,250,000	'A' class shares of Rs.10/- each	29,492,500	29,492,500
1,500,000	1,500,000	'B' class shares of Rs.5/- each	7,500	7,500
<u>2,950,750,000</u>	<u>2,950,750,000</u>		<u>29,500,000</u>	<u>29,500,000</u>
Preference share capital				
50,000,000	50,000,000	Preference shares of Rs.10/- each	500,000	500,000
<u>3,000,750,000</u>	<u>3,000,750,000</u>		<u>30,000,000</u>	<u>30,000,000</u>
Issued, subscribed and paid up share capital				
Ordinary share capital				
'A' class shares of Rs.10/- each				
2,642,351,957	2,642,351,957	Issued for consideration in cash	26,423,519	26,423,519
931,028	931,028	Issued for consideration other than cash for acquisition of shares	9,310	9,310
233,934,482	233,934,482	Issued as bonus shares	2,339,345	2,339,345
<u>2,877,217,467</u>	<u>2,877,217,467</u>		<u>28,772,174</u>	<u>28,772,174</u>
'B' class shares of Rs.5/- each				
1,003,374	1,003,374	Issued for consideration in cash	5,017	5,017
2,625	2,625	Issued for consideration other than cash for acquisition of shares	13	13
494,000	494,000	Issued as bonus shares	2,470	2,470
<u>1,499,999</u>	<u>1,499,999</u>		<u>7,500</u>	<u>7,500</u>
			<u>28,779,674</u>	<u>28,779,674</u>



Six - year Summary

	2012	2011	2010	2009	2008	2007
OPERATION						
Route Kilometers	448,120	460,719	424,570	380,917	311,131	383,574
Revenue Kilometers Flown (000)	75,750	84,898	81,588	80,108	79,580	80,759
Revenue Hours Flown	127,268	141,727	142,940	132,155	132,378	132,416
Available Tonne Kilometers (000)	2,859,450	2,972,014	3,091,344	2,933,253	2,934,626	3,125,558
Available Seat Kilometers (000)	19,849,470	21,725,390	21,218,879	19,859,050	19,528,207	20,313,265
TRAFFIC						
Revenue Passengers Carried (000)	5,236	5,953	5,538	5,535	5,617	5,415
Revenue Passengers Kilometers (000)	13,873,760	15,663,646	15,656,596	13,891,225	13,925,297	13,680,916
Passenger Load Factor (%)	70	72	74	70	71	67
Revenue Freight Tonne Kilometers (000)	273,414	288,497	329,285	270,310	319,835	350,758
Kgs. of Excess Baggage & Cargo (000)	98,348	93,305	104,116	95,393	111,088	115,229
Kgs. of Mail (000)	891	1,335	1,454	702	778	1,127
Revenue Tonne Kilometers (000)	1,513,041	1,677,646	1,745,746	1,525,293	1,580,507	1,593,349
Revenue Load Factor (%)	53	56	56	52	54	51
Avg. Pax Stage Distance (Statute Kilometers)	2,650	2,631	2,827	2,510	2,479	2,527
FINANCIAL						
Operating Revenue (Rs. in million)	112,130.00	116,550.57	107,531.59	94,563.77	88,863.26	70,480.73
Operating Expenses (Rs. in million)	133,472.96	134,477.33	106,811.51	98,628.76	120,499.38	76,415.81
Operating Profit/(loss) (Rs. in million)	(21,342.90)	(17,926.76)	720.08	(4,064.99)	(31,636.12)	(5,935.08)
Profit/(loss) after tax (Rs. in million)	(33,181.54)	(26,767.21)	(20,785.12)	(5,822.43)	(36,138.64)	(13,398.71)
Fixed Assets (Rs. in million)	95,792.70	96,685.84	96,714.94	133,647.52	115,123.49	95,600.63
Current Assets (Rs. in million)	22,499.80	16,562.56	16,410.13	16,880.56	15,039.28	13,251.33
Current Liabilities (Rs. in million)	166,945.41	104,783.97	75,507.09	68,817.62	72,528.40	52,049.54
Long-Term Debts (Rs. in million)	56,656.78	89,535.85	98,533.01	105,418.23	96,926.21	74,284.84
Net Worth (Rs. in million)	(116,899.11)	(85,933.56)	(62,244.18)	(49,054.75)	(47,522.42)	(11,903.56)
Jet Fuel Prices (Rs. per US Gallon)	298.90	270.06	194.57	149.39	216.04	132.93
Cost per A. T. K. (Rs.)	46.68	45.25	34.55	33.62	41.06	24.29
RATIOS						
Earnings per share (Rs.)	(11.00)	(9.73)	(8.39)	(2.72)	(17.79)	(6.61)
Debt equity ratio	NA	NA	NA	NA	NA	NA
Current ratio	0.13	0.16	0.22	0.25	0.21	0.25
SHARE PRICES (Rs. 10 Share)						
High	4.76	3.40	4.02	5.10	7.65	11.30
Low	1.75	1.61	1.95	2.31	1.70	6.10
Closing	4.03	1.97	2.26	2.61	3.51	6.30
PERSONNEL						
Average No. of Employees	17,439	18,014	18,019	17,944	18,036	18,149
Revenue per Employee (Rs.)	6,429,841	6,470,000	5,967,678	5,269,938	4,926,994	3,883,450
A. T. K. per Employee	163,969	164,984	171,560	163,467	162,709	172,217



Unconsolidated

financial statements

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Chartered Accountants
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Karachi – 75350

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated balance sheet of **Pakistan International Airlines Corporation (the Corporation)** as at December 31, 2012 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Corporation'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 Pakistan International Airlines Corporation Act, 1956 and 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 accounts have been kept by the Corporation as required by the Pakistan International Airlines Corporation Act, 1956 and 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 Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Corporation's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Corporation;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated balance sheet, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes



forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Corporation's affairs as at December 31, 2012 and of the loss, total comprehensive income, cash flows and changes in equity for the year then ended; and

(d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

We draw attention to note 1.2 to the unconsolidated financial statements, which states that the Corporation incurred a loss of Rs. 33,181.540 million during the year ended December 31, 2012, resulting in accumulated loss of Rs. 151,914.479 million as of December 31, 2012, and, as of that date, the Corporation's current liabilities exceeded its current assets by Rs. 144,445.613 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Corporation's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Chartered Accountants

Audit Engagement Partner: Khurshid Hasan

Chartered Accountants

Audit Engagement Partner: Syed Asad Ali Shah

Date: April 26, 2013

Place: Karachi



UNCONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2012

		2012	2011	2012	2011
	Note	-----Rupees in '000-----		-----US\$ in '000-----	
ASSETS					
NON CURRENT ASSETS					
Fixed assets					
- Property, plant and equipment	5	95,712,875	96,632,229	984,397	1,074,340
- Intangibles	6	79,820	52,855	821	587
		95,792,695	96,685,084	985,218	1,074,927
Long-term investments	7	4,444,491	4,440,454	45,711	49,368
Long-term advances	8	-	-	-	-
Long-term deposits and prepayments	9	5,936,957	9,140,474	61,061	101,622
		106,174,143	110,266,012	1,091,990	1,225,917
CURRENT ASSETS					
Stores and spares	10	4,057,648	3,863,885	41,732	42,958
Trade debts	11	9,416,133	8,396,481	96,843	93,351
Advances	12	2,045,381	316,862	21,037	3,523
Trade deposits and prepayments	13	587,699	795,465	6,044	8,844
Other receivables	14	4,201,330	2,275,838	43,210	25,302
Short-term investments	15	19,220	19,220	198	214
Cash and bank balances	16	2,172,389	894,814	22,343	9,948
		22,499,800	16,562,565	231,407	184,140
TOTAL ASSETS		128,673,943	126,828,577	1,323,397	1,410,057

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



UNCONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2012

	Note	2012 Rupees in '000	2011	2012 US\$ in '000	2011
EQUITY AND LIABILITIES					
SHARE CAPITAL AND RESERVES					
Share capital	17	28,779,674	28,779,674	295,996	319,967
Reserves	18	(147,606,948)	(114,713,233)	(1,518,121)	(1,275,361)
		(118,827,274)	(85,933,559)	(1,222,125)	(955,394)
Advance against equity from Government of Pakistan (GoP)	19	1,928,167	-	19,831	-
TOTAL EQUITY		(116,899,107)	(85,933,559)	(1,202,294)	(955,394)
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET	20	7,220,492	7,834,036	74,262	87,097
NON CURRENT LIABILITIES					
Long-term financing	21	13,957,198	31,264,901	143,548	347,598
Term finance and sukuk certificates	22	4,394,027	10,925,653	45,192	121,469
Liabilities against assets subject to finance lease	23	38,305,557	47,345,301	393,968	526,376
Advance from a subsidiary	24	1,069,530	989,403	11,000	11,000
Long-term deposits	25	534,635	444,685	5,499	4,944
Deferred liabilities	26	13,146,198	9,174,189	135,207	101,997
		71,407,145	100,144,132	734,414	1,113,384
CURRENT LIABILITIES					
Trade and other payables	27	53,308,225	44,578,472	548,269	495,615
Accrued interest	28	6,770,759	4,690,092	69,637	52,144
Provision for taxation		676,930	1,045,281	6,962	11,621
Short-term borrowings	29	61,354,530	25,801,027	631,025	286,851
Current maturities of:					
- Long-term financing	21	20,366,285	10,957,001	209,465	121,818
- Term finance and sukuk certificates	22	15,195,733	8,664,107	156,286	96,327
- Liabilities against assets subject to finance lease	23	9,272,951	9,047,988	95,371	100,594
		166,945,413	104,783,968	1,717,015	1,164,970
TOTAL LIABILITIES		238,352,558	204,928,100	2,451,429	2,278,354
TOTAL EQUITY AND LIABILITIES		128,673,943	126,828,577	1,323,397	1,410,057
CONTINGENCIES AND COMMITMENTS	30				

The annexed notes 1 to 45 form an integral part of these unconsolidated financial statements.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



UNCONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012 ----- Rupees in '000 -----	2011 ----- Rupees in '000 -----	2012 ----- US\$ in '000 -----	2011 ----- US\$ in '000 -----
REVENUE - net	31	112,130,066	116,550,576	1,153,246	1,295,788
COST OF SERVICES					
Aircraft fuel		(61,157,291)	(62,965,435)	(628,996)	(700,038)
Others	32	(51,291,649)	(52,001,630)	(527,529)	(578,145)
		(112,448,940)	(114,967,065)	(1,156,525)	(1,278,183)
GROSS (LOSS) / PROFIT		(318,874)	1,583,511	(3,279)	17,605
Distribution costs	33	(7,155,197)	(6,388,576)	(73,590)	(71,027)
Administrative expenses	34	(9,846,664)	(8,791,872)	(101,272)	(97,746)
Other provisions and adjustments	35	(730,454)	(656,042)	(7,513)	(7,294)
Exchange loss - net		(6,696,708)	(4,219,421)	(68,875)	(46,911)
Other operating income	36	3,405,000	545,645	35,020	6,066
		(21,024,023)	(19,510,266)	(216,230)	(216,912)
LOSS FROM OPERATIONS		(21,342,897)	(17,926,755)	(219,509)	(199,307)
Finance cost	37	(11,380,757)	(10,099,046)	(117,050)	(112,279)
LOSS BEFORE TAXATION		(32,723,654)	(28,025,801)	(336,559)	(311,586)
Taxation	38	(457,886)	1,258,594	(4,709)	13,993
LOSS FOR THE YEAR		(33,181,540)	(26,767,207)	(341,268)	(297,593)
		(Rupees)		(US\$)	
EARNINGS PER SHARE - BASIC AND DILUTED					
Loss attributable to:					
'A' class ordinary shares of Rs. 10 each	39	(11.00)	(9.73)	(0.11)	(0.11)
'B' class ordinary shares of Rs. 5 each	39	(5.50)	(4.87)	(0.06)	(0.06)

The annexed notes 1 to 45 form an integral part of these unconsolidated financial statements.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 -----Rupees in '000-----	2011	2012 -----US\$ in '000-----	2011
Loss for the year	(33,181,540)	(26,767,207)	(341,268)	(297,593)
Other comprehensive income				
Unrealised gain / (loss) on re-measurement of available for sale investments	4,037	(5,118)	42	(57)
Total comprehensive income	(33,177,503)	(26,772,325)	(341,226)	(297,650)

Surplus / (deficit) arising on revaluation of property, plant and equipment has been reported in accordance with the requirements of the Companies Ordinance, 1984, in a separate account below equity.

The annexed notes 1 to 45 form an integral part of these unconsolidated financial statements.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



UNCONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012 -----Rupees in '000-----	2011	2012 -----US\$ in '000-----	2011
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash (used in) / generated from operations	40	(1,072,710)	7,318,766	(11,033)	81,369
Profit on bank deposits received		51,399	45,997	529	511
Finance costs paid		(9,300,090)	(8,481,499)	(95,650)	(94,296)
Taxes paid		(648,676)	(566,137)	(6,672)	(6,294)
Staff retirement benefits paid		(623,012)	(461,687)	(6,408)	(5,133)
Long-term deposits and prepayments - net		718,412	481,190	7,389	5,350
Net cash used in operating activities		(10,874,677)	(1,663,370)	(111,845)	(18,493)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(7,298,756)	(3,650,542)	(75,067)	(40,586)
Proceeds from sale of property, plant and equipment		79,306	8,149	816	91
Purchase of intangibles		(53,368)	(3,214)	(549)	(36)
Proceeds from held to maturity investments		-	7,289	-	81
Net cash used in investing activities		(7,272,818)	(3,638,318)	(74,800)	(40,450)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		-	3,004,726	-	33,406
Receipt of advance against equity from GoP		1,928,167	-	19,831	-
Repayment of long-term financing		(10,206,640)	(7,107,615)	(104,974)	(79,022)
Proceeds from long-term financing		500,000	13,334,521	5,143	148,251
Receipt of advance from a subsidiary		-	943,100	-	10,485
Redemption of term finance certificates		-	(2,560)	-	(28)
Proceeds from long-term deposits		89,950	60,524	925	673
Repayment of obligations under finance lease - net		(8,225,660)	(8,528,555)	(84,600)	(94,819)
Net cash (used in) / generated from financing activities		(15,914,183)	1,704,141	(163,675)	18,946
Decrease in cash and cash equivalents		(34,061,678)	(3,597,547)	(350,320)	(39,997)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR					
		(24,906,213)	(21,271,355)	(256,158)	(236,491)
Effects of exchange rate changes on cash and cash equivalents		(214,250)	(37,311)	(2,204)	(415)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		(59,182,141)	(24,906,213)	(608,682)	(276,903)
CASH AND CASH EQUIVALENTS					
Cash and bank balances	16	2,172,389	894,814	22,343	9,948
Short-term borrowings	29	(61,354,530)	(25,801,027)	(631,025)	(286,851)
		(59,182,141)	(24,906,213)	(608,682)	(276,903)

The annexed notes 1 to 45 form an integral part of these unconsolidated financial statements.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2012

	Issued, subscribed, and paid-up share capital	Advance against equity from Government of Pakistan (GoP)	Reserves			Total	
			Capital reserves	Revenue reserves	Unrealised gain / (loss) on remeasurement of investments		Accumulated losses
----- Rupees in '000 -----							
Balance as at January 1, 2011	25,774,948	-	2,501,038	1,779,674	27,900	(92,327,743)	(62,244,183)
Total comprehensive income for the year ended December 31, 2011							
Loss for the year	-	-	-	-	-	(26,767,207)	(26,767,207)
Other comprehensive income for the year	-	-	-	-	(5,118)	-	(5,118)
Total comprehensive income for the year	-	-	-	-	(5,118)	(26,767,207)	(26,772,325)
Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	-	-	-	-	-	78,223	78,223
Transactions with owners							
Issue of share capital 'A' class ordinary shares	3,004,726	-	-	-	-	-	3,004,726
Balance as at December 31, 2011	28,779,674	-	2,501,038	1,779,674	22,782	(119,016,727)	(85,933,559)
Total comprehensive income for the year ended December 31, 2012							
Loss for the year	-	-	-	-	-	(33,181,540)	(33,181,540)
Other comprehensive income for the year	-	-	-	-	4,037	-	4,037
Total comprehensive income for the year	-	-	-	-	4,037	(33,181,540)	(33,177,503)
Advance against equity from GoP	-	1,928,167	-	-	-	-	1,928,167
Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	-	-	-	-	-	283,788	283,788
Balance as at December 31, 2012	28,779,674	1,928,167	2,501,038	1,779,674	26,819	(151,914,479)	(116,899,107)

The annexed notes 1 to 45 form an integral part of these unconsolidated financial statements.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

1. THE CORPORATION AND ITS OPERATIONS

1.1 Pakistan International Airlines Corporation (the Corporation) was incorporated on January 10, 1955 under the Pakistan International Airlines Corporation Ordinance, 1955, which was subsequently repealed and replaced by the Pakistan International Airlines Corporation Act, 1956 (the Act). The shares of the Corporation are quoted on all Stock Exchanges of Pakistan. The principal activity of the Corporation is to provide commercial air transportation, which includes passenger, cargo and postal carriage services. Other activities of the Corporation include provision of engineering and allied services. The head office of the Corporation is situated at PIA Building, Jinnah International Airport, Karachi.

1.2 During the current year, the Corporation incurred a net loss of Rs. 33,181.540 million (2011: Rs. 26,767.207 million) resulting in accumulated loss of Rs. 151,914.479 million as of December 31, 2012 (2011: Rs. 119,016.727 million). Further, as of December 31, 2012 current liabilities of the Corporation exceeded its current assets by Rs. 144,445.613 million (2011: Rs. 88,221.403 million). Furthermore, as disclosed in notes 22.1, 22.2, 21.9 and 29.1.3, the Corporation has not been able to pay interest and principal amount of term finance and sukuk certificates and other borrowings, which are overdue as at December 31, 2012.

The Government of Pakistan (GoP), being the majority shareholder of the Corporation, had through its finance division's letter dated September 2, 2008 communicated that it would extend all maximum support to maintain the Corporation's going concern status. Accordingly, since then it has been extending support to the Corporation through the following measures to ensure that it (the Corporation) continues and sustains in the long-term as a viable business entity:

- Reimbursement of financial charges on term finance and sukuk certificates payable by the Corporation. In this respect, amounts aggregating to Rs. 9,830 million have been provided to the Corporation towards equity during the years ended December 31, 2008 to 2012;
- During the years ended December 31, 2009 and 2010, the GoP has provided long-term financing aggregating to Rs. 8,000 million to meet working capital requirements of the Corporation;
- Issuance / renewal of guarantees to financial institutions, both local and foreign, so as to enable the Corporation to raise / rollover funds; and
- On July 3, 2012, the Economic Coordination Committee (ECC) of the Cabinet accorded approval for extending the repayment period of the term finance certificates aggregating Rs. 12,790 million along with conversion of certain short term loans amounting to Rs. 20,700 million into new term finance certificates (refer note 22.1).

The Corporation continued to pursue approval of its business plan (the plan) with the GoP at various levels and in this respect it (the Corporation) presented the plan to the President and the Prime Minister of Pakistan, Economic Reforms Unit of the Ministry of Finance and the Economic Coordination Committee (ECC) in current and previous years. On their advice, the plan was amended and the amended plan was submitted to the Board of Directors for their approval in their meeting held on January 21, 2013. The business plan includes GoP's support in terms of providing necessary funding for recapitalization, restructuring of existing loans to reduce finance cost and issuance of GoP guarantees. The objectives of the business plan, among other measures, include attaining fuel efficiency through fleet modernization and optimum fleet deployment on network, enhancing revenues through additional frequencies on high demand high yield routes, separation of the core airline business from non-core activities and controlling costs. The Board while considering the plan as an interim plan asked management to hire services of a reputable international aviation consultant for the preparation of five year strategic business plan, which among other things should also be marketable.

Further, the Corporation presented a proposal for financing support required along with its interim business plan to the ECC at its meeting held on February 26, 2013. The ECC approved the following financing support proposal subject to the condition that the timeline will be fixed for repayment of loans and there will be quarterly monitoring of the Corporation's business plan by the Ministry of Finance:

- New loans / guarantees for repayment of loans amounting to Rs. 11.1 billion becoming due in year 2013;
- Rollover / Extension of GOP guarantees amounting to approximately Rs. 51.16 billion;
- New guarantees against loans already taken on the basis of letter of comfort amounting to Rs. 13.5 billion;
- Additional funding to provide fiscal space to the Corporation amounting to Rs. 12 billion; and
- Funds of US\$ 46 million for acquisition of narrow body aircraft on dry lease.



In view of the situation described above, material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. However, management believes that considering the mitigating factors set out in the preceding paragraphs, the going concern assumption is appropriate and has, as such, prepared these unconsolidated financial statements on a going concern basis.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These unconsolidated financial statements are the separate financial statements of the Corporation and have been prepared in accordance with the requirements of the Act and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the requirements of the Act or the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These unconsolidated financial statements have been prepared under the historical cost convention except that:

- certain items of property, plant and equipment are stated at revalued amount;
- certain financial assets are carried at fair value;
- liability on account of frequent flyer programme is recognised at fair value; and
- defined benefit obligations are stated at present value in accordance with International Accounting Standard (IAS) - 19 'Employee Benefits'.

2.3 Functional and presentation currency

Items included in the unconsolidated financial statements are measured using the currency of the primary economic environment in which the Corporation operates. The unconsolidated financial statements are presented in Pakistani Rupees, which is the Corporation's functional and presentation currency.

The US Dollar amounts reported in the balance sheet, profit and loss account, statement of comprehensive income and cash flow statement are stated as additional information, solely for the convenience of the users of these unconsolidated financial statements. The US Dollar amounts in the unconsolidated balance sheet, profit and loss account, statement of comprehensive income and cash flow statement have been translated into US Dollar at the rate of Rs. 97.23 = US \$ 1 (2011: Rs. 89.9457 = US \$ 1).

2.4 Adoption of amended standards

During the year, amendments to following standards and interpretations became effective, however, their application did not have material impact on the unconsolidated financial statements of the Corporation:

- Amendments to IAS 12 - Income Taxes - Deferred Tax: Recovery of underlying assets
- Amendments to IFRS 7 - Financial Instruments: Disclosures - Transfer of financial assets

2.5 Amendments to published standards and new interpretation to existing standard that are not yet effective and have not been early adopted by the Corporation

The following amendments to published standards and new interpretation to existing standard are effective for accounting periods, beginning on or after the date mentioned herein:

- IFRS 7 - 'Financial Instruments: Disclosures' - (effective for annual periods beginning on or after January 1, 2013) - These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 'Financial Instruments: Presentation'. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.
- IAS 1 - 'Presentation of Financial Statements' (effective for annual periods beginning on or after July 1, 2012) - retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but



consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

- IAS 19 - 'Employee Benefits' (effective for annual periods beginning on or after January 1, 2013) - The amendments require actuarial gains and losses to be recognised immediately in other comprehensive income; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. This change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19. As a result of adoption of this amendment, the Corporation will recognise the actuarial gains and losses in other comprehensive income, which are currently being recognised in the profit and loss account. However, there would not be any impact on Corporation's equity.
- IAS 32 - 'Financial Instruments: Presentation' - (effective for annual periods beginning on or after January 1, 2014) - These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.
- IFRIC 20 - 'Stripping Costs in the Production Phase of a Surface Mine' - (effective for annual periods beginning on or after January 1, 2013) - This interpretation applies to all types of natural resources that are extracted using a surface mine activity process, and addresses the issues pertaining to the recognition of production stripping cost as an asset, initial measurement of stripping activity at cost and subsequent measurement of stripping activity asset at depreciated or amortised cost based on a systematic basis over the expected useful life of the identified component of ore body.

The above mentioned amendments to published standards and new interpretation to existing standard are either not relevant to the Corporation's operations (except for the impact of IAS 19 as described above) or are not expected to have significant impact on the Corporation's financial statements other than increase in disclosure in certain cases.

2.6 Other standards issued by IASB but not adopted by Securities and Exchange Commission of Pakistan (SECP)

The IASB has also issued following standards that have not been adopted in Pakistan by the SECP:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non-adoption of IFRS 10 and IFRS 11

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of unconsolidated financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make estimates, assumptions and judgments that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Corporation's accounting policies, management has made the following estimates and judgments which are significant to the unconsolidated financial statements:



3.1 Property, plant and equipment

The Corporation reviews appropriateness of the rates of depreciation / useful lives and residual values used in the calculation of depreciation at each financial year end. Further, the Corporation estimates revalued amounts and useful life of aircraft fleet, leasehold land and buildings based on the periodic valuations carried out by independent professional valuers. Any change in estimate in future might affect the carrying amounts of the respective item of property, plant and equipment with a corresponding effect on the depreciation charge and impairment, surplus on revaluation and annual transfer of incremental depreciation from surplus on revaluation of property, plant and equipment account to accumulated loss.

Change in accounting estimate

As a result of revaluation exercise conducted by an independent valuer as of December 31, 2011, the useful lives of aircraft fleet have been reassessed. In addition, the management has reassessed the residual values of aircraft and related capital spares. These changes in accounting estimates have an impact on depreciation expense for the current year. Had there been no change in useful lives and residual values of aircraft and related spares, depreciation expense pertaining to aircraft fleet and capital spares for the year would have been lower by Rs. 411.896 million, whereas the effect on future years is impracticable to ascertain considering subsequent measurement of aircraft fleet under the revaluation model and inherent uncertainties attached thereto.

3.2 Employee benefits

The liabilities relating to defined benefit plans are determined through actuarial valuation using the Projected Unit Credit Method. The method involves making assumptions about discount rates, expected rates of return on pension plan assets, future salary increases, mortality rates, future increase in medical costs and future pension increases. Due to the long-term nature of these benefits, such estimates are subject to certain uncertainties. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 26 to these unconsolidated financial statements.

3.3 Stores and spares

The Corporation at each balance sheet date reviews the net realisable value of stores and spares to assess any diminution in their respective carrying values. Due to the complex nature and huge quantum of the items of stores and spares the net realisable value is arrived at by estimating the provision against slow moving stores and spares, which is made in proportion to the estimated utilised life of the relevant category of the aircraft attained up to the balance sheet date.

3.4 Taxation

In making estimate for income tax payable by the Corporation, the Corporation takes into account the applicable tax laws. Deferred tax asset is recognised for all unused tax losses and available credits to the extent that it is probable that sufficient taxable temporary differences and taxable profits will be available against which such losses and credits can be utilised. Significant judgment is exercised to determine the amount of deferred tax asset to be recognised.

3.5 Trade debts

The Corporation reviews its doubtful trade debts at each balance sheet date to assess the adequacy of the provision there against. In particular, judgment is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

3.6 Liability on account of frequent flyer programme

The Corporation operates a frequent flyer programme that provides travel awards to members of the programme based on accumulated mileage. The Corporation accounts for award credits as separately identifiable component of the sales transaction in the period in which they are granted. The consideration in respect of initial sale is allocated to award credits based on their fair value and is accounted for as a liability in the unconsolidated financial statements. The fair value of credits awarded is estimated by reference to the fair value of the services for which the award credits may be redeemed. Determination of the fair value of the award credit involves estimations, based on the average of air fares, the value of each award credit assuming a 100% redemption rate, and estimating the expected award credit redemption rate. These estimates are reviewed as and when a significant change in the assumptions used is observed and the liability is adjusted annually as appropriate. The provision for frequent flyer programme is determined based on the valuation carried out by an independent professional valuer.



3.7 Revenue recognition

Revenue for passenger tickets and cargo airway bills is recognised when the transportation services are provided. Tickets / airway bills that are un-utilised, are recognised as revenue on the basis of estimated number of days delay between the date of sale of ticket / airway bills and the date of actual travel / lift.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these unconsolidated financial statements are same as those applied in the preparation of the unconsolidated financial statements of the Corporation for the year ended December 31, 2011 and are enumerated as follows:

4.1 Fixed assets

Property, plant and equipment

Owned

Lands classified as 'others' in note 5.1 are stated at cost, whereas buildings classified as 'others' in the aforesaid note are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Leasehold land and buildings thereon and aircraft fleet are measured at revalued amounts, which are the fair values at the date of revaluation less accumulated depreciation and impairment, if any, recognised subsequent to the date of revaluation.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Aircraft and related equipment acquired on an exchange basis are stated at amounts paid plus the fair value of the fixed asset traded-in.

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 Corporation and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property, plant and equipment is capitalised and the asset so replaced is derecognised.

Major renewals, improvements and overhauls are capitalised and depreciated over the period to the next major overhaul. All other repairs and maintenance including cost incurred under 'power-by-the-hour' contracts are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is charged to the profit and loss account, applying the straight-line method whereby the cost or revalued amount of assets, less their residual values, is written down over their expected useful lives. The rates of depreciation are disclosed in note 5.1.

In respect of additions and disposals of assets, other than the aircraft fleet, depreciation is charged from the month in which the asset is available for use until it is derecognised, i.e., up to the month preceding the disposal. Proportionate depreciation on aircraft fleet is charged from the date of acquisition till the date of disposal.

Useful lives (except for aircraft fleet) are determined by the management based on expected usage of asset, expected physical wear and tear, technical and commercial obsolescence, and other similar factors. The useful lives of aircraft fleet are determined by independent valuer. The assets' residual values, useful lives and methods are reviewed, and adjusted, if appropriate, at each financial year end.

Surplus on revaluation of aircraft fleet, land and buildings is credited to the surplus on revaluation account and is shown in the balance sheet below share capital and reserves. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. Accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of property, plant and equipment (net of deferred taxation) is transferred directly to retained earnings / accumulated loss.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net



disposal proceeds and the carrying amount of the asset) is included in the profit and loss account in the year the asset is derecognised.

Gains and losses on disposal of assets are taken to profit and loss account. When revalued assets are sold, the relevant remaining surplus is transferred directly to retained earnings (unappropriated profits / accumulated loss).

Leased

Leased assets under which the Corporation assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance lease

Assets held under finance lease are accounted for by recording the assets and related liabilities at the amounts determined on the basis of the lower of fair value of assets and the present value of minimum lease payments. Initial direct costs are added to the amount of the asset. Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged on leased assets on a basis similar to that of owned assets.

Operating lease

Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the lease term.

Capital spares

Rotable and repairable stores are stated at cost and treated as property, plant and equipment and are depreciated based on the average remaining useful life of the related aircraft. Capital spares which are not useable are treated as scrap and charged to profit and loss account.

Capital work-in-progress

These are stated at cost less impairment, if any, and consist of expenditure incurred and advances made in respect of assets in the course of their acquisition, construction and installation. The assets are transferred to relevant category of property, plant and equipment when they are available for intended use.

4.2 Intangibles

Intangible assets are measured on initial recognition at cost. Costs that are directly associated with identifiable software products / licenses controlled by the Corporation and that have probable economic benefit beyond one year are recognised as intangible assets. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Intangible assets with finite lives are amortised on a straight line basis over their estimated useful lives as specified in note 6.2.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss account when the asset is derecognised.

4.3 Investments

Subsidiaries and associates

Investments in subsidiaries and associates are initially recognised at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly.

Available for sale

Investments classified as available for sale are initially recognised at fair value, plus transaction costs and are subsequently marked to market using year end bid prices from stock exchange quotations and quotations from brokers and in case of unquoted investments, at cost, less impairment. Any resultant unrealised gain or loss is recognised in other comprehensive income. When



these investments are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified in the profit and loss account.

Held to maturity

Investments with fixed or determinable payments and fixed maturity, for which the Corporation has the ability to hold them till maturity, are classified as held to maturity investments. These investments are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using effective interest method. All investments categorised under held to maturity are subject to annual review for impairment. Provisions for impairment in value, if any is taken to the profit and loss account.

4.4 Stores and spares

These are stated at lower of cost and net realisable value. Goods-in-transit are valued at cost plus other charges incurred thereon. Cost is determined as follows:

Fuel and medical inventories	first-in-first-out basis
Other stores and spares	weighted moving average cost

Provision against slow moving stores and spares is made in proportion to the estimated utilised life of the relevant category of the aircraft attained up to the balance sheet date.

4.5 Trade debts and other receivables

These are recognised initially at fair value (original invoice / ticket amount) plus directly attributable transaction costs (if any) and subsequently measured at amortised cost less provision for impairment, if any. A provision for impairment is established if there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Trade debts and other receivables considered irrecoverable are written off.

4.6 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash in hand, balances with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents also include bank overdrafts / short-term borrowings that are repayable on demand and form an integral part of the Corporation's cash management.

4.7 Trade and other payables

Liabilities for trade creditors and other amounts payable are recognised initially at fair value plus directly attributable transaction cost, if any, and subsequently measured at amortised cost.

4.8 Loans and borrowings

Loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs, if any. Subsequently, these are measured at amortised cost using the effective interest method.

4.9 Employee benefits

Provident fund

The Corporation operates a defined contribution provident fund scheme for all its permanent employees. Equal monthly contributions are made to the Fund by the Corporation and the employees in accordance with the Fund's Rules.

Pension funds

For all the permanent employees hired prior to July 1, 2008 the Corporation operates a funded benefit pension scheme for its three categories of employees. Pension scheme is a final salary pension scheme and is invested through three funds namely Pakistan Airline Pilot Association (PALPA), Flight Engineering Association (FENA) and Employees' Pension Funds. Under PALPA and FENA, employees are entitled to basic salary and flight allowance whereas under Employees' Pension Fund, employees are entitled to basic salary and certain other allowances. Contributions are made to the scheme on the basis of actuarial valuation that is carried out annually.



For all the permanent employees hired on or after July 1, 2008 in lieu of the pension funds as described above, the Corporation operates a defined contribution pension fund whereby a contribution of 5% of the pensionable benefits is made to the Fund in accordance with the relevant rules.

Post-retirement medical benefits

The Corporation operates an unfunded defined benefit medical scheme and provides medical allowances and free hospitalisation benefits to all its retired employees and their spouses in accordance with their service regulations. The post-retirement medical benefit is accounted for on the basis of actuarial valuation that is carried out annually.

Compensated absences

The Corporation accounts for all accumulated compensated absences when the employees render service that increases their entitlement to future compensated absences on the basis of actuarial valuation that is carried out annually.

Actuarial gains and losses on employee benefits

Actuarial gains and losses (if any) on all employee benefits are recognised immediately in the profit and loss account.

4.10 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss account except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any, or one quarter percent of turnover, whichever is higher. It also includes any adjustment to tax payable in respect of prior years.

Deferred taxation

Deferred income tax is recognised using the balance sheet method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax asset is recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits or taxable temporary differences will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset is reassessed at each balance sheet date and recognised to the extent that it has become probable that future taxable profits or taxable temporary differences will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4.11 Revenue recognition

The Corporation principally earns revenue from the carriage of passengers, cargo, mail and excess baggage and provision of handling services to other airlines, engineering services, air charters and related activities.

Passenger and cargo revenue

Passenger and cargo revenue is recognised when the transportation service is provided. The value of unused tickets and airway bills is included in current liabilities as 'advance against transportation' until recognised as revenue. The estimates involved in revenue recognition are disclosed in note 3.7.



Engineering and other services

Revenue from repairs and maintenance and overhaul services of engine and component to other airlines is recognised when such services are rendered.

Frequent flyer programme revenue

The Corporation operates two principal loyalty programmes. The airline's 'frequent flyer programme' allows frequent travellers to accumulate travel miles that entitle them to a choice of various awards, primarily free travel. The fair value attributed to the awarded mileage credits is deferred as a liability and recognised as revenue on redemption of the miles by the participants to whom the miles are issued, when the miles expire or when they are not expected to be redeemed.

In addition, miles are sold to a commercial partner to use in promotional activity. The fair value of the miles sold is deferred and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The cost of redemption of miles is recognised when miles are redeemed.

The estimates involved in recognising revenue from frequent flyer programme are disclosed in note 3.6.

Interest / mark-up and dividend income

The Corporation recognises interest income / mark-up on short-term bank deposits, interest bearing advances and held to maturity investments on time proportion basis using effective interest method.

Dividend income is recognised when the Corporation's right to receive dividend is established.

4.12 Borrowing costs

The Corporation recognises the borrowing costs as an expense in the period in which these costs are incurred, except the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset.

4.13 Provisions

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

4.14 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Non-Financial assets

The carrying amounts of non-financial assets are assessed at each reporting date to ascertain whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised, as an expense in the profit and loss account, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.



4.15 Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the last week of the preceding month's average rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates using the average spot rate on the balance sheet date. Gains and losses on translation are taken to profit and loss account currently.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items, measured at fair value in a foreign currency, are translated using the exchange rates at the date when the fair value was determined.

4.16 Financial instruments

Financial assets and financial liabilities are recognised when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value and subsequently at fair value or amortised cost as the case may be. Financial assets are de-recognised at the time when the Corporation loses control of the contractual rights that comprise the financial assets. Financial liabilities are de-recognised at the time when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to the profit and loss account immediately.

4.17 Earnings per share

The Corporation presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Corporation by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4.18 Derivative financial instruments

Derivatives that do not qualify for hedge accounting are recognised in the balance sheet at estimated fair value with corresponding effect to profit and loss account. Derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

4.19 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to set-off the recognised amounts and the Corporation intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

	Note	2012 -----Rupees in '000-----	2011
5. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets			
- owned	5.1	25,217,571	26,014,121
- leased	5.2	68,233,428	69,644,560
Capital work-in-progress	5.8	2,261,876	973,548
		95,712,875	96,632,229



5.1 Owned fixed assets

	Land		Buildings on:		Workshops and hangars	Renovation and improvements	Aircraft fleet (notes 5.1.3 and 5.4)	Operating ground, catering, communication and meteorological equipment	Engineering equipment and tools
	Leasehold (notes 5.1.1 and 5.3)	Others (note 5.1.2)	Leasehold land (notes 5.1.1 and 5.3)	Other land (note 5.1.2)					
As at December 31, 2011									
Cost or revalued amount	5,410,000	24,400	1,307,229	840,028	899,360	741,898	33,196,690	779,368	1,599,224
Accumulated depreciation	-	-	(100,819)	(312,664)	(762,691)	(673,369)	(21,488,567)	(591,538)	(1,239,866)
Net book value	<u>5,410,000</u>	<u>24,400</u>	<u>1,206,410</u>	<u>527,364</u>	<u>136,669</u>	<u>68,529</u>	<u>11,708,123</u>	<u>187,830</u>	<u>359,358</u>
Year ended December 31, 2012									
Opening net book value	5,410,000	24,400	1,206,410	527,364	136,669	68,529	11,708,123	187,830	359,358
Additions / transfers	-	-	3,070	-	2,875	39,171	1,069,266	10,700	17,106
Revaluation									
Cost or revalued amount	-	-	-	-	-	-	(3,793,787)	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-
							(3,793,787)		
Adjustments / transfer									
Cost or revalued amount	-	-	-	-	-	-	10,979,748	-	-
Accumulated depreciation	-	-	-	-	-	-	(5,993,275)	-	-
							4,986,473		
Disposals									
Cost or revalued amount	-	-	-	-	-	-	(114,184)	-	-
Accumulated depreciation	-	-	-	-	-	-	27,230	-	-
							(86,954)		
Write off									
Cost or revalued amount	-	-	-	-	-	(269)	-	(86)	(649)
Accumulated depreciation	-	-	-	-	-	269	-	86	649
Depreciation charge for the year	-	-	(131,397)	(20,511)	(13,319)	(48,779)	(2,249,551)	(47,430)	(77,364)
Closing net book value	<u>5,410,000</u>	<u>24,400</u>	<u>1,078,083</u>	<u>506,853</u>	<u>126,225</u>	<u>58,921</u>	<u>11,633,570</u>	<u>151,100</u>	<u>299,100</u>
As at December 31, 2012									
Cost or revalued amount	5,410,000	24,400	1,310,299	840,028	902,235	780,800	41,337,733	789,982	1,615,681
Accumulated depreciation	-	-	(232,216)	(333,175)	(776,010)	(721,879)	(29,704,163)	(638,882)	(1,316,581)
Net book value	<u>5,410,000</u>	<u>24,400</u>	<u>1,078,083</u>	<u>506,853</u>	<u>126,225</u>	<u>58,921</u>	<u>11,633,570</u>	<u>151,100</u>	<u>299,100</u>
Annual depreciation rate (%)	-	-	2.5	2.5	5	20	5 - 100	10	10 - 20

5.1.1 These represent leasehold land and buildings owned by the Corporation that are freely transferable and can be disposed off as and when required.

5.1.2 Land and buildings classified as 'Others' are amenity plots licensed from Civil Aviation Authority (CAA). These are non-transferable as these were allotted at below market price.

5.1.3 During the year, the lease term of an engine and propulsor expired (note 23.3.1) and these have been transferred from leased assets. However, the title was not transferred in the name of the Corporation as at December 31, 2012, due to certain formalities required to be fulfilled.



Traffic equipment	Furniture, fixtures and fittings	Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Other equipment	Capital spares	Total
----- Rupees in ' 000 -----										
1,895,669 (1,453,197)	861,833 (677,728)	402,311 (330,997)	78,179 (75,950)	1,605,685 (1,398,044)	821,106 (809,110)	15,039 (15,039)	11,908 (11,908)	1,468,045 (443,415)	8,663,258 (4,222,207)	60,621,230 (34,607,109)
<u>442,472</u>	<u>184,105</u>	<u>71,314</u>	<u>2,229</u>	<u>207,641</u>	<u>11,996</u>	<u>-</u>	<u>-</u>	<u>1,024,630</u>	<u>4,441,051</u>	<u>26,014,121</u>
442,472	184,105	71,314	2,229	207,641	11,996	-	-	1,024,630	4,441,051	26,014,121
24,622	16,475	31,838	941	8,305	2,756	-	-	1,890	188,789	1,417,804
-	-	-	-	-	-	-	-	-	-	(3,793,787)
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	(3,793,787)
-	-	-	-	-	-	-	-	-	(254,730)	10,725,018
-	-	-	-	-	-	-	-	-	69,913	(5,923,362)
-	-	-	-	-	-	-	-	-	(184,817)	4,801,656
-	-	(13,916)	-	(205)	-	-	-	-	(18,486)	(146,791)
-	-	8,585	-	68	-	-	-	-	18,486	54,369
-	-	(5,331)	-	(137)	-	-	-	-	-	(92,422)
-	(376)	-	-	(581)	-	-	(109)	-	(132,619)	(134,689)
-	376	-	-	529	-	-	109	-	96,260	98,278
-	-	-	-	(52)	-	-	-	-	(36,359)	(36,411)
(65,860)	(34,463)	(26,651)	(966)	(51,685)	(2,417)	-	-	(59,235)	(263,762)	(3,093,390)
<u>401,234</u>	<u>166,117</u>	<u>71,170</u>	<u>2,204</u>	<u>164,072</u>	<u>12,335</u>	<u>-</u>	<u>-</u>	<u>967,285</u>	<u>4,144,902</u>	<u>25,217,571</u>
1,920,291 (1,519,057)	877,932 (711,815)	420,233 (349,063)	79,120 (76,916)	1,613,204 (1,449,132)	823,862 (811,527)	15,039 (15,039)	11,799 (11,799)	1,469,935 (502,650)	8,446,212 (4,301,310)	68,688,785 (43,471,214)
<u>401,234</u>	<u>166,117</u>	<u>71,170</u>	<u>2,204</u>	<u>164,072</u>	<u>12,335</u>	<u>-</u>	<u>-</u>	<u>967,285</u>	<u>4,144,902</u>	<u>25,217,571</u>
<u>10 - 20</u>	<u>10</u>	<u>25</u>	<u>15</u>	<u>10 - 20</u>	<u>10</u>	<u>20</u>	<u>10</u>	<u>10</u>	<u>5 - 100</u>	



	Land		Buildings on:		Workshops and hangars	Renovation and improvements	Aircraft fleet (note 5.4)	Operating ground, catering, communication and meteorological equipment	Engineering equipment and tools
	Leasehold (notes 5.1.1 and 5.3)	Others (note 5.1.2)	Leasehold land (notes 5.1.1 and 5.3)	Other land (note 5.1.2)					
As at December 31, 2010									
Cost or revalued amount	5,461,964	22,854	1,307,229	829,261	898,911	722,789	34,052,048	777,874	1,572,646
Accumulated depreciation	-	-	(372,733)	(291,798)	(748,594)	(613,639)	(19,151,163)	(545,435)	(1,144,897)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>934,496</u>	<u>537,463</u>	<u>150,317</u>	<u>109,150</u>	<u>14,900,885</u>	<u>232,439</u>	<u>427,749</u>
Year ended December 31, 2011									
Opening net book value	5,461,964	22,854	934,496	537,463	150,317	109,150	14,900,885	232,439	427,749
Additions / transfers	-	1,546	-	10,767	449	19,109	154,841	2,001	26,796
Revaluation									
Cost or revalued amount	(51,964)	-	-	-	-	-	(855,021)	-	-
Accumulated depreciation	-	-	352,700	-	-	-	-	-	-
	(51,964)	-	352,700	-	-	-	(855,021)	-	-
Adjustments / transfer									
Cost or revalued amount	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-
Disposals									
Cost or revalued amount	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-
Write off									
Cost or revalued amount	-	-	-	-	-	-	(155,178) *	(507)	(218)
Accumulated depreciation	-	-	-	-	-	-	154,572	462	218
	-	-	-	-	-	-	(606)	(45)	-
Depreciation charge for the year	-	-	(80,786)	(20,866)	(14,097)	(59,730)	(2,491,976)	(46,565)	(95,187)
Closing net book value	<u>5,410,000</u>	<u>24,400</u>	<u>1,206,410</u>	<u>527,364</u>	<u>136,669</u>	<u>68,529</u>	<u>11,708,123</u>	<u>187,830</u>	<u>359,358</u>
As at December 31, 2011									
Cost or revalued amount	5,410,000	24,400	1,307,229	840,028	899,360	741,898	33,196,690	779,368	1,599,224
Accumulated depreciation	-	-	(100,819)	(312,664)	(762,691)	(673,369)	(21,488,567)	(591,538)	(1,239,866)
Net book value	<u>5,410,000</u>	<u>24,400</u>	<u>1,206,410</u>	<u>527,364</u>	<u>136,669</u>	<u>68,529</u>	<u>11,708,123</u>	<u>187,830</u>	<u>359,358</u>
Annual depreciation rate (%)	-	-	2.5	2.5	5	20	5 - 100	10	10 - 20

* Represents adjustments in respect of cannibalisation of aircraft. Cannibalisation refers to the practice of obtaining the spare parts necessary to repair an aircraft by removing them from another similar aircraft.



Traffic equipment	Furniture, fixtures and fittings	Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Other equipment	Capital spares	Total
----- Rupees in ' 000 -----										
1,887,955 (1,388,100)	844,999 (644,778)	387,106 (306,919)	77,946 (74,908)	1,586,988 (1,336,367)	819,787 (806,866)	15,039 (15,039)	11,908 (11,908)	515,439 (417,187)	8,734,737 (3,910,915)	60,527,480 (31,781,246)
<u>499,855</u>	<u>200,221</u>	<u>80,187</u>	<u>3,038</u>	<u>250,621</u>	<u>12,921</u>	<u>-</u>	<u>-</u>	<u>98,252</u>	<u>4,823,822</u>	<u>28,746,234</u>
499,855	200,221	80,187	3,038	250,621	12,921	-	-	98,252	4,823,822	28,746,234
7,714	17,815	32,482	388	19,951	1,319	-	-	952,665	87,253	1,335,096
-	-	-	-	-	-	-	-	-	-	(906,985)
-	-	-	-	-	-	-	-	-	-	352,700
-	-	-	-	-	-	-	-	-	-	(554,285)
-	-	-	-	-	-	-	-	-	28,868	28,868
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	28,868	28,868
-	(784)	(17,277)	-	(1,254)	-	-	-	-	(5,982)	(25,297)
-	784	12,326	-	1,183	-	-	-	-	5,982	20,275
-	-	(4,951)	-	(71)	-	-	-	-	-	(5,022)
-	(197)	-	(155)	-	-	-	-	(59)	(181,618)	(337,932)
-	197	-	155	-	-	-	-	59	113,397	269,060
-	-	-	-	-	-	-	-	-	(68,221)	(68,872)
(65,097)	(33,931)	(36,404)	(1,197)	(62,860)	(2,244)	-	-	(26,287)	(430,671)	(3,467,898)
<u>442,472</u>	<u>184,105</u>	<u>71,314</u>	<u>2,229</u>	<u>207,641</u>	<u>11,996</u>	<u>-</u>	<u>-</u>	<u>1,024,630</u>	<u>4,441,051</u>	<u>26,014,121</u>
1,895,669 (1,453,197)	861,833 (677,728)	402,311 (330,997)	78,179 (75,950)	1,605,685 (1,398,044)	821,106 (809,110)	15,039 (15,039)	11,908 (11,908)	1,468,045 (443,415)	8,663,258 (4,222,207)	60,621,230 (34,607,109)
<u>442,472</u>	<u>184,105</u>	<u>71,314</u>	<u>2,229</u>	<u>207,641</u>	<u>11,996</u>	<u>-</u>	<u>-</u>	<u>1,024,630</u>	<u>4,441,051</u>	<u>26,014,121</u>
<u>10 - 20</u>	<u>10</u>	<u>25</u>	<u>15</u>	<u>10 - 20</u>	<u>10</u>	<u>20</u>	<u>10</u>	<u>10</u>	<u>5 - 100</u>	



	Note	2012	2011
		-----Rupees in '000-----	
5.2 Leased fixed assets			
(Aircraft fleet)			
As at January 1			
Cost or revalued amount		72,779,943	70,371,838
Accumulated depreciation		(3,135,383)	(3,538,785)
Net book value		<u>69,644,560</u>	<u>66,833,053</u>
Year ended December 31			
Opening net book value		69,644,560	66,833,053
Additions		4,592,624	2,408,105
Revaluation			
Cost or revalued amount		1,840,609	-
Accumulated depreciation		1,445,861	3,968,247
	5.4	3,286,470	3,968,247
Transfer to owned fixed assets			
Cost or revalued amount		(10,979,748)	-
Accumulated depreciation		5,993,275	-
	5.1.3	(4,986,473)	-
Depreciation charge for the year		(4,303,753)	(3,564,845)
Closing net book value		<u>68,233,428</u>	<u>69,644,560</u>
As at December 31			
Cost or revalued amount		68,233,428	72,779,943
Accumulated depreciation		-	(3,135,383)
Net book value		<u>68,233,428</u>	<u>69,644,560</u>
Annual depreciation rate (%)		5 - 20	5 - 13



5.3 Revaluation of leasehold land and buildings

The leasehold land and buildings were revalued by the following independent professional valuers, as of December 31, 2011:

- Arif Evaluators, based in Pakistan
- Narendar Consultants and Subhash Shah and Associates, based in India
- Eastern Appraisal Co. INC., based in USA
- Olimp – Baholash Va Ekspertiza Markazi LLC, based in Tashkent
- Lankhort Vastogoed, based in Netherlands

The valuation was carried out on the basis of professional assessment of fair values with reference to market based evidence, based on active market prices, and adjusted for any difference in nature, location or condition of specific property and resulted in a net revaluation surplus of Rs. 300.736 million as at December 31, 2011.

5.4 Aircraft fleet

During the year, the aircraft fleet of the Corporation was revalued by an independent valuer, Ascend - a part of Reed Business Information Limited (2011: Ascend Worldwide Limited), on the basis of professional assessment of current market values as of December 31, 2012. The current market value represents the value that an aircraft could best achieve under today's open market conditions and, therefore, takes into account a thorough review of market activity and known transaction data involving the subject aircraft types, covering 'open' market and financial sales. It additionally considers the perceived demand for each type, its availability in the market and further takes into account the expressed views of informed industry sources.

The appraisal has taken into account the age, specification, accrued hours and cycles of the aircraft and produced Current Market Half Life Values (CMHLV). Half life or mid-time assumes that the airframe, engine, landing gears and all major components are half way between major overhauls or in the mid point of their useful lives for the life limited parts. CMHLV has then been adjusted to account for the maintenance status of the aircraft in accordance with the information supplied. The determination of such values involves a multiplicity of variables and some variation in perceived value must be expected.

The valuer has conducted an extended desktop appraisal of the aircraft and engines. This does not include an inspection of the aircraft or engines nor their records, but does take into account the maintenance status of the airframe, engine, landing gear, auxiliary power unit (APUs) and engine limited life parts (LLPs).

5.5 Had there been no revaluation, the written down value of the revalued assets in the balance sheet would have been as follows:

	2012			2011		
	Cost	Accumulated depreciation	Book value	Cost	Accumulated depreciation	Book value
	----- Rupees in '000 -----					
Leasehold Land	44,166	-	44,166	44,166	-	44,166
Buildings on leasehold land	351,558	176,287	175,271	348,488	167,737	180,751
Aircraft fleet	122,284,511	48,346,073	73,938,438	121,935,050	43,394,508	78,540,542
	<u>122,680,235</u>	<u>48,522,360</u>	<u>74,157,875</u>	<u>122,327,704</u>	<u>43,562,245</u>	<u>78,765,459</u>

5.6	Depreciation charge for the year has been allocated as under:	Note	2012	2011
			----- Rupees in '000 -----	
	Cost of services - others	32	7,145,728	6,764,275
	Distribution costs	33	36,855	40,723
	Administrative expenses	34	214,560	227,745
			<u>7,397,143</u>	<u>7,032,743</u>



5.7 Following fixed assets were disposed off during the year:

Description	Sold to	Method of disposal	Cost	Accumulated depreciation	Net book value	Sale proceeds
			----- Rupees in '000 -----			
Motor vehicles to employees						
Honda City	Mr. Asghar M Wardag	Corporation policy	846	761	85	85
Honda City	Mr. Mamoon Rashid	-----do-----	846	761	85	85
Honda City	Mrs. Maheen Fatima	-----do-----	846	761	85	85
Honda City	Mr. Irshad Ghani	-----do-----	854	832	22	85
Honda City	Mr. Mansoor A Khan	-----do-----	854	816	38	85
Honda City	Mr. Jawed Sardar	-----do-----	854	816	38	85
Honda City	Mr. Nazir Hussain	-----do-----	746	587	159	150
Toyota Corolla	Mr. Hasan Jamil Alvi	-----do-----	1,068	401	667	548
Toyota Corolla	Mr. Ejaz Latif	-----do-----	1,111	354	757	645
Toyota Corolla	Mr. Tariq Farooq	-----do-----	1,144	172	972	669
Toyota Corolla	Mr. Amin Ullah	-----do-----	1,311	197	1,114	1,450
Toyota Corolla	Mr. Iftikhar Jawed	-----do-----	1,200	112	1,088	700
			11,680	6,570	5,110	4,672
Aircraft fleet		Exchange	114,184	27,230	86,954	72,398
Aggregate value of other items where NBV is above Rs. 50,000 - Various*						
			20,723	20,500	223	2,172
Aggregate value of items where NBV is less than Rs. 50,000 - Various						
			204	69	135	64
	Total	2012	146,791	54,369	92,422	79,306
		2011	25,297	20,275	5,022	8,149

* This includes various operating fixed assets, having NBV above Rs. 50,000. In view of large number of items, the management considers it impracticable to disclose the particulars of all items.

Sale of fixed assets is made through a disposal committee in accordance with the prescribed procedures.

5.8 Capital work-in-progress

	Aircraft fleet	Others	Total
	----- Rupees in '000 -----		
Year ended December 31, 2012			
Balance as at January 1, 2012	777,957	195,591	973,548
Additions during the year	1,965,070	347,936	2,313,006
Transfer to operating fixed assets	(770,282)	(254,396)	(1,024,678)
Balance as at December 31, 2012	1,972,745	289,131	2,261,876
Year ended December 31, 2011			
Balance as at January 1, 2011	-	1,066,207	1,066,207
Additions during the year	777,957	272,888	1,050,845
Transfer to operating fixed assets	-	(1,143,504)	(1,143,504)
Balance as at December 31, 2011	777,957	195,591	973,548



	Note	2012	2011
		-----Rupees in '000-----	
6. INTANGIBLES			
Computer software			
Cost	6.1	330,972	277,604
Accumulated amortisation	6.2	(251,152)	(224,749)
		<u>79,820</u>	<u>52,855</u>
6.1 Cost			
Opening balance		277,604	274,390
Additions during the year		53,368	3,214
Closing balance		<u>330,972</u>	<u>277,604</u>
6.2 Accumulated amortisation			
Opening balance		224,749	204,946
Amortisation for the year	6.2.1	26,403	19,803
Closing balance		<u>251,152</u>	<u>224,749</u>
Useful life		<u>5 - 10 years</u>	<u>5 - 10 years</u>
6.2.1 Amortisation charge for the year has been allocated as under:			
Cost of services - others	32	1,667	1,967
Distribution costs	33	50	50
Administrative expenses	34	24,686	17,786
		<u>26,403</u>	<u>19,803</u>
7. LONG-TERM INVESTMENTS			
Unquoted - at cost			
Subsidiaries	7.1	4,415,714	4,415,714
Associate	7.2	396	396
		<u>4,416,110</u>	<u>4,416,110</u>
Other investments	7.3	28,381	24,344
		<u>4,444,491</u>	<u>4,440,454</u>



	2012	2011
	-----Rupees in '000-----	
7.1 Subsidiaries		
PIA Investments Limited (PIAL)		
792,000 (2011: 792,000) fully paid ordinary shares of AED 100 each. Equity held 100% (2011: 100%). Break-up value of each ordinary share of AED 100: Rs. 38,714 (2011: Rs. 31,121) per ordinary share based on the audited financial statements for the year ended December 31, 2012.	2,245,155	2,245,155
Advance against equity	2,170,557	2,170,557
	4,415,712	4,415,712
Skyrooms (Private) Limited		
4,000,000 (2011: 4,000,000) fully paid ordinary shares of Rs. 10 each. Equity held 100% (2011: 100%). Break-up value of each ordinary share of Rs. 10: negative Rs. 24 (2011: negative Rs. 23) per ordinary share based on the unaudited financial statements for the year ended December 31, 2012.	40,000	40,000
Midway House (Private) Limited (under winding-up)		
2,960,000 (2011: 2,960,000) fully paid ordinary shares of Rs. 10 each. Equity held 100% (2011: 100%). Break-up value of each ordinary share of Rs. 10: Rs. Nil (2011: Rs. Nil) per ordinary share. Financial statements are not available.	28,520	28,520
Abacus Distribution Systems Pakistan (Private) Limited		
312,586 (2011: 312,586) fully paid ordinary shares of Rs. 100 each. Equity held - 70% (2011: 70%). Break-up value of each ordinary share of Rs. 100: Rs. 512 (2011: Rs. 375) per ordinary share based on the unaudited (2011: audited) financial statements for the year ended December 31, 2012.	2	2
Provision for diminution in value of investments	68,522 (68,520)	68,522 (68,520)
	2	2
	4,415,714	4,415,714

7.1.1 All subsidiaries were incorporated in Pakistan except for PIAL, which was incorporated in Sharjah, United Arab Emirates, however, subsequently it was registered in British Virgin Islands.

	2012	2011
	-----Rupees in '000-----	
7.2 Associate		
Minhal Incorporated - Sharjah		
1,600 fully paid ordinary shares (2011: 1,600) of AED 100 each. Equity held 40% (2011: 40%). Break-up value of each ordinary share of AED 100 each: Rs. 43,441 (2011: Rs. 40,566) per ordinary share based on the audited financial statements for the year ended December 31, 2012.	396	396
7.3 Other investments		
Available for sale	7.3.1 28,381	24,344



	Note	2012 -----Rupees in '000-----	2011 -----Rupees in '000-----
7.3.1 Available for sale			
Quoted			
Pakistan Services Limited			
172,913 (2011: 172,913) ordinary shares of Rs. 10 each having market value per ordinary share of Rs. 162 (2011: Rs. 138.65) each		28,012	23,975
Unquoted			
Pakistan Tourism Development Corporation Limited			
10,000 (2011: 10,000) ordinary shares of Rs. 10 each		100	100
Duty Free Shops (Private) Limited			
87,512 (2011: 87,512) ordinary shares of Rs. 100 each		269	269
		28,381	24,344
8. LONG-TERM ADVANCES			
Subsidiaries - considered doubtful			
Skyrooms (Private) Limited		37,042	37,042
Midway House (Private) Limited		82,476	82,476
		119,518	119,518
Provision for doubtful long-term advances		(119,518)	(119,518)
		-	-
9. LONG-TERM DEPOSITS AND PREPAYMENTS			
Deposits			
Aircraft fleet lease deposits		3,342,482	3,479,587
Maintenance reserve	9.1	1,482,576	4,292,547
Engine maintenance		8,948	81,851
Rent		79,741	81,231
Utilities		12,904	13,606
Aircraft fuel		12,577	11,730
Guarantee deposit		23,660	21,891
Others		177,900	154,500
		5,140,788	8,136,943
Prepayments			
Exposure fee to support financing	9.2	1,015,924	1,227,831
Less: current portion	13.1	(219,755)	(224,300)
		796,169	1,003,531
		5,936,957	9,140,474

9.1 This represents the remaining balance of maintenance reserve which was required to be kept by the Corporation with a lessor, under the terms of the lease agreement that has been terminated during the year. The balance will be utilized for future purchases from lessor, as disclosed in note 23.2.

9.2 This represents consideration paid to Ex-Im Bank for the purpose of 12 year guarantees issued by it in favour of the Corporation, which is being amortised over the lease term.



	Note	2012 -----Rupees in '000-----	2011 -----Rupees in '000-----
10. STORES AND SPARES			
Stores		756,071	859,191
Spare parts		6,238,426	5,707,043
Inventory held for disposal - adjusted to net realisable value		252,859	252,859
		7,247,356	6,819,093
Provision for slow moving and obsolete spares	10.1	(3,262,882)	(2,959,535)
		3,984,474	3,859,558
Stores and spares-in-transit		73,174	4,327
		4,057,648	3,863,885
10.1 Movement in provision is as follows:			
Balance at the beginning of the year		2,959,535	2,836,293
Provision for the year	35	303,347	123,242
Balance at the end of the year		3,262,882	2,959,535
11. TRADE DEBTS			
Considered good		9,416,133	8,396,481
Considered doubtful		1,163,314	924,292
Less: provision for doubtful debts	11.1	(1,163,314)	(924,292)
		-	-
		9,416,133	8,396,481

The ageing analysis of these trade debts is as follows:

	2012		2011	
	Trade debts gross	Impaired	Trade debts gross	Impaired
	-----Rupees in '000-----			
Within current year	9,071,637	250,192	8,088,143	43,197
1 year old	440,640	151,682	293,109	103,092
2 years old	327,165	199,830	418,864	265,656
Over 3 years old	740,005	561,610	520,657	512,347
	10,579,447	1,163,314	9,320,773	924,292



	Note	2012 -----Rupees in '000-----	2011
11.1 Movement in provision is as follows:			
Balance at the beginning of the year		924,292	929,104
Written off during the year		(32,103)	(115,020)
Provision for the year	35	271,125	110,208
Balance at the end of the year		<u>1,163,314</u>	<u>924,292</u>

11.2 Certain portion of trade debts is secured by cash and bank guarantees received from agents but due to very large number of agents all over the world the amount of secured trade debts is not determinable.

	Note	2012 -----Rupees in '000-----	2011
12. ADVANCES			
Considered good			
Employees		178,544	178,614
Fuel suppliers		1,397,157	10,364
Other suppliers		464,047	122,229
Others		5,633	5,655
		<u>2,045,381</u>	<u>316,862</u>
Considered doubtful			
Subsidiary - Skyrooms (Private) Limited	12.1	178,207	136,188
Others - Suppliers		55,339	55,339
		<u>233,546</u>	<u>191,527</u>
Provision for doubtful advances	12.2	(233,546)	(191,527)
		<u>-</u>	<u>-</u>
		<u>2,045,381</u>	<u>316,862</u>

12.1 Maximum aggregate gross amount due from the subsidiary at the end of any month was Rs. 178.207 million (2011: Rs. 136.188 million).

	Note	2012 -----Rupees in '000-----	2011
12.2 Movement in provision is as follows:			
Balance at the beginning of the year		191,527	140,587
Provision for the year	35	42,019	50,940
Balance at the end of the year		<u>233,546</u>	<u>191,527</u>

13. TRADE DEPOSITS AND PREPAYMENTS

	Note	2012 -----Rupees in '000-----	2011
Trade deposits		49,426	41,731
Prepayments	13.1	538,273	753,734
		<u>587,699</u>	<u>795,465</u>
13.1 Prepayments			
Current portion of exposure fee to support financing	9	219,755	224,300
Commission		184,854	317,775
Interest on leased aircraft		125,287	148,188
Insurance		-	37,575
Rent		8,070	25,662
Others		307	234
		<u>538,273</u>	<u>753,734</u>



	Note	2012 -----Rupees in '000-----	2011 -----Rupees in '000-----
14. OTHER RECEIVABLES			
Considered good			
Claims receivable		92,968	71,751
Excise duty	30.1 (a)	100,000	100,000
Sales tax receivable		3,404,720	1,595,090
Receivable from GoP	14.1	332,809	332,809
Others		270,833	176,188
		4,201,330	2,275,838
Considered doubtful		177,077	177,077
Less: provision for doubtful other receivables		(177,077)	(177,077)
		-	-
		4,201,330	2,275,838

14.1 This represents maintenance and other charges incurred in respect of aircraft owned by GoP.

	Note	2012 -----Rupees in '000-----	2011 -----Rupees in '000-----
15. SHORT-TERM INVESTMENTS			
Available for sale - Unquoted			
SITA INC N.V.			
325,491 (2011: 325,491) ordinary shares	15.1	19,220	19,220

15.1 These shares are held by SITA INC. N.V. on behalf of the Corporation and are transferable subject to certain specified conditions.

	Note	2012 -----Rupees in '000-----	2011 -----Rupees in '000-----
16. CASH AND BANK BALANCES			
In hand		6,317	7,606
In transit		82,182	47,103
		88,499	54,709
With banks			
- in current accounts		1,933,494	660,755
- in deposit accounts	16.1	150,396	179,350
		2,083,890	840,105
		2,172,389	894,814

16.1 These carry interest ranging from 0.1% to 7% (2011: 0.125% to 5%) per annum.



17. SHARE CAPITAL

2012 ----- No. of shares -----	2011	Note	2012 -----Rupees in '000-----	2011
Authorised capital				
Ordinary share capital				
2,949,250,000	2,949,250,000		29,492,500	29,492,500
1,500,000	1,500,000		7,500	7,500
<u>2,950,750,000</u>	<u>2,950,750,000</u>		<u>29,500,000</u>	<u>29,500,000</u>
Preference share capital				
50,000,000	50,000,000		500,000	500,000
<u>3,000,750,000</u>	<u>3,000,750,000</u>		<u>30,000,000</u>	<u>30,000,000</u>
Issued, subscribed and paid up share capital				
Ordinary share capital				
'A' class shares of Rs. 10 each				
2,642,351,957	2,642,351,957		26,423,519	26,423,519
931,028	931,028		9,310	9,310
233,934,482	233,934,482		2,339,345	2,339,345
<u>2,877,217,467</u>	<u>2,877,217,467</u>	17.1	<u>28,772,174</u>	<u>28,772,174</u>
'B' class shares of Rs. 5 each				
1,003,374	1,003,374		5,017	5,017
2,625	2,625		13	13
494,000	494,000		2,470	2,470
<u>1,499,999</u>	<u>1,499,999</u>		<u>7,500</u>	<u>7,500</u>
			<u>28,779,674</u>	<u>28,779,674</u>

	2012 -----No. of shares-----	2011
17.1 Reconciliation of number of 'A' class ordinary shares of Rs. 10 each:		
Shares at the beginning of the year	2,877,217,467	2,576,744,828
Issued during the year for cash	-	300,472,639
Shares at the end of the year	<u>2,877,217,467</u>	<u>2,877,217,467</u>
17.2 At December 31, 2012, the GoP held 2,435,208,439 'A' class ordinary shares and 1,462,515 'B' class ordinary shares respectively (2011: 2,435,208,439 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively).		
17.3 This represents shares issued to GoP against mark-up payments for term finance and sukuk certificates. During the year, the Corporation has not issued the shares to GoP due to reasons as set out in note 19.		

2012 -----Rupees in '000-----	2011
18. RESERVES	
Capital reserves	
Reserve for replacement of fixed assets	1,966,779
Capital redemption reserve fund	250,000
Others	284,259
	<u>2,501,038</u>
Revenue reserve	1,779,674
	<u>4,280,712</u>
Unrealised gain on remeasurement of investments	26,819
Accumulated loss	(151,914,479)
	(151,887,660)
	<u>(147,606,948)</u>

18.1 Upto June 1988, depreciation on fully depreciated aircraft was charged and credited to the reserve for replacement of fixed assets and excess of sale proceeds over cost of fixed assets disposed off was also credited to the aforesaid account. With effect from 1989-90, the Corporation changed this policy to comply with the IFRSs and the depreciation and excess proceeds over cost of relevant assets are recorded in the profit and loss account.



19. ADVANCE AGAINST EQUITY FROM GOVERNMENT OF PAKISTAN (GoP)

This represents advance received from the Government of Pakistan (GoP) for mark-up payments on term finance and sukuk certificates. The Corporation has not issued shares to GoP as the authorised share capital of the Corporation was insufficient to cover the amount of ordinary shares to be issued in lieu of advance against equity. The Corporation is currently in the process of increasing its authorised share capital.

	2012	2011
	-----Rupees in '000-----	
20. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET		
As at January 1	9,163,068	5,827,329
(Deficit) / surplus arising on property, plant and equipment during the year	(507,317)	3,413,962
	8,655,751	9,241,291
Less: transferred to accumulated loss:		
- Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	(283,788)	(78,223)
- Related deferred tax liability	(152,809)	-
	(436,597)	(78,223)
	8,219,154	9,163,068
Less: related deferred tax liability on:		
- Revaluation as at January 1	1,329,032	-
- (Deficit) / surplus arising on property, plant and equipment during the year	(177,561)	1,329,032
- Incremental depreciation charged during the year on related assets transferred to profit and loss account	(152,809)	-
	998,662	1,329,032
	7,220,492	7,834,036
As at December 31		

21. LONG-TERM FINANCING

Financier	Note	Type of facility	Facility amount (million)	Repayment period	Number of instalments/ Mode	Mark-up	2012	2011
							-----Rupees in '000-----	
Secured - from Banking Companies								
Citibank, N.A.	21.1	Demand Finance	82 USD	2006 - 2017	20 Half-yearly	5.28% fixed	3,309,941	3,795,958
Citibank, N.A.	21.2	Islamic Finance	75 USD & 91.825 AED	2011 - 2014	30 Monthly	3 month LIBOR + 4.25% & 3 month EIBOR + 3.75%	7,779,413	8,994,570
Faysal Bank Limited	21.3	Term Finance	2,000 PKR	2013 - 2016	36 Monthly	6 month KIBOR + 1.75%	2,000,000	2,000,000
National Bank of Pakistan - Bahrain	21.4	Syndicate Finance	120 USD	2013	Bullet	Note 21.4	11,667,600	10,793,484
National Bank of Pakistan - Bahrain	21.5 & 21.10	Term Finance	70 USD	2010 - 2012	24 Monthly	1 month LIBOR +5.50%	-	2,098,733
National Bank of Pakistan - Bahrain	21.5 & 21.10	Demand Finance	30 USD	2010 - 2012	24 Monthly	1 month LIBOR +5.50%	-	1,124,321
National Bank of Pakistan - Bahrain	21.6 & 21.10	Demand Finance	40 USD & 75 SAR	2011 - 2013	24 Monthly	1 month LIBOR + 5.25% & 1 month SIBOR + 5.25%	259,273	3,282,992
Royal Bank of Scotland - Netherlands	21.7	Demand Finance	59.5 USD	2009 - 2013	19 Quarterly	3 month LIBOR +1.60%	1,120,405	2,131,844
KASB Bank Limited	21.8 & 21.10	Demand Finance	194 PKR	2012 - 2013	36 Fortnightly	3 month KIBOR + 2.5%	186,851	-
Others - unsecured								
Long-term loan - GoP	21.9	Term Finance	8,000 PKR	2011 - 2020	16 Half-yearly	10% fixed	8,000,000	8,000,000
							34,323,483	42,221,902
							(20,366,285)	(10,957,001)
							13,957,198	31,264,901
Current maturity shown under current liabilities								



- 21.1 The finance is secured by way of:
- Mortgage over each of the seven ATR aircraft purchased; and
 - European Credit Agencies / GoP Guarantee.
- 21.2 The finance is secured against all the present and future receivables of the Corporation generated through sale of tickets in United Arab Emirates and United States of America.
- 21.3 The finance is secured by way of unconditional and irrevocable GoP guarantee. The first instalment of principal is due in June 2013. Interest amounting to Rs. 138.832 million due on November 15, 2012 was paid by the Corporation subsequent to the year end on February 21, 2013.
- 21.4 The following are the participating banks:
- National Bank of Pakistan (NBP) - Bahrain; and
 - Habib Bank Limited (HBL)
- This finance is secured by way of GoP Guarantee. Initially it was carrying mark-up at the rate of 3 months LIBOR + 1.325%. On January 15, 2010, the finance was renegotiated for additional three years at following mark-up rates:
- NBP - 3 months LIBOR + 3.60%; and
 - HBL - 3 months LIBOR + 3.25%
- The payment of full amount was due subsequent to year end on January 16, 2013, which has not been made. The Corporation is in the process of renewing this loan.
- 21.5 The finance is secured against all the present and future receivables generated from the sale of tickets in United Kingdom.
- 21.6 The finance is secured against all the present and future receivables generated from the sale of tickets in United Kingdom and Kingdom of Saudi Arabia.
- 21.7 The Corporation has entered into an arrangement with the bank to finance 15% of the purchase price of two B 777-300 aircraft acquired from Boeing Company. The finance is secured by GoP Guarantee.
- 21.8 The finance is secured by way of 1st Pari Passu charge over the Corporation's receivables amounting to Rs. 666.660 million (with 25% margin).
- 21.9 The Corporation has not paid any instalment since the due date of first instalment, i.e., October 23, 2011. The overdue principal and mark-up as at December 31, 2012 is Rs. 1,062.5 million and Rs. 2,452.055 million respectively. The overdue principal amount is included in current maturity.
- 21.10 During the year, the Corporation has not paid some instalments of principal and/or mark-up of these financings on the due dates, however the default was rectified before the year end.

22. TERM FINANCE AND SUKUK CERTIFICATES

	Note	Security	Repayment period	Number of instalments	Mark-up	2012 -----Rupees in '000-----	2011
Term finance certificates	22.1	GoP Guarantee	2009-2014	10 half yearly	6 month KIBOR +0.85%	12,789,760	12,789,760
Sukuk certificates	22.2	GoP Guarantee	2012-2014	6 half yearly	6 month KIBOR +1.75%	6,800,000	6,800,000
						19,589,760	19,589,760
Less: current maturity	22.3					(15,195,733)	(8,664,107)
						4,394,027	10,925,653

- 22.1 The Corporation has not made payments of principal redemptions aggregating Rs. 6,397.440 million due on various dates until December 31, 2012 as per repayment schedule. Management applied for restructuring of TFCs prior to the due date of first redemption and the Trustee on behalf of the TFC investors has not notified any event of default to the Corporation. During the year, the Economic Coordination Committee (ECC) has decided / approved the restructuring of term finance certificates from various banks alongwith restructuring of certain short-term borrowings (refer note 29.1.2) into a new term finance certificates for a period of 6 years with 2 years grace period on the terms and conditions to be approved by Ministry of Finance. Presently, finalisation of the restructuring process with a consortium of TFC investors is at an advanced stage. The overdue principal amount as at December 31, 2012 is included in current maturity.



- 22.2** The Corporation has not made payments of principal redemption amount of Rs. 2,266.667 million which became due on various dates until December 31, 2012. The Sukuk investors were requested to re-profile the principal repayment schedule alongwith other terms of Sukuk Certificates with the assistance of Ministry of Finance. The approval of revised proposal is currently awaited from the Ministry of Defence. The overdue principal amount is included in current maturity.
- 22.3** This includes current maturity of the TFC and Sukuk certificates related to the principal redemption including overdue instalment as disclosed in note 22.1 & 22.2.

	Note	2012	2011
-----Rupees in '000-----			
23. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Present value of minimum lease payments - aircraft fleet			
A-310-300	23.2	-	4,148,457
B-777-200 ER	23.3	9,327,546	11,299,637
B-777-200 LR	23.4	12,153,040	13,338,943
B-777-300 ER	23.5	26,097,922	27,606,252
		47,578,508	56,393,289
Less: current maturity		(9,272,951)	(9,047,988)
		38,305,557	47,345,301

- 23.1** The amount of future payments and the year in which they will become due are:

	2012			2011		
	Minimum lease payments	Finance cost	Present value of minimum lease payments	Minimum lease payments	Finance cost	Present value of minimum lease payments
-----Rupees in '000-----						
Not later than one year	10,739,693	1,466,742	9,272,951	11,046,020	1,998,032	9,047,988
Later than one year but not later than five years	35,787,131	2,726,527	33,060,604	39,902,862	3,894,725	36,008,137
Later than five years	5,320,497	75,544	5,244,953	11,652,354	315,190	11,337,164
	51,847,321	4,268,813	47,578,508	62,601,236	6,207,947	56,393,289

- 23.2** During the year, the Corporation entered into an agreement with the lessor for early purchase of six A310-300 leased aircraft at a price of US\$ 5.028 million per aircraft (aggregating to US\$ 30.168 million), which has been adjusted against the maintenance reserve (refer note 9.1). The remaining balance of the maintenance reserve will be available to the Corporation as a credit for future purchases from the lessor and will bear annual interest at LIBID rate. In accordance with the agreement, the transaction for relevant aircraft was executed on the delivery date, i.e. the date at which the title of relevant aircraft will be transferred to the Corporation and a bill of sale will be executed by the lessor. The delivery dates were between July 24 to 27, 2012. Further, the Corporation has also signed lease amendment and termination agreement by virtue of which the original lease agreement of A310-300 aircraft has been terminated upon delivery of aircraft and the lease liability has been extinguished. The transaction has resulted in net gain of Rs. 1,307.524 million, which has been recorded as other income (refer note 36).

- 23.3** In 2004, the Corporation arranged an Ex-Im Bank guaranteed financing of US\$ 345 million to acquire three Boeing 777-200 ER aircraft, one spare engine and one propulsor, from Taxila Limited, a special purpose entity incorporated in Cayman Islands. The guaranteed lender is Citibank N.A. The salient features of the lease are as follows:

	Note	2012	2011
Discount rate - two aircraft		4.65%	4.65%
Discount rate - one aircraft and propulsor		Three month LIBOR	Three month LIBOR
Lease period - aircraft		144 months	144 months
Lease period - spare engine and propulsor		96 months	96 months
Security deposits (Rupees in '000)	23.3.1	818,292	853,081
Contingent rent (Rupees in '000)		(23,924)	(36,314)

- 23.3.1** The lease term of spare engine and propulsor expired in January 2012 and April 2012 respectively, hence the related security deposit was received during the year and the assets were transferred from leased assets to owned assets (notes 5.1 and 5.2).



- 23.4 During the year 2006, the Corporation arranged an Ex-Im Bank guaranteed financing of US\$ 266 million to acquire two Boeing B 777-200 LR aircraft and one propulsor from Taxila - 2 Limited, a special purpose entity incorporated in Cayman Islands. The guaranteed lender is Citibank N.A. The salient features of the lease are as follows:

	2012	2011
Discount rate - aircraft and propulsor	Three month LIBOR - 0.02%	Three month LIBOR - 0.02%
Lease period - aircraft	144 months	144 months
Lease period - propulsor	96 months	96 months
Security deposits (Rupees in '000)	744,375	688,608
Contingent rent (Rupees in '000)	(638,335)	(702,059)

- 23.5 During the year 2006, the Corporation arranged an Ex-Im Bank guaranteed financing of US\$ 472 million to acquire three Boeing B 777-300 ER aircraft and one engine from White Crescent Limited, a special purpose entity incorporated in Amsterdam, Netherlands. The guaranteed lender is Royal Bank of Scotland. The salient features of the lease are as under:

	2012	2011
Discount rate - one aircraft	5.25%	5.25%
Discount rate - two aircraft	Three month LIBOR - 0.04%	Three month LIBOR - 0.04%
Discount rate - spare engine	1.12%	1.12%
Lease period - aircraft	144 months	144 months
Lease period - spare engine	96 months	96 months
Security deposits (Rupees in '000)	1,496,000	1,383,923
Contingent rent (Rupees in '000)	(138,775)	(182,159)

- 23.6 The Corporation has an option to acquire the ownership of the aircraft and engines mentioned in notes 23.3 to 23.5, at the end of lease term.

24. ADVANCE FROM A SUBSIDIARY

This represents advance received from PIA Investments Limited (PIAIL), a subsidiary of the Corporation which will be adjusted against future dividends if any, distributed by PIAIL and if within five years from the date of disbursement of advance from PIAIL, no dividend is declared or the amount of principal is not wholly paid off, PIAIL shall have the right to call payment from the Corporation. The advance carries mark-up at the rate of 1 month LIBOR plus 1.75% per annum.

25. LONG-TERM DEPOSITS	Note	2012 -----Rupees in '000-----	2011
Deposits from agents		185,740	182,250
Retention money		348,772	262,415
Others		123	20
		534,635	444,685
26. DEFERRED LIABILITIES			
Post retirement medical benefits	26.1	5,777,883	4,648,297
Pension obligation	26.2	7,368,315	4,525,892
		13,146,198	9,174,189
26.1 Post retirement medical benefits			
Liability recognised in the balance sheet			
Present value of defined benefit obligation		5,777,883	4,648,297
Movement in liability during the year			
Balance at the beginning of the year		4,648,297	3,690,387
Expense recognised		1,643,671	1,321,617
Payments made during the year		(514,085)	(363,707)
Balance at the end of the year		5,777,883	4,648,297
Expense recognised in profit and loss account			
Current service cost		88,076	65,858
Interest cost		548,907	473,652
Net actuarial loss recognised		1,006,688	782,107
		1,643,671	1,321,617



26.2 Pension obligation

The details of three different categories of plans are as follows:

	PALPA		FENA		MAIN PENSION		TOTAL	
	2012	2011	2012	2011	2012	2011	2012	2011
----- Rupees in '000 -----								
Liability / (Asset) recognised								
Present value of defined benefit obligation	2,162,483	1,986,809	629,686	569,000	17,789,529	14,923,556	20,581,698	17,479,365
Fair value of plan assets	(1,904,687)	(1,861,421)	(1,064,367)	(1,018,064)	(10,244,329)	(10,073,988)	(13,213,383)	(12,953,473)
	257,796	125,388	(434,681)	(449,064)	7,545,200	4,849,568	7,368,315	4,525,892
Movement in the defined benefit obligation								
Obligation as at January 1	1,986,809	1,558,479	569,000	518,432	14,923,556	13,123,472	17,479,365	15,200,383
Service cost	40,991	37,975	4,907	6,819	394,034	355,640	439,932	400,434
Interest cost	238,076	202,635	67,105	67,461	1,787,272	1,707,955	2,092,453	1,978,051
Benefits paid	(164,402)	(114,958)	(64,315)	(37,445)	(1,250,768)	(943,904)	(1,479,485)	(1,096,307)
Actuarial loss / (gain)	61,009	302,678	52,989	13,733	1,935,435	680,393	2,049,433	996,804
Obligation as at December 31	2,162,483	1,986,809	629,686	569,000	17,789,529	14,923,556	20,581,698	17,479,365
Movement in fair value of plan assets								
Fair value as at January 1	1,861,421	1,745,383	1,018,064	877,207	10,073,988	9,908,273	12,953,473	12,530,863
Expected return on plan assets	223,290	228,825	123,488	116,165	1,186,062	1,279,289	1,532,840	1,624,279
Employer contributions	14,199	14,199	3,995	3,995	79,786	79,786	97,980	97,980
Benefits paid	(164,402)	(114,958)	(64,315)	(37,445)	(1,250,768)	(943,904)	(1,479,485)	(1,096,307)
Actuarial (loss) / gain	(29,821)	(12,028)	(16,865)	58,142	155,261	(249,456)	108,575	(203,342)
Fair value as at December 31	1,904,687	1,861,421	1,064,367	1,018,064	10,244,329	10,073,988	13,213,383	12,953,473
Movement in liability / (asset) during the year								
Opening liability / (asset)	125,388	(186,904)	(449,064)	(358,775)	4,849,568	3,215,199	4,525,892	2,669,520
Expense recognised	146,607	326,491	18,378	(86,294)	2,775,418	1,714,155	2,940,403	1,954,352
Employer contributions	(14,199)	(14,199)	(3,995)	(3,995)	(79,786)	(79,786)	(97,980)	(97,980)
Closing liability / (asset)	257,796	125,388	(434,681)	(449,064)	7,545,200	4,849,568	7,368,315	4,525,892
Expense recognised in profit and loss account								
Current service cost	40,991	37,975	4,907	6,819	394,034	355,640	439,932	400,434
Interest cost	238,076	202,635	67,105	67,461	1,787,272	1,707,955	2,092,453	1,978,051
Expected return on plan assets	(223,290)	(228,825)	(123,488)	(116,165)	(1,186,062)	(1,279,289)	(1,532,840)	(1,624,279)
Actuarial loss / (gain) recognised - net	90,830	314,706	69,854	(44,409)	1,780,174	929,849	1,940,858	1,200,146
	146,607	326,491	18,378	(86,294)	2,775,418	1,714,155	2,940,403	1,954,352
The plan assets comprise of:								
Equity instruments	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%
Debt instruments	38.81%	12.85%	37.58%	55.45%	39.83%	8.25%	39.50%	12.62%
Others including cash and cash equivalents	61.19%	87.15%	62.42%	44.55%	60.17%	91.74%	60.50%	87.37%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Actual return on plan assets	193,469	216,797	106,623	174,307	1,341,323	1,029,833	1,641,415	1,420,937



Historical Information

	2012	2011	2010	2009	2008
	-----Rupees in '000-----				
Pension Funds					
Present value of defined benefit obligation	20,581,698	17,479,365	15,200,383	13,743,585	11,294,000
Fair value of plan assets	(13,213,383)	(12,953,473)	(12,530,863)	(12,068,540)	(11,288,000)
Deficit	7,368,315	4,525,892	2,669,520	1,675,045	6,000
Experience adjustments arising on plan liabilities	10.0%	5.7%	3.3%	16%	0%
Experience adjustments arising on plan assets	(0.8)%	1.6%	(0.2)%	(4)%	6%
Medical Scheme					
Present value of defined benefit obligation	5,777,883	4,648,297	3,690,387	2,437,282	1,425,000
Experience adjustments arising on plan liabilities	17.4%	16.8%	28.4%	39.2%	(5.4)%

Actuarial valuations of pension funds, post retirement medical benefit scheme and compensated absences (note 27.2) were carried out at December 31, 2012. The valuations have been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2012	2011
Valuation discount rate	11.50%	12.50%
Salary increase rate	10.50%	10.50%
Pension indexation rate	3.00%	3.00%
Medical inflation rate	10.00%	11.00%
Expected rate of return on plan assets	11.50%	12.50%

Expected rate of return on plan assets is based on the return earned on the market expectations and depends upon the asset portfolio of the Funds.

26.2.1 Number of employees covered by the various schemes are as follows:

	2012	2011
	-----Number-----	
Pension scheme	13,799	14,724
Post retirement medical benefit scheme	16,226	16,954

26.2.2 The fair value of plan assets of pension funds includes investment in the Corporation's shares, amounting to Rs. 2.287 million (2011: Rs. 1.117 million).

26.2.3 The expected pension and medical expense for the next one year from January 1, 2013 amounts to Rs. 1,291.222 million and Rs. 737.489 million respectively. The expected amount of Pension fund is the amount which the Corporation has to contribute for the next one year.

26.2.4 The total expense relating to deferred liabilities has been allocated to cost of services, distribution costs and administrative expenses in the amount of Rs. 2,790.681 million (2011: Rs. 1,684.458 million), Rs. 587.383 million (2011: Rs. 797.987 million) and Rs. 1,206.01 million (2011: Rs. 793.524 million) respectively.



27. TRADE AND OTHER PAYABLES	Note	2012 -----Rupees in '000-----	2011
Trade creditors			
Goods		1,738,390	6,190,476
Services		5,109,797	4,093,180
Airport related charges		7,944,902	4,978,793
		14,793,089	15,262,449
Others			
Accrued liabilities	27.1	6,495,924	5,528,459
Advance against transportation (unearned revenue)		6,665,289	6,865,903
Obligation for compensated absences	27.2	4,010,535	3,506,407
Unredeemed frequent flyer liabilities	27.3	1,683,665	1,610,507
Advances from customers		713,650	683,848
Payable to employees' provident fund	27.4	5,404,673	3,378,726
Unclaimed dividend - Preference shares		8,493	8,494
Collection on behalf of others		8,565,331	4,187,483
Customs and central excise duty		177,938	152,846
Capital value tax		4,307,929	2,832,283
Income tax deducted at source		154,748	239,180
Short-term deposits		326,961	321,887
		53,308,225	44,578,472

27.1 This includes Rs. 142.948 million (2011: Rs. 57.291 million) payable to PIA Investments Limited, a subsidiary company.

27.2 Obligation for compensated absences	2012 -----Rupees in '000-----	2011
Liability recognised in the balance sheet		
Balance at the beginning of the year	3,506,407	2,493,033
Expense recognised during the year	515,075	1,032,109
Benefits paid during the year	(10,947)	(18,735)
Balance at the end of the year	4,010,535	3,506,407

27.2.1 Number of employees covered by the compensated absences are 16,226 (2011: 16,954). The assumptions used to determine the obligation for compensated absences are disclosed in note 26.2.

27.2.2 The total expense relating to compensated absences has been allocated to cost of services, distribution costs and administrative expenses in the amount of Rs. 334.470 million (2011: Rs. 679.005 million), Rs. 81.417 million (2011: Rs. 161.067 million) and Rs. 99.188 million (2011: Rs. 192.036 million) respectively.

27.3 The liability for frequent flyer programme is based on the valuation carried out by an independent professional valuer. Significant assumptions include:

- ticket inflation and discount rate at the rate of 11.5 % (2011: 12.5%);
- expiry of unavailed points after three years; and
- accumulated points above 11,000 can be used for purchase of tickets. Points lower than 11,000 are valued on aggregate cost of redeemed points.

27.4 The amount is payable to Pakistan International Airlines Corporation Provident Fund and carries mark-up based on the discount rate announced by the State Bank of Pakistan.



	Note	2012 -----Rupees in '000-----	2011
28. ACCRUED INTEREST			
Mark-up / profit payable on:			
- long-term financing		3,010,252	2,250,714
- term finance certificates		1,349,835	667,689
- sukuk certificates		625,317	186,728
- short-term borrowings		314,859	605,025
- provident fund		1,431,743	954,672
- advance from a subsidiary		38,753	25,264
		6,770,759	4,690,092
29. SHORT-TERM BORROWINGS - secured			
Short-term loans	29.1	56,557,824	21,390,191
Running finance under mark-up arrangements	29.2	4,796,706	4,410,836
		61,354,530	25,801,027



29.1 Short-term loans - secured

Financier	Note	Security	Facility amount (million)	Expiry date	2012	2011
					-----Rupees in '000-----	
From Banking Companies						
Askari Bank Limited	29.1.2	GoP Guarantee	1,500 PKR	31-Dec-12	1,500,000	1,500,000
KASB Bank Limited	29.1.2	GoP Guarantee	500 PKR	30-Sep-13	500,000	500,000
KASB Bank Limited		GoP Guarantee	1,000 PKR	30-Sep-13	1,000,000	-
Habib Bank Limited	29.1.2	GoP Guarantee	2,000 PKR	8-Sep-13	2,000,000	2,000,000
Habib Bank Limited	29.1.2	GoP Guarantee	1,000 PKR	16-Aug-13	1,000,000	1,000,000
Habib Bank Limited	29.1.2	GoP Guarantee	1,600 PKR	12-Dec-13	1,600,000	1,600,000
Habib Bank Limited	29.1.2	GoP Guarantee	2,000 PKR	30-Dec-13	2,000,000	2,000,000
Habib Allied International Bank Limited - London		EURO receivables	4 USD 5 USD	02-Apr-13 31-Dec-12	875,070	809,511
National Bank of Pakistan	29.1.2	Hypothecation of entire receivables, book debts, stocks and spares amounting to PKR 2,667 million and lien / specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	2,000 PKR	13-Mar-13	1,372,746	1,880,680
National Bank of Pakistan	29.1.2	GoP Guarantee; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	5,000 PKR	15-Jun-13 30-Sep-13 28-Oct-13	5,000,000	5,000,000
National Bank of Pakistan	29.1.2	GoP Guarantee	1,500 PKR	19-Aug-13	1,500,000	1,500,000
National Bank of Pakistan	29.1.2	GoP Guarantee; ranking charge over current and fixed assets amounting to PKR 4,800 million inclusive of 25% margin; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	3,600 PKR	30-Dec-13	3,600,000	3,600,000
National Bank of Pakistan - Bahrain	29.1.3	Lien over Saudi Arabia and UK collection and receivables.	25 USD	30-Jan-13	405,125	-
National Bank Of Pakistan		GoP Guarantee; ranking hypothecation charge over current and fixed assets amounting to PKR 5,813 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	4,360 PKR	24-May-13	4,360,000	-
Carried forward					26,712,941	21,390,191



Financier	Security	Facility amount (million)	Expiry date	2012	2011
				-----Rupees in '000-----	
Brought forward				26,712,941	21,390,191
National Bank of Pakistan	GoP Guarantee; ranking hypothecation charge over current and fixed assets amounting to PKR 2,667 million inclusive of 25% margin; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	2,000 PKR	28-Jun-13	2,000,000	-
National Bank Of Pakistan	GoP Guarantee; ranking hypothecation charge over current and fixed assets amounting to PKR 2,667 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	2,000 PKR	15-Mar-13	2,000,000	-
National Bank Of Pakistan	GoP Guarantee; ranking hypothecation charge over current and fixed assets amounting to PKR 4,000 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	3,000 PKR	28-Jun-13	3,000,000	-
National Bank Of Pakistan	GoP Guarantee; ranking charge over movable current and fixed assets amounting to PKR 6,667 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	5,000 PKR	20-Dec-13	5,000,000	-
National Bank Of Pakistan	GoP Guarantee; ranking charge over movable current and fixed assets amounting to PKR 6,667 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	5,000 PKR	13-Nov-13	5,000,000	-
National Bank Of Pakistan	GoP Guarantee; ranking charge over movable current and fixed assets amounting to PKR 4,667 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	3,500 PKR	3-Oct-13	3,500,000	-
National Bank of Pakistan - Bahrain	Lien over collection proceeds from Kingdom of Saudi Arabia, Sultanate of Oman and Bangladesh.	65 USD	27-Jun-13	6,319,950	-
Standard Chartered Bank	First prior security over collection and facility service reserve account; assignments of ticket sales collection for UK sector through IATA; Charge over assets to the extent of facility amount with 25% margin.	35 USD	13-Aug-13	3,024,933	-
				56,557,824	21,390,191



- 29.1.1** The borrowings in PKR carry mark-up with a spread of 0.85% to 2.0% over 1 month and 3 months KIBOR (2011: spread of 0.85% to 2.0% over 1 month and 3 months KIBOR). The borrowings in foreign currency carry mark-up of 2.25% to 5.75% over 1 month LIBOR and 3 months LIBOR (2011: a spread of 2.25% over 3 months LIBOR).
- 29.1.2** During the year, the Economic Coordination Committee (ECC) has approved the conversion of short-term loans amounting to Rs. 20,700 million into term finance certificate for a period of 6 years with 2 years grace period on the terms and conditions to be approved by the Ministry of Finance. At present the finalisation of the restructuring process is at advanced stage (refer note 22.1).
- 29.1.3** The Corporation has not paid the balances of the short-term loans that became due during the year. As at December 31, 2012, the overdue balances of principal amounts of these short-term loans aggregate USD 2.083 million.

29.2 Running finance under mark-up arrangements

Banks	Security	Facility amount (million)	Unavailed credit (million) Note 29.2.2	Expiry date	2012	2011
					-----Rupees in '000-----	
Secured						
The Bank of Punjab	Ranking charge on present and future stocks and book debts of Mirpur Azad Jammu Kashmir (AJK) for PKR 1,000 million including 25% margin; irrevocable undertaking to route all collection in Mirpur, AJK from BOP counter.	550 PKR	6 PKR	1-Jan-14	543,666	546,220
Habib Bank Limited	Hypothecation charge on all present and future spare parts, accessories of aircraft assets and on domestic receivables.	350 PKR	-	9-Feb-13	460,991	256,168
Habib Allied International Bank Limited - London	EURO receivables	3 USD	-	On Demand	292,659	271,257
KASB Bank Limited	First pari passu charge on certain specific receivables amounting to PKR 533.33 million.	155 PKR (2011: 400 PKR)	24 PKR	30-Jun-13	146,168	397,768
National Bank of Pakistan	First pari passu hypothecation charge of PKR 766.667 million on all present and future current assets with a margin of 25%; lien and specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	575 PKR	-	31-Jul-13	449,761	572,750
United Bank Limited - Karachi	Hypothecation charge of PKR 3,427 million on all present and future stocks and spares and assignment of receivables from Karachi and Lahore.	2,570 PKR	25 PKR	31-Jul-13	2,545,036	2,017,009
Un-secured						
Habib American Bank	-	1.5 USD	0.8 USD	On Demand	66,735	79,827
Citibank N.A.	-	3 USD	-	On Demand	291,690	269,837
					4,796,706	4,410,836

- 29.2.1** The borrowings in PKR carry mark-up with a spread of 2.0% to 2.5% over 1 month and 3 months KIBOR (2011: 2.0% to 2.5% over 1 month and 3 months KIBOR). Borrowings in USD comprise of fixed and variable rate borrowings. Fixed rate borrowing carries mark-up at the rate of 3.25% (2011: 3.25% per annum) whereas variable rate borrowings carry mark-up with a spread of 3.5% over 1 month LIBOR and 4% over USD Prime Rate (2011: spread of 3% over 1 month LIBOR and 4% over USD Prime Rate).
- 29.2.2** Unavailed credit represents the difference between the facility amount and the balance as per bank statement as at December 31, 2012.



30. CONTINGENCIES AND COMMITMENTS

30.1 Contingencies

- a) The tax department had raised demand of Rs. 566.544 million (2011: Rs. 566.544 million) as Federal Excise Duty (FED) along with penalty of Rs. 1 million (2011: Rs. 1 million) and additional duty of Rs. 2,923.005 million (2011: Rs. 2,923.005 million) on the contention that the Corporation had not collected FED on tickets provided to its employees either free of cost or at concessional rates. The Corporation has paid Rs. 100 million (note 14) against the subject demand which is considered fully recoverable from the department. This case is currently under adjudication before Appellate Tribunal Inland Revenue (ATIR). Management believes that the case will be decided in the favour of the Corporation. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.
- b) The tax department has also raised demands of Rs. 6.804 million (2011: Rs. 6.804 million) and Rs. 277.621 million (2011: Rs. 277.621 million) as FED and sales tax respectively along with penalty of Rs. 1.205 million (2011: Rs. 1.205 million) and additional duty / default surcharge of Rs. 17.91 million (2011: Rs. 17.91 million) during the audit of the Corporation for the periods 2004-2005 and 2005-2006. These demands were raised on the issues of late payment of FED, collection of FED at incorrect rate, incorrect apportionment of input tax and failure to collect FED on carriage of goods / mail of Pakistan Post. The Corporation has paid an amount of Rs. 25 million (2011: Rs. 25 million) in this regard which is considered fully recoverable. The Corporation filed an appeal with the Collector of Customs, Sales Tax and Federal Excise (Appeals), which has been decided partially in its favour, partially against it and partially remanded back. The Corporation and the department both have filed appeals at the ATIR level which are pending adjudication. Management believes that the case will be decided in the favour of the Corporation. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.
- c) The tax department has also raised demands of Rs. 2.065 million (2011: Rs. 2.065 million) and Rs. 1,319.101 million (2011: Rs. 1,319.101 million) as FED and sales tax respectively along with penalty of Rs. 66.058 million (2011: Rs. 66.058 million) and additional duty / default surcharge of Rs. 534.412 million (2011: Rs. 534.412 million) during the audit of the Corporation for the period 2007-2008. These demands have been raised mainly on the issues of collection of FED at incorrect rate and incorrect apportionment of input tax. The Corporation filed appeal at Commissioner Inland Revenue (Appeals) level, which was decided in favour of the department. Currently, the Corporation has filed appeal against this at ATIR level and a rectification application with CIR (A) both of which are pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.
- d) The tax department has levied penalties of Rs. 5,877.351 million (2011: Rs. 5,877.351 million), Rs. 5,679.110 million (2011: Rs. 5,679.110 million), Rs. 7,025.270 million (2011: 7,025.270 million) and Rs. 2,000 million (2011: Rs. 2,000 million) on account of delayed payment of sales tax and FED for the months of November - December 2008, January - March 2010, November 2010 - January 2011 and April 2011 respectively. In addition to this, the tax department has also levied default surcharge and 5% penalty on the unpaid sales tax and FED amounting to Rs. 38.88 million, Rs. 79.969 million, Rs. 74 million and Rs. 12.648 million respectively.

The Corporation has filed application for waiver of penalty for the months of November - December 2008 before Federal Board of Revenue on which the decision is pending.

For the months of January - March 2010 and November 2010 - January 2011, the Commissioner Inland Revenue (Appeals) - CIR(A) has deleted the penalties of Rs. 5,679.110 million and Rs. 7,025.270 million respectively through its orders in 2011, however, default surcharge and 5% penalty on the unpaid sales tax and FED were maintained. The Corporation and the department have filed appeal with the Tribunal, which are pending adjudication. Further, for the months of January - March 2010, the Corporation has filed an application for rectification, which is still pending before ACIR.

In respect to April 2011, the Corporation has received an order from CIR(A) deleting all penalties and default surcharges.

Management is confident that all the above appeals will be decided in favour of the Corporation, therefore, no provision has been made in these unconsolidated financial statements in respect of the subject orders / show cause notices.

- e) A show cause notice was issued to the Corporation by the Collector of Customs demanding payment of Rs. 87.926 million (2011: Rs. 87.926 million) in respect of custom duties and other taxes levied on the import of simulator. The Corporation has filed an appeal before the Appellate Tribunal which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements.



- f) The custom authorities raised demands aggregating Rs. 274.120 million (2011: Rs. 274.120 million) in total of 44 cases of identical nature by imposing custom duty, sales tax and income tax and penalty of Rs. 54.824 million (2011: Rs. 54.824 million) on re-import of aircraft engines after repair. The Corporation filed an application to the FBR at Alternate Dispute Resolution Committee (ADRC) for review of the demands. The total demand raised by the custom authorities was reduced to Rs. 226.172 million (2011: Rs. 226.172 million) as a result of the decision of ADRC. Against the amount of Rs. 226.172 million, the Corporation has paid an amount of Rs. 95.245 million and filed a petition in the High Court of Sindh, which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.
- g) Competition Commission of Pakistan (CCP) vide its order dated November 20, 2009 has imposed a token penalty of Rs. 10 million on account of unreasonable increase in Hajj fare during the year 2008 as compared to Hajj season 2007. Further, on account of discrimination between Hajj passengers and regular passengers the Corporation was directed to work out an amount of refund to be paid back to Hajjis based on the difference of fare between regular passenger and short duration Hajjis who flew during Hajj season 2008. The total amount of refund estimated by the Corporation is Rs. 417 million. The Corporation has filed appeals simultaneously in Lahore High Court and the Supreme Court of Pakistan. The appeals are pending for hearing and accordingly stay order has not been granted to the Corporation till date. Management believes that both appeals will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.
- h) Various ex-employees of the Corporation have lodged claims against the Corporation for their dues specifically relating to their reinstatements. However, the liability that may arise in these cases cannot be determined and consequently, no provision has been made in these unconsolidated financial statements.
- i) The Corporation is contesting several litigations mainly relating to suits filed against it for unlawful termination of contracts, breach of contractual rights and obligations, non-performance of servicing stipulations due to negligence or otherwise. Management is of the view that these cases have no sound legal footing and it does not expect these contingencies to materialise. Accordingly, no provision has been made in these unconsolidated financial statements against these claims amounting to Rs. 5,690.326 million (2011: Rs. 4,700 million).
- j) Claims against Corporation not acknowledged as debt amount to Rs. 1,259 million (2011: Rs. 1,184 million).
- k) Contingencies relating to income tax matters are disclosed in note 38.1.

30.2 Commitments

- a) Commitments for capital expenditure amounted to Rs. 130.473 million (2011: Rs. 27.525 million).
- b) Outstanding letters of credit amounted to Rs. 63.095 million (2011: Rs. 402.311 million).
- c) Outstanding letters of guarantee amounted to Rs. 508.372 million (2011: Rs. 531.210 million).
- d) The Corporation has entered into an agreement with a vendor for supply of spare parts, materials, consumables, and chemicals and repair / overhaul of rotables for a period of 5 years. According to the terms of the agreement, the Corporation is committed to buy goods and/or services in the amount of USD 40 million annually.
- e) The Corporation has entered into an agreement for purchase of aircraft, the remaining commitments of which aggregate to USD 1,527.904 million (2011: USD 1,536.413 million) equivalent to Rs. 148,558.129 million (2011: Rs. 138,193.609 million) based on catalogue prices.



- f) The amount of future payments in operating lease arrangement relating to Aircraft 777-200 ER and the period in which these payments will become due is as follows:

	2012	2011
	-----Rupees in '000-----	
Not later than one year	1,218,359	1,132,260
Later than one year but not later than five years	3,858,136	4,508,326
Later than five years	-	187,847
	<u>5,076,495</u>	<u>5,828,433</u>
31. REVENUE - net		
Passenger	100,805,806	103,505,676
Cargo	6,295,562	6,412,653
Excess baggage	983,063	1,147,920
Charter services	710,067	1,642,634
Engineering services	738,609	952,100
Handling and related services	667,519	674,016
Mail	415,142	471,578
Others	1,514,298	1,743,999
	<u>112,130,066</u>	<u>116,550,576</u>

31.1 Revenue by geographical segments

Revenue analysis

USA / Canada	8,852,427	8,522,014
Europe	21,608,059	21,764,132
Middle East / Africa	22,691,521	22,070,478
Asia (excluding Pakistan)	5,730,461	5,758,446
Pakistan	53,247,598	58,435,506
	<u>112,130,066</u>	<u>116,550,576</u>

The analysis of revenue by origin is derived by allocating revenue to the area in which the sale was made.

	Note	2012	2011
		-----Rupees in '000-----	
32. COST OF SERVICES - others			
Salaries, wages and allowances		10,281,583	10,051,628
Welfare and social security costs		50,816	98,833
Retirement benefits		3,073,994	1,987,115
Compensated absences		334,470	679,005
Legal and professional charges		17,352	59,833
Stores and spares consumed		2,486,956	2,823,684
Maintenance and overhaul		5,098,629	4,622,223
Flight equipment rental		1,497,186	2,072,435
Landing and handling		12,296,804	13,152,367
Passenger services		3,441,576	3,831,521
Crew layover		2,960,301	3,202,575
Staff training		143,345	137,225
Utilities		31,495	7,893
Communication		29,088	37,041
Insurance		1,312,544	1,428,739
Rent, rates and taxes		647,732	617,678
Printing and stationery		215,119	188,228
Depreciation	5.6	7,145,728	6,764,275
Amortisation on intangibles	6.2.1	1,667	1,967
Others		225,264	237,365
		<u>51,291,649</u>	<u>52,001,630</u>



	Note	2012 -----Rupees in '000-----	2011
33. DISTRIBUTION COSTS			
Salaries, wages and allowances		1,736,701	1,703,809
Welfare and social security costs		118,454	135,170
Retirement benefits		633,162	845,364
Compensated absences		81,417	161,067
Distribution and advertising expenses		3,335,190	2,235,977
Legal and professional charges		33,697	30,224
Repairs and maintenance		62,770	94,944
Insurance		25,998	25,973
Printing and stationery		38,215	53,782
Communication		492,874	488,527
Staff training		70,564	54,409
Rent, rates and taxes		307,492	338,035
Utilities		21,831	23,901
Depreciation	5.6	36,855	40,723
Amortisation on intangibles	6.2.1	50	50
Others		159,927	156,621
		7,155,197	6,388,576
34. ADMINISTRATIVE EXPENSES			
Salaries, wages and allowances		2,430,277	2,145,630
Welfare and social security costs		2,130,262	1,837,938
Retirement benefits		1,283,225	874,356
Compensated absences		99,188	192,036
Legal and professional charges		261,319	226,949
Repairs and maintenance		355,638	368,670
Insurance		28,172	21,793
Printing and stationery		70,779	70,533
Staff training		107,314	70,547
Rent, rates and taxes		539,174	529,647
Utilities		719,277	649,779
Auditors' remuneration	34.1	24,517	14,443
Communication		1,076,998	1,105,542
Depreciation	5.6	214,560	227,745
Amortisation on intangibles	6.2.1	24,686	17,786
Donations	34.2	8,243	3,925
Others		473,035	434,553
		9,846,664	8,791,872

34.1 Auditors' remuneration

	2012			2011		
	M. Yousuf Adil Saleem & Co.	A. F. Ferguson & Co.	Total	M. Yousuf Adil Saleem & Co.	A. F. Ferguson & Co.	Total
	----- Rupees in '000 -----					
Audit fee	4,254	4,254	8,508	3,867	3,867	7,734
Fee for review of interim financial information	1,275	1,275	2,550	1,159	1,159	2,318
Consolidated financial statements	633	633	1,266	575	575	1,150
Code of Corporate Governance	218	218	436	198	198	396
Tax and other services	-	10,023	10,023	-	2,105	2,105
Out of pocket expenses	392	1,342	1,734	327	413	740
	6,772	17,745	24,517	6,126	8,317	14,443

34.2 Donations include payments aggregating Rs. 4.529 million (2011: Rs. 3.325 million) to Al-Shifa Trust, situated at Terminal-2, Road, Karachi Airport, Pakistan in which the Managing Director of the Corporation acts as a Trustee, and Rs. 3.197 million (2011: Rs. Nil) to Pakistan Airline Pilots' Association (PALPA) which is an association of and run by PIAC's pilots. Besides this, none of the directors or their spouse have any interest in the donees.



	Note	2012 -----Rupees in '000-----	2011
35. OTHER PROVISIONS AND ADJUSTMENTS			
Property, plant and equipment written off		36,411	68,872
Provision for slow moving and obsolete spares	10.1	303,347	123,242
Provision for doubtful debts	11.1	271,125	110,208
Provision against doubtful advances	12.2	42,019	50,940
Derivative expense		15,948	-
Loss on exchange of property, plant and equipment		14,556	-
Others		47,048	302,780
		730,454	656,042

36. OTHER OPERATING INCOME

Income from financial assets

Profit on bank deposits		51,399	45,997
Derivative income		-	213,882
Interest on maintenance reserve		6,752	-
		58,151	259,879

Income from assets other than financial assets

Gain on disposal of property, plant and equipment		1,440	3,127
Gain on termination of lease	23.2	1,307,524	-
Gain on termination of fleet management program of leased aircraft	36.1	1,848,931	-
Insurance claims		523	108,321
Others		188,431	174,318
		3,346,849	285,766
		3,405,000	545,645

- 36.1 During the year on August 23, 2012, the Corporation and a vendor mutually agreed to terminate a contract which was entered in the year 2003 for a period of ten years, unless earlier terminated, to obtain repairs and maintenance services for certain aircrafts according to the Fleet Management Program (FMP) offered by the vendor. The Corporation was required to make monthly payments in accordance with the FMP rate mutually agreed with the vendor. On termination of the contract, a reconciliation of FMP services vis-à-vis FMP billings to the Corporation has been made, which resulted in a net gain of USD 19.528 million.

	Note	2012 -----Rupees in '000-----	2011
37. FINANCE COST			
Mark-up on:			
- long-term financing		2,529,852	2,205,610
- term finance certificates		1,598,972	1,834,026
- short-term borrowings		4,532,093	2,811,268
- advance from a subsidiary		21,126	15,017
Profit on sukuk certificates		906,688	1,018,962
Interest on liabilities against assets subject to finance lease		986,550	1,269,871
Interest on provident fund		477,071	342,897
Arrangement, agency and commitment fee		67,107	333,380
Amortisation of prepaid exposure fee		211,907	224,300
Bank charges, guarantee commission and other related charges		49,391	43,715
		11,380,757	10,099,046



	Note	2012 -----Rupees in '000-----	2011
38. TAXATION			
Current - for the year		280,325	582,753
- for prior years		-	(512,315)
	38.1	280,325	70,438
Deferred	38.2	177,561	(1,329,032)
		457,886	(1,258,594)

38.1 Current

38.1.1 In view of available tax losses for the year, provision for minimum taxation has been made in accordance with section 113 of the Income Tax Ordinance, 2001. No numeric tax rate reconciliation is given as the Corporation is liable for turnover tax only.

During the year, the Federal Board of Revenue (FBR) issued an S.R.O. 57 (I) / 2012 dated January 24, 2012 whereby the rate of minimum tax for the Corporation was reduced by 50%. Further, through Finance Act 2012, the rate of turnover tax under section 113 was revised downward from 1% to 0.5% of turnover. Therefore, the applicable rate of minimum tax rate for the Corporation for tax year 2013 became 0.25% of turnover and the provision for taxation has been made accordingly.

38.1.2 The Corporation has filed tax returns for tax years up to tax year 2012 of which tax returns from tax years 2003 to 2012 have been filed under self assessment scheme. All assessments for tax years 1991 to 2002 have been finalized by the department. The minimum tax liability under section 80D of the repealed ordinance had been levied by the department from assessment year 1991-92 to assessment year 2002-03 after adding 10% of net turnover on estimated basis. The Corporation had filed appeals against the above demands which have been decided in favour of the Corporation at Appellate Tribunal Inland Revenue (ATIR) level. The department has now filed appeal at the Sindh High Court in respect of assessment year 2000-01. After decision by the Sindh High Court on a few grounds in favour of the Corporation, the department has filed appeal in the Supreme Court. Management believes that this issue will be decided in favour of the Corporation without any additional tax liability.

38.1.3 A demand of Rs. 898.177 million (2011: Rs. 898.177 million) was raised by the Deputy Commissioner Inland Revenue (DCIR) by issuing an amended order in relation to the tax year 2005. The main contention among others was disallowance of depreciation claimed on leased aircraft. The Corporation claimed the depreciation on the contention that those aircraft were obtained under hire purchase arrangement which has been approved by Ministry of Finance as a financing arrangement. The department did not accept this contention and disallowed depreciation expense as inadmissible. An amount of Rs. 48.235 million was also recovered by FBR in this respect. The Corporation filed appeal at CIT (A) level which was decided partially in favour of the Corporation. Being further aggrieved, the Corporation has filed appeal at ITAT level which is pending adjudication. The Corporation is confident that this issue will ultimately be decided in its favour and the amount will be recovered.

Further, the Additional Commissioner Inland Revenue (ACIR) has issued an order under section 122 (5A) of the Income Tax Ordinance, 2001 in respect of tax year 2006 disallowing the depreciation claimed on leased aircrafts and other provisions of Rs. 3,480.442 million. The Corporation has filed appeal before CIR (A) against the said order, however, the matter is still pending.

In addition to above, the Officer Inland Revenue (OIR) has issued an order under section 161 / 205 of the Income Tax Ordinance, 2001 pertaining to tax year 2011 and raised a demand of Rs. 324.319 million. The Corporation has filed an application for rectification against this order and also filed appeal before CIR(A). The Corporation has also received show cause notices in respect of tax years 2007 to 2009 on account of disallowance of depreciation on leased aircraft and other provisions. The Corporation has filed its reply in response to these notices.

Management believes that these issues will be decided in favour of the Corporation without any additional tax liability. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.



	2012	2011
	-----Rupees in '000-----	
38.2 Deferred taxation		
Deferred tax credits:		
Accelerated tax depreciation	22,913,491	23,239,832
Surplus on revaluation of property, plant and equipment	998,662	1,329,032
	23,912,153	24,568,864
Deferred tax debits:		
Unused tax losses	(17,678,665)	(19,491,009)
Provisions for liabilities and to write down other assets	(6,233,488)	(5,077,855)
	(23,912,153)	(24,568,864)
	-	-

38.2.1 In accordance with the accounting policy of the Corporation (note 4.10), deferred tax asset of Rs. 43,659.839 million (2011: Rs. 35,553.273 million) has not been recognised in these unconsolidated financial statements due to uncertainty in availability of sufficient future taxable profits.

38.2.2 Movement in temporary differences during the year

	Balance as at January 1, 2011	Recognised in profit and loss account	Recognised in equity	Balance as at December 31, 2011	Recognised in profit and loss account	Recognised in equity	Balance as at December 31, 2012
	----- Rupees in '000 -----						
Deferred tax credits:							
Accelerated tax depreciation	23,379,080	(139,248)	-	23,239,832	(326,341)	-	22,913,491
Surplus on revaluation of property, plant and equipment	-	-	1,329,032	1,329,032	(152,809)	(177,561)	998,662
	23,379,080	(139,248)	1,329,032	24,568,864	(479,150)	(177,561)	23,912,153
Deferred tax debits:							
Unused tax losses	(19,270,487)	(220,522)	-	(19,491,009)	1,812,344	-	(17,678,665)
Provisions for liabilities and to write down other assets	(4,108,593)	(969,262)	-	(5,077,855)	(1,155,633)	-	(6,233,488)
	(23,379,080)	(1,189,784)	-	(24,568,864)	656,711	-	(23,912,153)
	-	(1,329,032)	1,329,032	-	177,561	(177,561)	-

39. EARNINGS PER SHARE - BASIC AND DILUTED

	Note	2012	2011
Loss for the year (Rupees in '000)		(33,181,540)	(26,767,207)
Weighted average number of ordinary shares outstanding	39.2	3,017,179,751	2,751,179,233
Loss per share attributable to			
'A' class ordinary share (Rupees)		(11.00)	(9.73)
'B' class ordinary share (Rupees)		(5.50)	(4.87)

39.1 Since the 'advance against equity' is convertible into ordinary share capital of the Corporation, its impact has been taken into account while calculating 'earnings per share - basic (class A)'.

39.2 The weighted average number of shares as at December 31, 2012, exceeds the number of authorised shares of the Corporation due to the reason mentioned in note 19.

39.3 There were no dilutive potential ordinary shares outstanding as at December 31, 2012 and 2011.



40. CASH GENERATED FROM OPERATIONS	2012	2011
	----- Rupees in '000 -----	
Loss before taxation	(32,723,654)	(28,025,801)
Adjustments for:		
Depreciation	7,397,143	7,032,743
Loss / (gain) on disposal of property, plant and equipment - net	13,116	(3,127)
Gain on termination of lease	(1,307,524)	-
Gain on termination of fleet management program of leased aircraft	(1,848,931)	-
Amortisation of intangibles	26,403	19,803
Provision for slow moving and obsolete spares	303,347	123,242
Provision for doubtful debts	271,125	110,208
Property, plant and equipment written off	36,411	68,872
Provision for doubtful advances	42,019	50,940
Provision for staff retirement benefits	5,505,456	3,275,969
Finance cost	11,380,757	10,099,046
Unrealised exchange loss	5,306,106	3,632,762
Profit on bank deposits	(51,399)	(45,997)
Reversal of provision against short-term investments	-	(880)
	(5,649,625)	(3,662,220)
Working capital changes		
Increase in stores and spares	(312,293)	(173,456)
Increase in trade debts	(1,290,777)	(223,580)
(Increase) / decrease in advances	(1,770,538)	97,580
Decrease in trade deposits and prepayments	207,766	331,960
Increase in other receivables	(1,925,492)	(1,003,541)
Increase in trade and other payables	9,668,249	11,952,023
	4,576,915	10,980,986
Cash (used in) / generated from operations	(1,072,710)	7,318,766

41. REMUNERATION OF MANAGING DIRECTOR AND EXECUTIVES

	Managing Director		Unit Heads		Executives	
	2012	2011	2012	2011	2012	2011
-----Rupees in '000-----						
Managerial remuneration	6,723	12,887	66,042	98,127	2,317,682	2,556,462
Corporation's contribution to provident fund	70	157	1,251	1,278	110,584	108,281
Other perquisites	447	744	9,864	12,551	2,125,358	1,985,211
	7,240	13,788	77,157	111,956	4,553,624	4,649,954
Number	1	1	15	14	2,034	1,987

Aggregate amount charged in the financial statements for fee to directors was Rs. Nil (2011: Rs. Nil). Managing Director and certain executives are also provided with the Corporation's maintained cars and facilities as per the Corporation's rules.



- 41.1 The number of persons does not include those who left during the year but remuneration paid to them is included in the above amounts.

42. FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, fuel price risk and other price risk), credit risk and liquidity risk. The Corporation's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Corporation's financial performance. The Corporation's senior management carries out financial risk management under governance approved by the Board of Directors. Senior management identifies, evaluates and hedges financial risks, wherever necessary.

42.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as fuel price and equity price risk. Financial instruments affected by market risk include loans and borrowings, bank deposits, available-for-sale investments and derivative financial instruments.

a) Fuel price risk

The Corporation's earnings are affected by changes in price of aircraft fuel. The Corporation hedges fuel prices to a limited extent through use of derivative contracts. There are no derivative contracts outstanding as of year end, therefore, the Corporation is not exposed to risk related to fuel price derivative contracts.

b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. In addition, the Corporation has substantial foreign currency borrowings and lease liabilities that are primarily denominated in US Dollar (USD), Saudi Riyal (SAR), United Arab Emirates Dirham (AED) and Great Britain Pound (GBP). The Corporation can experience adverse or beneficial effects arising from foreign exchange rate movements. The Corporation manages some of its currency risk by utilising its foreign currency receipts to satisfy its foreign currency obligations.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the foreign currency exchange rates, with all other variables held constant, on (loss) before tax:

	2012	2011	2012	2011
	-----Rupees in '000-----			
Change in USD rate	-----+5%-----		------(5%)-----	
(Increase) / Decrease in loss before tax	<u>(4,609,061)</u>	<u>(4,174,569)</u>	<u>4,609,061</u>	<u>4,174,569</u>
Change in SAR rate	-----+5%-----		------(5%)-----	
(Increase) / Decrease in loss before tax	<u>(62,465)</u>	<u>(51,566)</u>	<u>62,465</u>	<u>51,566</u>
Change in AED rate	-----+5%-----		------(5%)-----	
(Increase) / Decrease in loss before tax	<u>(141,650)</u>	<u>(112,210)</u>	<u>141,650</u>	<u>112,210</u>
Change in GBP rate	-----+5%-----		------(5%)-----	
(Increase) / Decrease in loss before tax	<u>(152,496)</u>	<u>(5,330)</u>	<u>152,496</u>	<u>5,330</u>



c) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's exposure to the risk of changes in market interest rates relates primarily to the following:

	2012	2011
	-----Rupees in '000-----	
Variable rate instruments at carrying amount:		
Long-term financing	23,013,542	30,425,944
Term finance and sukuk certificates	19,589,760	19,589,760
Liabilities against assets subject to finance lease	33,354,658	36,258,178
Advance from a subsidiary	1,069,530	989,403
Provision for payable to employees' provident fund	5,404,673	3,378,726
Short-term borrowings	61,287,795	25,721,200
Long-term deposits and prepayments	(1,482,576)	-
	<u>142,237,382</u>	<u>116,363,211</u>
Fixed rate instruments at carrying amount		
Long-term financing	11,309,941	11,795,958
Liabilities against assets subject to finance lease	14,223,850	20,135,111
Short-term borrowings	66,735	79,827
Bank deposits	(150,396)	(179,350)
	<u>25,450,130</u>	<u>31,831,546</u>

Fair value sensitivity analysis for fixed rate instruments

The Corporation does not account for any fixed rate financial assets and liabilities at fair values through profit and loss. Therefore, change in interest rates at the reporting date would not affect profit and loss account.

Cash flow sensitivity analysis for variable rate instruments

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Corporation's loss before tax.

	KIBOR		LIBOR	
	2012	2011	2012	2011
	-----Rupees in '000-----			
Change in interest rate	-----+1%-----		-----+0.25%-----	
Increase in loss before tax	<u>(718,550)</u>	(464,326)	<u>(157,381)</u>	(81,432)
Change in interest rate	-----(-1%)-----		-----(-0.25%)-----	
Decrease in loss before tax	<u>718,550</u>	464,326	<u>157,381</u>	81,432

d) **Other price risk**

Other price risk is 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 currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors effecting all similar financial instruments traded in the market. The Corporation is not significantly exposed to equity securities price risk as majority of its investments are in subsidiaries and associated companies which are stated at cost.



42.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial asset. The Corporation manages its liquidity risk by maintaining sufficient cash and cash equivalents and through support of GoP either in the form of capital / loans or in the form of guarantee to obtain financing from lenders.

The following table shows the Corporation's remaining contractual maturities of financial liabilities, including estimated interest payments:

	Less than 1 year	1 - 5 years	More than 5 years	Total
	-----Rupees in '000-----			
2012				
Long-term financing	21,811,694	14,407,288	2,178,219	38,397,201
Term finance and sukuk certificates	16,388,469	4,845,679	-	21,234,148
Liabilities against assets				
subject to finance lease	10,739,693	35,787,131	5,320,497	51,847,321
Advance from a subsidiary	-	1,069,530	-	1,069,530
Trade and other payables	20,533,216	-	-	20,533,216
Accrued interest / mark-up / profit	6,770,759	-	-	6,770,759
Short-term borrowings	65,135,038	-	-	65,135,038
	<u>141,378,869</u>	<u>56,109,628</u>	<u>7,498,716</u>	<u>204,987,213</u>
2011				
Long-term financing	14,861,319	31,613,682	3,547,071	50,022,072
Term finance and sukuk certificates	11,043,567	12,614,374	-	23,657,941
Liabilities against assets				
subject to finance lease	11,046,020	39,902,862	11,652,354	62,601,236
Advance from a subsidiary	-	-	989,403	989,403
Trade and other payables	21,121,289	-	-	21,121,289
Accrued interest / mark-up / profit	4,690,092	-	-	4,690,092
Short-term borrowings	27,956,096	-	-	27,956,096
	<u>90,718,383</u>	<u>84,130,918</u>	<u>16,188,828</u>	<u>191,038,129</u>

42.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. All financial assets except cash in hand are subject to credit risk. The carrying amount of financial assets as at December 31, 2012 represents the maximum credit exposure, which is as follows:

	2012	2011
	-----Rupees in '000-----	
Long-term deposits	5,140,788	8,136,943
Trade debts	9,416,133	8,396,481
Advances	1,581,334	194,633
Trade deposits	49,426	41,731
Other receivables	696,610	580,748
Bank balances	2,166,072	887,208
	<u>19,050,363</u>	<u>18,237,744</u>

Trade debts

The Corporation has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. The Corporation normally grants a credit term of 30 to 60 days to customers and in certain circumstances such exposure is partially protected by bank guarantees. Trade debtors mainly represent passenger and freight sales due from agents and government organizations. The majority of the agents are connected to the settlement systems operated by the International Air Transport Association ("IATA") who is responsible for checking the credit worthiness of such agents and collecting bank guarantees or other monetary collateral according to local industry practice. In most cases amounts due from airlines are settled on net basis via an IATA clearing house. The credit risk with regard to individual agents and airlines is relatively low.

Ageing of trade debts is disclosed in note 11 to these unconsolidated financial statements.



Other financial assets

The credit risk on liquid funds (cash and bank balances) is limited because the counter parties are banks with a reasonably good credit rating i.e. at least "A3" or equivalent for short term and "BBB" or equivalent for long term.

There is no credit risk on aircraft lease deposits because they are security against the finance lease obligation. Other deposits are not significantly exposed to credit risk as they have been paid as security deposits to receive future services. Advances to employees are primarily against their salaries.

There is no significant credit risk against other receivables as majority of the receivable is from GoP.

42.4 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in these unconsolidated financial statements approximate to their fair value.

42.5 Capital management

The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern. The Corporation has incurred losses in recent years and the disclosure in respect of the Corporation's ability to continue as a going concern is disclosed in note 1.2 to these unconsolidated financial statements.

43. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of subsidiaries, profit oriented state-controlled entities, directors, key management personnel and employee benefit funds. The Corporation in the normal course of business carries out transactions with various related parties. The transactions with related parties, other than those relating to issuance of tickets at concessional rates to employees and directors according to the terms of employment / regulations and those not mentioned elsewhere in these unconsolidated financial statements are as follows:

	2012	2011
	-----Rupees in '000-----	
Skyrooms (Private) Limited – Subsidiary		
Payments made against in-transit passengers	277,427	260,760
Advances extended	42,019	7,840
PIA Investments Limited - Subsidiary		
Management fee expense	80,982	59,547
Finance cost on advance	21,126	15,017
Minhal France S.A. - Sub-subsidiary		
Management fee income	84,339	69,485
Abacus Distribution Systems Pakistan (Private) Limited - Subsidiary		
Charges in respect of courier services	317	558
Retirement funds		
Contribution to Provident Fund and others	504,287	508,303
Profit oriented state-controlled entities - common ownership		
Purchase of fuel	20,360,973	19,676,705
Insurance premium	1,291,956	1,400,000
Finance cost	3,918,075	1,485,650
GoP - Major shareholder		
Finance cost	802,192	800,000
Shares issued during the year	-	3,004,726
Advance against equity from GoP	1,928,167	-
Hajj revenue	4,410,495	4,558,708



- 43.1 Transactions with the directors, chief executive and key management personnel have been disclosed in note 41 to these unconsolidated financial statements.
- 43.2 Details of balances held with the aforementioned related parties excluding profit oriented state-controlled entities have been disclosed in respective notes.
- 43.3 The Corporation's sales of transportation services to subsidiaries, associates, directors and key management personnel are not determinable.

44. **BENAZIR EMPLOYEE STOCK OPTION SCHEME (BESOS)**

On August 14, 2009, GoP launched the BESOS for employees of certain State Owned Enterprises (SOEs) including the Corporation and Non-State Owned Enterprises (Non-SOEs) where GoP holds significant investments. BESOS is applicable to permanent and contractual employees who were in employment of these entities on its launch date, subject to completion of five years' vesting period by all contractual employees and by permanent employees in certain instances.

BESOS provides for a cash payment to employees on retirement or termination based on the price of shares of the Corporation. Under the scheme, Pakistan Employees Empowerment Trust (PEET) was formed and 12% of the shares held by the Ministry of Defence were transferred to the Trust. The eligible employees have been allotted units by PEET in proportion to their respective length of service and on retirement or termination such employees would be entitled to receive such amounts from PEET in exchange for the surrendered units as would be determined based on market price of shares of the Corporation. The shares relating to the surrendered units would be transferred back to GoP.

BESOS also provides that 50% of dividend related to shares transferred to PEET would be distributed amongst the unit-holder employees. The balance 50% dividend would be transferred by PEET to the Central Revolving Fund managed by the Privatisation Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in PEET to meet the repurchase commitment would be met by GoP.

BESOS which has been developed in compliance with the policy of the GoP for empowerment of employees of SOEs needs to be accounted for by the covered entities, including the Corporation, under the provisions of the IFRS 2. However, keeping in view the difficulties that may be faced by the entities covered under BESOS, the Securities and Exchange Commission of Pakistan on receiving representations from some of entities covered under BESOS and after having consulted the Institute of Chartered Accountants of Pakistan has granted exemption to such entities from the application of IFRS 2 in respect of BESOS.

Had the exemption not been granted, the accumulated losses as at December 31, 2012 would have been higher by Rs. 542.477 million (2011: Rs. 412.275 million), staff costs and loss after taxation of the Corporation for the year then ended would have been higher by Rs. 130.202 million (2011: Rs. 148.189 million) while earnings per share would have been lower by Rs. 0.04 and Rs. 0.02 per share (2011: Rs. 0.05 and Rs. 0.03 per share) for class 'A' and 'B' shareholders respectively.

45. **AUTHORISATION OF FINANCIAL STATEMENTS**

These unconsolidated financial statements were authorised for issue by the Board of Directors in their meeting held on April 26, 2013.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



Consolidated

financial statements

A. F. Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C
I. I. Chundrigar Road
P. O. Box 4716
Karachi – 74000

M. Yousuf Adil Saleem & Co.
Chartered Accountants
Cavish Court, A-35,
Block 7 & 8, KCHSU
Sharah-e-Faisal
Karachi – 75350

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of **Pakistan International Airlines Corporation (the Holding company)** and its subsidiary companies as at December 31, 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed a separate opinion on the financial statements of the Holding company. The consolidated financial statements of a subsidiary company were audited by one of the joint auditors, whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for such company, is based solely on the report of that joint auditor. These consolidated financial statements are the responsibility of the Holding company's management. Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit.

2. Except as stated in paragraph 3 below, our audit was conducted in accordance with the auditing standards as applicable in Pakistan and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.
3. The auditors of PIA Investments Limited (PIAIL) - a subsidiary company have qualified their opinions as follows:

"As more fully explained in note 8 to the consolidated financial statements, the receivable aggregating USD 7.554 million (equivalent to Rs. 734.496 million) represents PIAIL's share of net assets of its joint venture as of April 21, 1997, the date when that joint venture period expired. The share was recognised based on joint venture's management accounts as of April 21, 1997. In this respect the amounts spent on renovation of joint venture assets and amounts set aside as renovation reserve have been added back to the net assets appearing in the aforesaid accounts prepared as of April 21, 1997 because, in view of PIAIL's management, those amounts were spent without its authorisation and are, therefore, subject of a dispute with the other joint venture partner. During the year, the arbitration proceedings were concluded and the other joint venture partner was ordered to pay PIAIL a sum of AED 23,341,905 (USD 6.355 million) alongwith interest at the rate of 6% per annum from the date of the issuance of judgment. While PIAIL submitted an application before the court for ratification of the aforementioned award, the other joint venture partner also filed an application for nullification of the award. Subsequently, that court ruled that it was not authorised to approve / refute such arbitration award and decided to refer both the law suits to the other concerned court. Because the eventual outcome of subject dispute is pending to date, it is not possible to determine with any degree of certainty, the amount of joint venture assets which are available for distribution to joint venture partners and the consequential receivable that is to be recognised in the enclosed consolidated financial statements as at December 31, 2012."



4. In our opinion, except for the possible effects of the matter stated in paragraph 3 above, the consolidated financial statements present fairly the financial position of the Holding company and its subsidiary companies as at December 31, 2012 and the results of their operations for the year then ended.
5. We draw attention to note 1.2 to the annexed consolidated financial statements, which states that the Holding company incurred a net loss of Rs. 33,181.540 million during the year ended December 31, 2012, resulting in accumulated losses of Rs. 151,914.479 million as of December 31, 2012, and, as of that date, the Holding company's current liabilities exceeded its current assets by Rs. 144,445.613 million. These conditions indicate existence of a material uncertainty which may cast significant doubt about the Holding company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Chartered Accountants

Audit Engagement Partner: Khurshid Hasan

Chartered Accountants

Audit Engagement Partner: Syed Asad Ali Shah

Date: April 26, 2013

Place: Karachi



CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2012

	Note	2012 ----- Rupees in '000 -----	2011	2012 ----- US\$ in '000 -----	2011
ASSETS					
NON CURRENT ASSETS					
Fixed assets					
- Property, plant and equipment	5	153,662,065	146,214,419	1,580,398	1,625,585
- Intangibles	6	3,238,045	2,973,990	33,303	33,064
		156,900,110	149,188,409	1,613,701	1,658,649
Long-term investments	7	94,394	86,088	971	957
Receivable in respect of Centre Hotel	8	734,496	679,487	7,554	7,554
Long-term loans	9	12,009	15,407	124	171
Long-term deposits and prepayments	10	6,020,026	9,278,981	61,915	103,162
		163,761,035	159,248,372	1,684,265	1,770,493
CURRENT ASSETS					
Stores and spares	11	4,096,403	3,895,832	42,131	43,313
Trade debts - net	12	10,014,544	8,936,690	102,998	99,357
Short-term loans and advances	13	2,054,153	329,433	21,127	3,663
Trade deposits and prepayments	14	1,204,634	1,305,268	12,390	14,512
Other receivables	15	4,300,365	2,423,473	44,229	26,944
Short-term investments	16	517,767	594,749	5,325	6,612
Taxation		102,102	93,680	1,050	1,042
Cash and bank balances	17	6,303,877	3,239,943	64,835	36,021
		28,593,845	20,819,068	294,085	231,464
TOTAL ASSETS		192,354,880	180,067,440	1,978,350	2,001,957

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2012

	Note	2012	2011	2012	2011
		----- Rupees in '000 -----		----- US\$ in '000 -----	
EQUITY AND LIABILITIES					
SHARE CAPITAL AND RESERVES					
Share capital	18	28,779,674	28,779,674	295,996	319,967
Reserves	19	(138,217,947)	(107,420,680)	(1,421,557)	(1,194,284)
		(109,438,273)	(78,641,006)	(1,125,561)	(874,317)
Advance against equity from Government of Pakistan (GoP)	20	1,928,167	-	19,831	-
Attributable to the Holding company's shareholders		(107,510,106)	(78,641,006)	(1,105,730)	(874,317)
Non-controlling interest		1,385,606	1,081,405	14,251	12,023
TOTAL EQUITY		(106,124,500)	(77,559,601)	(1,091,479)	(862,294)
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET OF TAX	21	26,213,286	22,854,589	269,601	254,093
NON-CURRENT LIABILITIES					
Long-term financing	22	28,120,287	44,633,808	289,214	496,231
Term finance and sukuk certificates	23	4,394,027	10,925,653	45,192	121,469
Liabilities against assets subject to finance lease	24	38,305,557	47,351,568	393,968	526,446
Long-term deposits	25	534,767	444,817	5,500	4,945
Advance rent		-	4,831	-	54
Deferred taxation	26	18,314,706	15,189,571	188,365	168,875
Deferred liabilities	27	13,206,159	9,228,697	135,824	102,603
		102,875,503	127,778,945	1,058,063	1,420,623
CURRENT LIABILITIES					
Trade and other payables	28	55,313,306	46,336,731	568,891	515,163
Accrued interest	29	6,784,356	4,727,025	69,776	52,554
Provision for taxation		679,144	1,072,935	6,985	11,929
Short-term borrowings	30	61,354,530	25,801,027	631,025	286,851
Current maturities of:					
- Long-term financing	22	20,783,496	11,317,288	213,756	125,824
- Term finance and sukuk certificates	23	15,195,733	8,664,107	156,287	96,326
- Advance rent		4,831	4,392	50	49
- Liabilities against assets subject to finance lease	24	9,275,195	9,070,002	95,395	100,839
		169,390,591	106,993,507	1,742,165	1,189,535
TOTAL LIABILITIES		272,266,094	234,772,452	2,800,228	2,610,158
TOTAL EQUITY AND LIABILITIES		192,354,880	180,067,440	1,978,350	2,001,957
CONTINGENCIES AND COMMITMENTS	31				

The annexed notes 1 to 47 form an integral part of these consolidated financial statements.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012 ----- Rupees in '000 -----	2011 ----- Rupees in '000 -----	2012 ----- US\$ in '000 -----	2011 ----- US\$ in '000 -----
REVENUE - net	32	124,777,545	127,476,192	1,283,324	1,417,257
COST OF SERVICES					
Aircraft fuel		(61,157,291)	(62,965,435)	(628,996)	(700,038)
Others	33	(59,045,386)	(58,692,933)	(607,275)	(652,537)
		(120,202,677)	(121,658,368)	(1,236,271)	(1,352,575)
GROSS PROFIT		4,574,868	5,817,824	47,053	64,682
Distribution costs	34	(7,630,949)	(6,830,850)	(78,483)	(75,944)
Administrative expenses	35	(12,298,168)	(11,009,338)	(126,485)	(122,400)
Other provisions and adjustments	36	(698,310)	(652,950)	(7,182)	(7,259)
Exchange loss - net		(6,703,945)	(4,220,191)	(68,949)	(46,919)
Other operating income	37	3,327,619	525,563	34,224	5,843
		(24,003,753)	(22,187,766)	(246,875)	(246,679)
LOSS FROM OPERATIONS		(19,428,885)	(16,369,942)	(199,822)	(181,997)
Finance costs	38	(12,169,934)	(10,487,413)	(125,166)	(116,597)
Share of loss from associated company	7.1	(637)	(790)	(7)	(9)
LOSS BEFORE TAXATION		(31,599,456)	(26,858,145)	(324,995)	(298,603)
Taxation	39	(768,817)	934,790	(7,907)	10,393
LOSS FOR THE YEAR		(32,368,273)	(25,923,355)	(332,902)	(288,210)
Attributable to:					
Equity holders of the Holding company		(32,401,413)	(25,970,801)	(333,243)	(288,738)
Non-controlling interest		33,140	47,446	341	528
		(32,368,273)	(25,923,355)	(332,902)	(288,210)
		----- Rupees -----	----- Rupees -----	----- US\$ -----	----- US\$ -----
EARNINGS PER SHARE - BASIC AND DILUTED					
Loss attributable to:					
'A' class Ordinary shares of Rs 10 each	40	(10.74)	(9.44)	(0.11)	(0.10)
'B' class Ordinary shares of Rs 5 each	40	(5.37)	(4.72)	(0.06)	(0.05)

The annexed notes 1 to 47 form an integral part of these consolidated financial statements.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011	2012	2011
	-----Rupees in '000-----		-----US\$ in '000-----	
Loss for the year	(32,368,273)	(25,923,355)	(332,902)	(288,210)
Other comprehensive income				
Unrealised gain / (loss) on re-measurement of available for sale investments	4,037	(5,118)	42	(57)
Exchange differences on translation of foreign operations	1,011,593	425,917	10,404	4,735
Total comprehensive income	<u>(31,352,643)</u>	<u>(25,502,556)</u>	<u>(322,456)</u>	<u>(283,532)</u>
Attributable to:				
Equity holders of the Holding company	(31,455,263)	(25,573,071)	(323,511)	(284,316)
Non-controlling interest	102,620	70,515	1,055	784
	<u>(31,352,643)</u>	<u>(25,502,556)</u>	<u>(322,456)</u>	<u>(283,532)</u>

Surplus / (deficit) arising on revaluation of property, plant and equipment has been reported in accordance with the requirements of the Companies Ordinance, 1984, in a separate account below equity.

The annexed notes 1 to 47 form an integral part of these consolidated financial statements.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011	2012	2011
		-----Rupees in '000-----		-----US\$ in '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	41	904,742	9,631,070	9,305	107,076
Profit on bank deposits received		51,399	45,997	529	511
Finance costs paid		(10,112,603)	(8,856,552)	(104,007)	(98,466)
Taxes paid		(1,197,159)	(1,210,031)	(12,313)	(13,453)
Staff retirement benefits paid		(617,559)	(467,188)	(6,352)	(5,194)
Long-term deposits and prepayments - net		773,850	462,344	7,959	5,140
Net cash used in operating activities		(10,197,330)	(394,360)	(104,879)	(4,386)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(7,947,165)	(4,131,561)	(81,736)	(45,934)
Proceeds from sale of operating fixed assets		79,359	10,791	816	120
Purchase of intangibles		(158,077)	(137,437)	(1,626)	(1,528)
Payments against long-term loans		3,398	(1,300)	35	(14)
Proceeds from sale of short-term investments		216,879	712,168	2,231	7,918
Net cash used in investing activities		(7,805,606)	(3,547,339)	(80,280)	(39,438)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		-	3,004,726	-	33,406
Proceeds from advance against equity from GoP		1,928,167	-	19,831	-
Repayment of long-term financing		(8,504,428)	(11,304,415)	(87,467)	(125,680)
Proceeds from long-term financing		500,000	15,339,317	5,143	170,540
Redemption of term finance certificates		-	(2,560)	-	(28)
(Payment) / receipt of advance rent		(4,391)	9,223	(45)	102
Proceeds from long-term deposits		89,950	60,524	925	673
Payment of dividend to non-controlling interest		(29,983)	(29,980)	(308)	(333)
Repayment of obligations under finance lease - net		(8,251,697)	(8,548,597)	(84,868)	(95,042)
Net cash used in financing activities		(14,272,382)	(1,471,762)	(146,789)	(16,362)
Decrease in cash and cash equivalents		(32,275,318)	(5,413,461)	(331,948)	(60,186)
Cash and cash equivalents at the beginning of the year		(22,561,084)	(17,110,312)	(232,038)	(190,229)
Effects of exchange rate changes on cash and cash equivalents		(214,251)	(37,311)	(2,204)	(415)
Cash and cash equivalents at the end of the year		(55,050,653)	(22,561,084)	(566,190)	(250,830)
CASH AND CASH EQUIVALENTS					
Cash and bank balances	17	6,303,877	3,239,943	64,835	36,021
Short-term borrowings	30	(61,354,530)	(25,801,027)	(631,025)	(286,851)
		(55,050,653)	(22,561,084)	(566,190)	(250,830)

The annexed notes 1 to 47 form an integral part of these consolidated financial statements.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2012

	Issued, subscribed, and paid-up capital	Advance against equity from GoP	Attributable to the Holding company's shareholders					Total	Non-controlling interest	Total	
			Reserves								
			Capital reserves	Revenue reserves	Unrealised (loss) / gain on re-measurement of investments	Foreign currency translation reserves	Accumulated loss				Other reserves
Rupees in '000											
Balance as at January 1, 2011	25,774,948	-	2,501,038	1,779,674	27,899	2,570,423	(89,186,527)	573	(56,531,972)	1,224,376	(55,307,596)
Total comprehensive income for the year ended December 31, 2011:											
- (Loss) / profit for the year	-	-	-	-	-	-	(25,970,801)	-	(25,970,801)	47,446	(25,923,355)
- Other comprehensive income for the year:											
- Currency translation differences	-	-	-	-	-	403,854	-	(1,006)	402,848	23,069	425,917
- Unrealised loss on re-measurement of investments	-	-	-	-	(5,118)	-	-	-	(5,118)	-	(5,118)
Total comprehensive income for the year transferred to equity	-	-	-	-	(5,118)	403,854	(25,970,801)	(1,006)	(25,573,071)	70,515	(25,502,556)
Surplus on revaluation - net of tax	-	-	-	-	-	-	-	-	-	35,342	35,342
Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	-	-	-	-	-	-	407,733	-	407,733	-	407,733
Transactions with owners:											
Issue of share capital 'A' class ordinary shares	3,004,726	-	-	-	-	-	-	-	3,004,726	-	3,004,726
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(29,980)	(29,980)
Redemption of non-controlling interest	-	-	-	-	-	13,021	26,875	11,682	51,578	(218,848)	(167,270)
Balance as at December 31, 2011	28,779,674	-	2,501,038	1,779,674	22,781	2,987,298	(114,722,720)	11,249	(78,641,006)	1,081,405	(77,559,601)
Balance as at January 1, 2012	28,779,674	-	2,501,038	1,779,674	22,781	2,987,298	(114,722,720)	11,249	(78,641,006)	1,081,405	(77,559,601)
Total comprehensive income for the year ended December 31, 2012:											
- (Loss) / profit for the year	-	-	-	-	-	-	(32,401,413)	-	(32,401,413)	33,140	(32,368,273)
- Other comprehensive income for the year:											
- Transfer to other reserves	-	-	-	-	-	-	(775)	775	-	-	-
- Currency translation differences	-	-	-	-	-	942,785	-	(672)	942,113	69,480	1,011,593
- Unrealised gain on re-measurement of investments	-	-	-	-	4,037	-	-	-	4,037	-	4,037
Total comprehensive income for the year transferred to equity	-	-	-	-	4,037	942,785	(32,402,188)	103	(31,455,263)	102,620	(31,352,643)
Surplus on revaluation - net of tax	-	-	-	-	-	-	-	-	-	231,564	231,564
Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	-	-	-	-	-	-	657,996	-	657,996	-	657,996
Transactions with owners:											
Advance against equity from GoP	-	1,928,167	-	-	-	-	-	-	1,928,167	-	1,928,167
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(29,983)	(29,983)
Balance as at December 31, 2012	28,779,674	1,928,167	2,501,038	1,779,674	26,818	3,930,083	(146,466,912)	11,352	(107,510,106)	1,385,606	(106,124,500)

The annexed notes 1 to 47 form an integral part of these consolidated financial statements.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

1. THE GROUP AND ITS OPERATIONS

1.1 The 'Group' consists of Pakistan International Airlines Corporation, i.e. the Holding company, its subsidiaries and an associate.

Pakistan International Airlines Corporation

Pakistan International Airlines Corporation (the Holding company) was incorporated on January 10, 1955 under the Pakistan International Airlines Corporation Ordinance, 1955, which was subsequently repealed and replaced by the Pakistan International Airlines Corporation Act, 1956 (the Act). The shares of the Holding company are quoted on all stock exchanges of Pakistan. The principal activity of the Holding company is to provide commercial air transportation, which includes passenger, cargo and postal carriage services. Other activities of the Holding company include provision of engineering and allied services. The head office of the Holding company is situated at PIA Building, Jinnah International Airport, Karachi.

Subsidiaries

PIA Investments Limited (PIAIL) was incorporated on September 10, 1977 in Sharjah, United Arab Emirates, as a limited liability company under a decree issued by H.R.H. the Ruler of Sharjah. In 1986 PIAIL was registered in British Virgin Islands under International Business Companies Ordinance, 1984 (now BVI Business Companies Act, 2004) as a company limited by shares. The principal activity of PIAIL is to carry on business as promoters of and investors in projects related to construction, development and operation of hotels, motels and restaurants throughout the world. The Holding company's controlling interest in PIAIL is 100% (2011: 100%). Following are the details of PIAIL's subsidiaries:

	Location	Nature of business	Effective ownership and voting power of PIAIL (%)	Effective ownership and voting power of the Holding company (%)
• Roosevelt Hotel Corporation, N.V. (RHC)	Netherlands - Antilles	See note (B) below	100	100
• RHC Operating LLC	State of Delaware, USA	Owner of Roosevelt Hotel, New York	100	100
• Minhal France S.a.r.l.	Luxembourg	See note (A)	100	100
• Minhal France B.V.	Netherlands	See note (A)	100	100
• Minhal France S.A. (MFSA)	France	Owner of Scribe Hotel, Paris	90	90
• PIA Fuel Management Limited	British Virgin Islands	See note (A)	100	100

Note (A): These companies are intermediary holding companies except PIA Fuel Management Limited, which is a dormant company.

Note (B): Roosevelt Hotel Corporation N.V. (RHC) is the intermediary holding company and a sole member of RHC Operating LLC, a company which owns the Roosevelt Hotel New York. In 2004, to comply with the requirements of certain loans, RHC transferred the net operating assets of the Hotel to RHC Operating LLC.



PIAIL has been consolidated in these consolidated financial statements on the basis of its audited consolidated financial statements for the year ended December 31, 2012.

Skyrooms (Private) Limited (SRL) was incorporated on May 20, 1975 in Pakistan as a private limited company under the Companies Act, 1913 (now Companies Ordinance, 1984). SRL owns and manages 'Airport Hotel', Karachi. SRL is a wholly owned subsidiary of the Holding company. SRL has been consolidated on the basis of its unaudited financial statements for the year ended December 31, 2012 as the same is not considered to be material to these consolidated financial statements.

Abacus Distribution Systems Pakistan (Private) Limited (Abacus) was incorporated in Pakistan on October 12, 2004 as a private company limited by shares, under the Companies Ordinance, 1984. Abacus markets and distributes a computer reservation system to subscribers in Pakistan, under a sub-distribution agreement with Abacus International (Pte) Limited Singapore (an associated Company and joint venture partner), that incorporates a software package which performs various functions including real-time airlines seat reservations, schedules, bookings for a variety of air, car and hotel services, automated ticketing and fare displays. The Holding company's interest in Abacus is 70%. Abacus has been consolidated on the basis of its unaudited financial statements for the year ended December 31, 2012 as the same is not considered to be material to these consolidated financial statements.

The other subsidiaries of the Holding company, **PIA Holding (Private) Limited, PIA Shaver Poultry Breeding Farms (Private) Limited and PIA Hotels Limited**, had applied under the 'Easy Exit Scheme' announced by the Securities and Exchange Commission of Pakistan (the SECP) for voluntary winding up. Assets and liabilities of these subsidiaries were taken over by the Holding company, and, accordingly, have not been consolidated in these financial statements.

The Special Purpose Entities (SPE) formed for acquiring aircrafts have not been consolidated in these financial statements as the shareholding and controlling interest and risk and rewards of SPE rests with the trustees' representing foreign banks.

Associate

Minhal Incorporated (Minhal), Sharjah was incorporated on January 1, 1977 in Sharjah, United Arab Emirates as a limited liability company and is currently registered in British Virgin Islands. The principal activities of Minhal are to carry on business as promoters and the managers of projects related to construction, development and operation of hotels, restaurants and clubs throughout the world. The Holding company's interest in the Minhal is 40%.

- 1.2 During the current year, the Holding company incurred a net loss of Rs 33,181.540 million (2011: Rs 26,767.207 million) resulting in accumulated loss of Rs 151,914.479 million as of December 31, 2012 (2011: Rs 119,016.727 million). Further, as of December 31, 2012 current liabilities of the Holding company exceeded its current assets by Rs 144,445.613 million (2011: Rs 88,221.403 million). Furthermore, as disclosed in notes 23.1, 23.2, 22.16 and 30.1.3, the Holding company has not been able to pay interest and principal amount of term finance, sukuk certificates and other borrowings, which were overdue as at December 31, 2012.

The Government of Pakistan (GoP), being the majority shareholder of the Holding company, had through its finance division's letter dated September 2, 2008 communicated that it would extend all maximum support to maintain the Holding company's going concern status. Accordingly, since then it has been extending support to the Holding company through the following measures to ensure that it (the Holding company) continues and sustains in the long-term as a viable business entity:

- Reimbursement of financial charges on term finance and sukuk certificates payable by the Holding company. In this respect, amounts aggregating Rs 9,830 million have been provided to the Holding company towards equity during the years ended December 31, 2008 to 2012;
- During the years ended December 31, 2009 and 2010, the GoP has provided long-term financing aggregating Rs 8,000 million to meet working capital requirements of the Holding company;
- Issuance / renewal of guarantees to financial institutions, both local and foreign, so as to enable the Holding company to raise / rollover funds; and
- On July 3, 2012, the Economic Coordination Committee (ECC) of the Cabinet accorded approval for extending the repayment period of the term finance certificates aggregating Rs 12,790 million along with conversion of certain short term loans amounting to Rs 20,700 million into long term loans (refer note 23.1).



The Holding company continued to pursue approval of its business plan (the plan) with the GoP at various levels and in this respect it (the Holding company) presented the plan to the President and the Prime Minister of Pakistan, Economic Reforms Unit of the Ministry of Finance and the Economic Coordination Committee (ECC) in current and previous years. On their advice, the plan was amended and the amended version was submitted to the Board of Directors of the Holding company for their approval in their meeting held on January 21, 2013. The business plan includes GoP's support in terms of providing necessary funding for recapitalisation, restructuring of existing loans to reduce finance cost and issuance of GoP guarantees. The objectives of the business plan, among other measures, include attaining fuel efficiency through fleet modernisation and optimum fleet deployment on network, enhancing revenues through additional frequencies on high demand high yield routes, separation of the core airline business from non-core activities and controlling costs. The Board while considering the plan as an interim plan asked the management to hire services of a reputable international aviation consultant for the preparation of five year strategic business plan, which among other things should also be marketable.

Further, the Holding company presented a proposal for financing support required along with its interim business plan to the ECC at its meeting held on February 26, 2013. The ECC approved the following financing support proposal subject to the condition that the timeline will be fixed for repayment of loans and there will be quarterly monitoring of the Holding company's Business Plan by the Ministry of Finance.

- New loans / guarantees for repayment of loans amounting to Rs 11.1 billion becoming due in year 2013;
- Rollover / Extension of GOP guarantees amounting to approximately Rs 51.16 billion;
- New guarantees against loans already taken on the basis of letter of comfort amounting to Rs 13.5 billion;
- Additional funding to provide fiscal space to the Holding company amounting to Rs 12 billion; and
- Funds of US\$ 46 million for acquisition of narrow body aircraft on dry lease.

In view of the situation described above, material uncertainty exists that may cast significant doubt on the Holding company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the management believes that considering the mitigating factors set out in the preceding paragraphs, the going concern assumption is appropriate and has, as such, prepared these consolidated financial statements on a going concern basis.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the requirements of the Act and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the requirements of the Act or the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except that:

- certain items of property, plant and equipment are stated at revalued amount;
- certain financial assets are carried at fair value;
- liability on account of frequent flyer programme is recognised at fair value; and
- defined benefit obligations are stated at present value in accordance with International Accounting Standard (IAS) - 19 'Employee Benefits'.



2.3 Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Holding company operates. The consolidated financial statements are presented in Pakistani Rupees, which is the Holding company's functional and presentation currency.

The US Dollar amounts reported in the consolidated balance sheet, consolidated profit and loss account, consolidated statement of comprehensive income and consolidated cash flow statement are stated as additional information, solely for the convenience of the users of these consolidated financial statements. The US Dollar amounts in the consolidated balance sheet, consolidated profit and loss account, consolidated statement of comprehensive income and consolidated cash flow statement have been translated into US Dollar at the rate of Rs 97.23 = US \$ 1 (2011: Rs 89.9457 = US \$ 1).

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Holding company and its subsidiaries and its associate as at December 31 each year.

2.4.1 Subsidiaries

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are derecognised from the date control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The consideration transferred for the acquisition is the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The excess of the consideration transferred and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in case of a bargain purchase, the difference is recognised in profit and loss account.

The assets and liabilities of subsidiary companies have been consolidated on a line by line basis and the carrying value of investments held by the Holding company is eliminated against the subsidiaries' shareholders' equity in the consolidated financial statements. All material intra-group transactions and balances are eliminated in full.

The financial statements of the subsidiaries are prepared for the same reporting year as the Holding company. The accounting policies for subsidiary companies have been changed to ensure consistency with the policies adopted by the Holding company, where necessary.

Non-controlling interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated profit and loss account and within equity in the consolidated balance sheet, separately from Holding company shareholders' equity. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity.



2.4.2 Associates

Associated companies are those entities in which the Group has significant influence, but, not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting rights of another entity.

The associate of the Group is accounted for using the equity method (equity accounted investees) and is recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment loss. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align with the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of loss exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further loss is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

2.5 Amendments to the approved accounting standards that became applicable during the year ended December 31, 2012

During the year, amendments to the following approved accounting standards became effective, however, their application did not have material impact on these financial statements.

- IFRS 7 'Financial Instruments: Disclosures'
- IAS 12 'Income Taxes'

2.6 Amendments to published standards and new interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following amendments to published standards and new interpretation to existing standard are effective for accounting periods, beginning on or after the date mentioned herein:

- IFRS 7 - 'Financial Instruments: Disclosures' - (effective for annual periods beginning on or after January 1, 2013) - These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 'Financial Instruments: Presentation'. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.
- IAS 1 - 'Presentation of Financial Statements' (effective for annual periods beginning on or after July 1, 2012) - retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.
- IAS 19, 'Employee benefits', (effective for annual periods beginning on or after January 1, 2013) - The amendments require actuarial gains and losses to be recognised immediately in other comprehensive income; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. This change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19. As a result of adoption of this amendment, the Group will recognise the actuarial gains and losses in other comprehensive income, which are currently being recognised in the profit and loss account. However, there would not be any impact on Group's equity.
- IAS 32 - 'Financial Instruments: Presentation' - (effective for annual periods beginning on or after January 1, 2014) - These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.



- IFRIC 20 - 'Stripping Costs in the Production Phase of a Surface Mine' - (effective for annual periods beginning on or after January 1, 2013) – This interpretation applies to all types of natural resources that are extracted using a surface mine activity process, and addresses the issues pertaining to the recognition of production stripping cost as an asset, initial measurement of stripping activity at cost and subsequent measurement of stripping activity asset at depreciated or amortised cost based on a systematic basis over the expected useful life of the identified component of ore body.

The above mentioned amendments to published standards and new interpretation to existing standard are either not relevant to the Group's operations (except for the impact of IAS 19 as described above) or are not expected to have significant impact on the Group's financial statements other than increase in disclosure in certain cases.

2.7 Other standards issued by IASB but not adopted by Securities and Exchange Commission of Pakistan (SECP):

The IASB has also issued following standards that have not been adopted in Pakistan by the SECP.

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non- adoption of IFRS 10 and IFRS 11

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates underlying the assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, management has made the following estimates and judgments which are significant to these consolidated financial statements:

3.1 Property, plant and equipment

The Group reviews appropriateness of the rates of depreciation / useful lives and residual values used in the calculation of depreciation at each financial year end. Further, the Group estimates revalued amounts and useful life of aircraft fleet, leasehold land and buildings and hotel property based on the periodic valuations carried out by independent professional valuers. Any change in estimate in future might affect the carrying amounts of the respective item of operating fixed assets with a corresponding effect on the depreciation charge and impairment, surplus on revaluation and annual transfer of incremental depreciation from 'surplus on revaluation of property, plant and equipment' account to 'accumulated loss'.

Change in accounting estimate

As a result of revaluation exercise conducted by an independent valuer as of December 31, 2011, the useful lives of aircraft fleet of the Holding company had been reassessed. In addition, the management has reassessed the residual values of aircraft and related capital spares. These changes in accounting estimates have an impact on depreciation expense for the current year.



Had there been no change in useful lives and residual values of aircrafts and related spares, depreciation expense pertaining to aircraft fleet and capital spares for the year would have been lower by an aggregate amount of Rs. 411.896 million, whereas the effect on future periods is impracticable to ascertain considering subsequent measurement of aircraft fleet and hotel properties under the revaluation model and inherent uncertainties attached thereto.

3.2 Employee benefits

The liabilities of defined benefit plans are determined through actuarial valuation using the Projected Unit Credit Method. The method involves making assumptions about discount rates, expected rates of return on pension plan assets, future salary increases, mortality rates, future increase in medical costs and future pension increases. Due to the long-term nature of these benefits, such estimates are subject to certain uncertainties. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 26 to these consolidated financial statements.

3.3 Stores and spares

The Group at each balance sheet date reviews the net realisable values of stores and spares related to aircraft to assess any diminution in their respective carrying values. Due to the complex nature and huge quantum of the items of stores and spares, the net realisable value is arrived at by estimating the provision against slow moving stores and spares, which is made in proportion to the estimated utilised life of the relevant category of the aircraft attained up to the balance sheet date.

3.4 Taxation

In making the estimate for income tax payable by the Group, the Group takes into account the applicable tax laws. Deferred tax asset is recognised for all unused tax losses and available credits to the extent that it is probable that sufficient taxable temporary differences and taxable profits will be available against which such losses and credits can be utilised. Significant judgment is exercised to determine the amount of deferred tax asset to be recognised.

3.5 Trade debts

The Group reviews doubtful trade debts at each balance sheet date to assess the adequacy of the provision thereagainst. In particular, judgment is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

3.6 Liability on account of frequent flyer programme

The Holding company operates a frequent flyer programme that provides travel awards to members of the programme based on accumulated mileage. The Holding company accounts for award credits as separately identifiable component of the sales transaction in which they are granted. The consideration in respect of initial sale is allocated to award credits based on their fair value and is accounted for as a liability in these consolidated financial statements. The fair value of credits awarded is estimated by reference to the fair value of the services for which the award credits may be redeemed. Determination of the fair value of the award credit involves estimations, based on the average of air fares, the value of each award credit assuming a 100% redemption rate, and estimating the expected award credit redemption rate. These estimates are reviewed as and when a significant change in the assumptions used is observed and the liability is adjusted annually as appropriate. The provision for frequent flyer programme is determined based on the valuation carried out by an independent professional valuer.

3.7 Revenue recognition

Revenue for passenger tickets and cargo airway bills is recognised when the transportation services are provided. Tickets / airway bills that are un-utilised, are recognised as unearned revenue on the basis of estimated number of days delay between the date of sale of ticket / airway bills and the date of actual travel / lift.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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



4.1 Fixed assets

4.1.1 Property, plant and equipment

Operating fixed assets - owned

Lands classified as 'others' in note 5.1 are stated at cost, whereas buildings classified as 'others' in the aforesaid note are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Leasehold land and buildings thereon, hotel properties and aircraft fleet are measured at revalued amounts, which are the fair values at the date of revaluation less accumulated depreciation and impairment, if any, recognised subsequent to the date of revaluation.

Other items of operating fixed assets are stated at cost less accumulated depreciation and impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Aircraft and related equipment acquired on an exchange basis are stated at amounts paid plus the fair value of the fixed asset traded-in.

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 Group and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of operating fixed assets is capitalised and the asset so replaced is derecognised.

Major renewals, improvements and overhauls to aircraft are capitalised and depreciated over the period to the next major overhaul. All other repairs and maintenance including cost incurred under 'power-by-the-hour' contracts in relation to aircraft are charged to the consolidated profit and loss account during the financial period in which they are incurred.

Depreciation is charged to the consolidated profit and loss account, applying the straight-line method whereby the cost or revalued amount of assets, less their residual values, is written down over their expected useful lives. The rates of depreciation are disclosed in note 5.1.

In respect of additions and disposals of assets, depreciation is charged from the month in which the asset is available for use until it is derecognised, i.e. up to the month preceding the disposal. Proportionate depreciation on aircraft fleet is charged from the date of acquisition till the date of disposal.

Useful lives (except for aircraft fleet) are determined by the management based on expected usage of asset, expected physical wear and tear, technical and commercial obsolescence and other similar factors. The useful lives of aircraft fleet are determined by an independent valuer. The assets' residual values, useful lives and methods are reviewed, and adjusted, if appropriate, at each financial year end.

Surplus on revaluation of aircraft fleet, leasehold land and buildings and hotel property is credited to the surplus on revaluation account and is shown in the consolidated balance sheet below share capital and reserves. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. Accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of operating fixed assets (net of deferred taxation) is transferred directly to accumulated loss.

An item of operating fixed assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated profit and loss account in the year the asset is derecognised.

Gains and losses on disposal of assets are taken to profit and loss account. When revalued assets are sold, the relevant remaining surplus is transferred directly to retained earnings (unappropriated profits / accumulated loss).



Leased

Leased assets under which the Holding company assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance lease

Assets held under finance lease are accounted for by recording the assets and related liabilities at the amounts determined on the basis of the lower of fair value of assets and the present value of minimum lease payments. Initial direct costs are added to the amount of the asset. Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged on leased assets on a basis similar to that of owned assets.

Operating lease

Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the lease term.

Capital spares

Rotable and repairable stores are stated at cost and treated as operating fixed assets and are depreciated based on the average useful remaining life of the related aircraft. Capital spares which are not useable are treated as scrap and charged to the consolidated profit and loss account.

Capital work-in-progress

These are stated at cost less impairment, if any, and consist of expenditure incurred and advances made in respect of assets in the course of their acquisition, construction and installation. The assets are transferred to relevant category of operating fixed assets when they are available for intended use.

4.1.2 Intangibles

Goodwill

Goodwill represents the difference between the consideration paid for acquiring interests in a company and the value of the Group's share of its net assets at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The impairment loss, if any, resulting from such review is charged to the consolidated profit and loss account. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Other intangible assets

Other intangible assets are measured on initial recognition at cost. Costs that are directly associated with identifiable software products / licenses controlled by the Group and that have probable economic benefit beyond one year are recognised as intangible assets. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Intangible assets with finite lives are amortised on a straight line basis over their estimated useful lives as specified in note 6.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated profit and loss account when the asset is derecognised.



4.2 Investments

At fair value through profit or loss - held for trading

These are securities which are acquired with the intention to trade by taking advantage of short-term market / interest rate movements. These are carried at market value, with the related surplus / (deficit) being taken to the consolidated profit and loss account.

Available for sale

Investments classified as available for sale are initially recognised at fair value, plus transaction costs and are subsequently marked to market using year end bid prices from stock exchange quotations and quotations from brokers and in case of unquoted investments, at cost, less impairment. Any resultant gain / loss is recognised in other comprehensive income. When these investments are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified in the consolidated profit and loss account.

Held to maturity

Investments with fixed or determinable payments and fixed maturity (other than those that meet the definition of 'loans and receivables') and for which the Group has the ability to hold them till maturity, are classified as held to maturity investments. These investments are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using effective interest method. All investments categorised under held to maturity are subject to annual review for impairment. Provisions for impairment in value, if any is taken to the consolidated profit and loss account.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as 'at fair value through profit or loss'. These investments are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using effective interest method. All investments categorised under held to maturity are subject to annual review for impairment. Provisions for impairment in value, if any is taken to the consolidated profit and loss account.

4.3 Stores and spares

These are stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Goods-in-transit are valued at cost plus other charges incurred thereon. Cost is determined as follows:

- | | |
|--|------------------------------------|
| - Fuel and medical inventories | first-in-first-out basis |
| - Other stores and spares including food and beverages | weighted moving average cost basis |

Provision against slow moving stores and spares related to aircraft fleet is made in proportion to the estimated utilised life of the relevant category of the aircraft attained up to the balance sheet date.

4.4 Trade debts and other receivables

These are recognised initially at fair value (i.e. original invoice / ticket amount) plus directly attributable transaction costs (if any) and subsequently measured at amortised cost less provision for impairment, if any. A provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Trade debts and other receivables considered irrecoverable are written off.

4.5 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash in hand, balances with banks and other short-term highly liquid investments with original maturity of three months or less. Cash and cash equivalents also include bank overdrafts / short-term borrowings that are repayable on demand and form an integral part of the Group's cash management.



4.6 Trade and other payables

Liabilities for trade creditors and other amounts payable are recognised initially at fair value plus directly attributable transaction cost, if any, and subsequently measured at amortised cost.

4.7 Loans and borrowings

Loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs, if any. Subsequently, these are measured at amortised cost using the effective interest method.

4.8 Employee benefits

The Holding company

Provident fund

The Holding company operates a defined contribution provident fund scheme for all its permanent employees. Equal monthly contributions are made to the Fund by the Holding company and the employees in accordance with the Fund's Rules.

Pension funds

For all the permanent employees hired prior to July 1, 2008 the Holding company operates a funded benefit pension scheme for its three categories of employees. Pension scheme is a final salary pension scheme and is invested through three funds namely Pakistan Airline Pilot Association (PALPA), Flight Engineering Association (FENA) and Employees' Pension Funds. Under PALPA and FENA, employees are entitled to basic salary and flight allowance whereas under Employees' Pension Fund, employees are entitled to basic salary and certain other allowances. Contributions are made to the scheme on the basis of actuarial valuation that is carried out annually.

For all the permanent employees hired on or after July 1, 2008 in lieu of the pension funds as described above, the Holding company operates a defined contribution pension fund whereby a contribution of 5% of the pensionable benefits is made to the Fund in accordance with the relevant rules.

Post-retirement medical benefits

The Holding company operates an unfunded defined benefit medical scheme and provides medical allowances and free hospitalisation benefits to all its retired employees and their spouses in accordance with their service regulations. The post-retirement medical benefit is accounted for on the basis of actuarial valuation that is carried out annually.

Actuarial gains and losses on employee benefits

Actuarial gains and losses (if any) on all employee benefits are recognised immediately in the profit and loss account.

Compensated absences

The Holding company accounts for all accumulated compensated absences when the employees render service that increases their entitlement to future compensated absences on the basis of actuarial valuation that is carried out annually.

Skyrooms (Private) Limited (SRL)

Defined benefit plan - gratuity

SRL operates an unfunded defined benefit gratuity scheme for all its permanent employees who have completed the prescribed qualifying period of service. Provision for gratuity is made in accordance with actuarial valuation to cover obligation under the scheme in respect of employees who have completed the minimum qualifying period.



Defined contribution plan - provident fund

SRL also operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by SRL and employees, to the Fund in accordance with Fund's rules.

PIA Investments Limited (PIAIL)

PIAIL operates a funded gratuity scheme for its permanent employees who have completed one year of service. An accrual is made for maximum benefit that is payable to employees based on their number of years of service as at reporting date, as the amount in the overall context of the financial statements is not considered material.

PIAIL also operates a provident fund scheme as a contribution plan for its permanent employees. Equal contributions are made, both by PIAIL and the employees to the provident fund at the rate of 10% of basic salary.

Roosevelt Hotel Corporation N.V. (RHC)

RHC is a party to the Industry wide Collective Bargaining Agreement between the Union and the Hotel Association of New York City, Inc., which provides a Union sponsored Multi-employer Pension Plan. The Multi-employer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employers associated with a plan who withdraw from such a plan or upon termination of said plan.

Further, all RHC staff, both union and non-union, are employees of RHC's management company, IHC. RHC reimburses the management company for matching contributions it makes on behalf of the Hotel's non-union staff to the management company's 401(k) pension plan.

Minhal France S.A.

On retirement, MFSA's employees are entitled to an indemnity under the law and in accordance with hotel industry labour agreements of the country. Provision is made for the liability at the reporting date in accordance with the agreements.

Abacus Distribution Systems Pakistan (Private) Limited (Abacus)

Provident Fund

Abacus operates an approved contributory provident fund for its employees. Equal monthly contributions are made, both by Abacus and employees, to the provident fund at the rate of 10% of basic salary.

Compensated absences

Abacus accounts for compensated absences on the basis of unavailed earned leave balance of each employee at the end of the year.

4.9 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Holding company and its subsidiaries operate and generate taxable income. Management periodically re-evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation

Deferred income tax is recognised using the balance sheet method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.



Deferred tax asset is recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits or taxable temporary differences will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset is reassessed at each balance sheet date and recognised to the extent that it has become probable that future taxable profits or taxable temporary differences will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relates to the same taxable entity and the same taxation authority.

4.10 Revenue recognition

The Group principally earns revenue from the carriage of passengers, cargo and mail, carriage of excess baggage, provision of handling services to other airlines, engineering services, air charters, hotel operations, distribution of a computer reservation system and related activities.

Passenger and cargo revenue

Passenger and cargo revenue is recognised when the transportation service is provided. The value of unused tickets and airway bills is included in current liabilities as 'advance against transportation' until recognised as revenue. The estimates involved in revenue recognition are disclosed in note 3.7.

Room, food and beverages

Revenue from room and shop, food, beverages and other related services is recognised as and when services are rendered.

In relation to PIAL, income from shop rentals is recognised on a straight line basis over the lease term.

Engineering and other services

Revenue from repair and maintenance and overhaul services of engine and component to other airlines is recognised when such services are rendered.

Frequent flyer programme revenue

The Holding company operates two principal loyalty programmes. The airline's 'frequent flyer programme' allows frequent travellers to accumulate travel miles that entitle them to a choice of various awards, primarily free travel. The fair value attributed to the awarded mileage credits is deferred as a liability and recognised as revenue on redemption of the miles by the participants to whom the miles are issued, when the miles expire or when they are not expected to be redeemed.

In addition, miles are sold to commercial partner to use in promotional activity. The fair value of the miles sold is deferred and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The cost of redemption of miles is recognised when miles are redeemed.

The estimates involved in recognising revenue from frequent flyer programme are disclosed in note 3.6.

Interest / mark-up and dividend income

The Group recognises interest income / mark-up on short-term bank deposits, interest bearing advances and held to maturity investments on a time proportion basis using effective interest method.

Dividend income is recognised when the Group's right to receive dividend is established.



4.11 Borrowing Costs

The Group recognises the borrowing costs as an expense in the period in which these costs are incurred, except the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset.

4.12 Provisions

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

4.13 Impairment

Financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated profit and loss account.

Non-financial assets

The carrying amounts of non-financial assets are assessed at each balance sheet date to ascertain whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised, as an expense in the consolidated profit and loss account, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).



An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.14 Foreign currency

Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transactions. Monetary assets and liabilities in foreign currencies are translated at the rates using the average spot rate on the balance sheet date. Gains and losses on translation are taken to consolidated profit and loss account currently.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items, measured at fair value in a foreign currency, are translated using the exchange rates at the date when the fair value was determined.

Foreign operations

Assets and liabilities of foreign entities are translated into Pakistan Rupees at year-end exchange rates. Income and expense items are translated at exchange rates approximating the rates of exchange at the dates of the transactions. Items of equity are carried at their historical values. Differences in exchange rates are recognised as foreign currency translation reserve and are included in other comprehensive income.

4.15 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value and subsequently at fair value or amortised cost as the case may be. Financial assets are de-recognised at the time when the Group loses control of the contractual rights that comprise the financial assets. Financial liabilities are de-recognised at the time when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to the consolidated profit and loss account immediately.

4.16 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Holding company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4.17 Derivative financial instruments

Derivatives that do not qualify for hedge accounting are recognised in the consolidated balance sheet at estimated fair value with corresponding effect to the consolidated profit and loss account. Derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

4.18 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet only when there is a legally enforceable right to set-off the recognised amounts and the Group intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.



4.19 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

5. PROPERTY, PLANT AND EQUIPMENT

		2012	2011
		----- Rupees in '000 -----	
Operating fixed assets:			
- owned	5.1	83,154,191	75,173,153
- leased	5.2	68,233,428	69,644,560
Capital work-in-progress	5.9	2,274,446	1,396,706
		<u>153,662,065</u>	<u>146,214,419</u>



5.1 Operating fixed assets - owned

	Land		Buildings on:		Hotel property (note 5.5)	Workshops and hangars	Renovation and improvements	Aircraft fleet (note 5.4)	Operating ground equipment, catering, communication and meteorological equipment	Engineering equipment and tools
	Leasehold (notes 5.1.1 and 5.3)	Others (note 5.1.2)	Leasehold land (notes 5.1.1 and 5.3)	Other land (note 5.1.2)						
As at December 31, 2010										
Cost or revalued amount	5,461,964	22,854	1,383,585	829,261	54,375,566	898,911	722,789	34,052,048	777,874	1,572,646
Accumulated depreciation	-	-	(402,638)	(291,798)	(6,629,937)	(748,594)	(613,639)	(19,151,163)	(545,435)	(1,144,897)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>980,947</u>	<u>537,463</u>	<u>47,745,629</u>	<u>150,317</u>	<u>109,150</u>	<u>14,900,885</u>	<u>232,439</u>	<u>427,749</u>
Year ended December 31, 2011										
Opening net book value	5,461,964	22,854	980,947	537,463	47,745,629	150,317	109,150	14,900,885	232,439	427,749
Additions / transfers	-	1,546	-	10,767	13,083	449	19,109	154,841	2,001	26,796
Reclassifications										
Cost	-	-	-	-	(237,828)	-	-	-	-	-
Accumulated depreciation	-	-	-	-	(152,559)	-	-	-	-	-
	-	-	-	-	(390,387)	-	-	-	-	-
Revaluation										
Cost or revalued amount	(51,964)	-	352,700	-	(1,109,058)	-	-	(855,021)	-	-
Accumulated depreciation	-	-	-	-	(264,307)	-	-	-	-	-
	(51,964)	-	352,700	-	(1,109,058)	-	-	(855,021)	-	-
Translation adjustments										
Cost or revalued amount	-	-	-	-	2,312,446	-	-	-	-	-
Accumulated depreciation	-	-	-	-	(264,307)	-	-	-	-	-
	-	-	-	-	2,048,139	-	-	-	-	-
Adjustments / transfer										
Cost or revalued amount	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Disposals										
Cost or revalued amount	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Write off										
Cost or revalued amount	-	-	-	-	-	-	-	(155,178)	(507)	(218)
Accumulated depreciation	-	-	-	-	-	-	-	154,572	462	218
	-	-	-	-	-	-	-	(606)	(45)	-
Depreciation charge for the year	-	-	(82,695)	(20,866)	(932,468)	(14,097)	(59,730)	(2,491,976)	(46,565)	(95,187)
Net book value	<u>5,410,000</u>	<u>24,400</u>	<u>1,250,952</u>	<u>527,364</u>	<u>47,374,938</u>	<u>136,669</u>	<u>68,529</u>	<u>11,708,123</u>	<u>187,830</u>	<u>359,358</u>
As at December 31, 2011										
Cost or revalued amount	5,410,000	24,400	1,383,585	840,028	55,354,209	899,360	741,898	33,196,690	779,368	1,599,224
Accumulated depreciation	-	-	(132,633)	(312,664)	(7,979,271)	(762,691)	(673,369)	(21,488,567)	(591,538)	(1,239,866)
Closing net book value	<u>5,410,000</u>	<u>24,400</u>	<u>1,250,952</u>	<u>527,364</u>	<u>47,374,938</u>	<u>136,669</u>	<u>68,529</u>	<u>11,708,123</u>	<u>187,830</u>	<u>359,358</u>
Annual depreciation rate (%)	-	-	2.5	2.5	30 - 50	5	20	4 - 100	10	10 - 20

* Represents adjustments in respect of cannibalisation of aircraft. Cannibalisation refers to the practice of obtaining the spare parts necessary to repair an aircraft by removing them from another similar aircraft.



Traffic equipment	Furniture, fixtures and fittings	Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Heat ventilation and air conditioning	Kitchen and bar equipment	Television / dish / stand	Other equipment	Capital spares	Total
-----Rupees in '000-----													
1,887,955 (1,388,100)	6,341,525 (4,485,865)	394,509 (311,157)	86,309 (80,164)	1,667,952 (1,399,213)	819,787 (806,866)	15,039 (15,039)	11,908 (11,908)	10,868 (7,041)	5,897 (4,057)	2,761 (2,666)	522,258 (421,505)	8,734,738 (3,910,914)	120,599,004 (42,372,596)
<u>499,855</u>	<u>1,855,660</u>	<u>83,352</u>	<u>6,145</u>	<u>268,739</u>	<u>12,921</u>	<u>-</u>	<u>-</u>	<u>3,827</u>	<u>1,840</u>	<u>95</u>	<u>100,753</u>	<u>4,823,824</u>	<u>78,226,408</u>
499,855	1,855,660	83,352	6,145	268,739	12,921	-	-	3,827	1,840	95	100,753	4,823,824	78,226,408
7,714	114,098	36,440	1,278	25,616	1,319	-	-	682	28	38	952,838	87,253	1,455,896
-	237,828	-	-	-	-	-	-	-	-	-	-	-	-
-	152,559	-	-	-	-	-	-	-	-	-	-	-	-
-	390,387	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	(2,016,043)
-	-	-	-	-	-	-	-	-	-	-	-	-	352,700
-	-	-	-	-	-	-	-	-	-	-	-	-	(1,663,343)
-	173,354	(285)	-	-	-	-	-	-	-	-	-	-	2,485,515
-	(156,133)	429	-	-	-	-	-	-	-	-	-	-	(420,011)
-	17,221	144	-	-	-	-	-	-	-	-	-	-	2,065,504
-	-	-	-	-	-	-	-	-	-	-	-	28,868	28,868
-	-	-	-	-	-	-	-	-	-	-	-	28,868	28,868
-	(31,040)	(19,280)	(269)	(1,254)	-	-	-	-	-	-	-	(5,982)	(57,825)
-	28,523	14,245	232	1,183	-	-	-	-	-	-	-	5,982	50,165
-	(2,517)	(6,035)	(37)	(71)	-	-	-	-	-	-	-	-	(7,660)
-	(153,410)	-	(155)	-	-	-	-	-	-	-	(59)	(181,618)	(491,145)
-	197	-	155	-	-	-	-	-	-	-	59	113,397	269,060
-	(153,213)	-	-	-	-	-	-	-	-	-	-	(68,221)	(222,085)
(65,097)	(328,871)	(38,066)	(1,906)	(71,960)	(2,244)	-	-	(979)	(295)	(79)	(26,683)	(430,671)	(4,710,435)
<u>442,472</u>	<u>1,892,765</u>	<u>76,835</u>	<u>5,480</u>	<u>222,324</u>	<u>11,996</u>	<u>-</u>	<u>-</u>	<u>3,530</u>	<u>1,573</u>	<u>54</u>	<u>1,026,908</u>	<u>4,441,053</u>	<u>75,173,153</u>
1,895,669 (1,453,197)	6,682,355 (4,789,590)	411,384 (334,549)	87,163 (81,683)	1,692,314 (1,469,990)	821,106 (809,110)	15,039 (15,039)	11,908 (11,908)	11,550 (8,020)	5,925 (4,352)	2,799 (2,745)	1,475,037 (448,129)	8,663,259 (4,222,206)	122,004,270 (46,831,117)
<u>442,472</u>	<u>1,892,765</u>	<u>76,835</u>	<u>5,480</u>	<u>222,324</u>	<u>11,996</u>	<u>-</u>	<u>-</u>	<u>3,530</u>	<u>1,573</u>	<u>54</u>	<u>1,026,908</u>	<u>4,441,053</u>	<u>75,173,153</u>
10 - 20	3 - 25	5 - 25	15	10 - 20	10	20	10	10	10	20	10	4 - 100	



	Land		Buildings on:		Hotel property (note 5.5)	Workshops and hangars	Renovation and improvements	Aircraft fleet (notes 5.1.3 and 5.4)	Operating ground, catering, communication and meteorological equipment	Engineering equipment and tools
	Leasehold (notes 5.1.1 and 5.3)	Others (note 5.1.2)	Leasehold land (notes 5.1.1 and 5.3)	Other land (note 5.1.2)						
As at December 31, 2011										
Cost or revalued amount	5,410,000	24,400	1,383,585	840,028	55,354,209	899,360	741,898	33,196,690	779,368	1,599,224
Accumulated depreciation	-	-	(132,633)	(312,664)	(7,979,271)	(762,691)	(673,369)	(21,488,567)	(591,538)	(1,239,866)
Net book value	5,410,000	24,400	1,250,952	527,364	47,374,938	136,669	68,529	11,708,123	187,830	359,358
Year ended December 31, 2012										
Opening net book value	5,410,000	24,400	1,250,952	527,364	47,374,938	136,669	68,529	11,708,123	187,830	359,358
Additions / transfers	-	-	3,070	-	5,369	2,875	39,171	1,069,266	10,700	17,106
Revaluation										
Cost or revalued amount	-	-	-	-	5,594,396	-	-	(3,793,787)	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	5,594,396	-	-	(3,793,787)	-	-
Translation adjustments										
Cost or revalued amount	-	-	-	-	4,319,759	-	-	-	-	-
Accumulated depreciation	-	-	-	-	(681,659)	-	-	-	-	-
	-	-	-	-	3,638,100	-	-	-	-	-
Adjustments / transfer										
Cost or revalued amount	-	-	-	-	-	-	-	10,979,748	-	-
Accumulated depreciation	-	-	-	-	-	-	-	(5,993,275)	-	-
	-	-	-	-	-	-	-	4,986,473	-	-
Disposals										
Cost or revalued amount	-	-	-	-	-	-	-	(114,184)	-	-
Accumulated depreciation	-	-	-	-	-	-	-	27,230	-	-
	-	-	-	-	-	-	-	(86,954)	-	-
Write off										
Cost or revalued amount	-	-	-	-	-	-	(269)	-	(86)	(649)
Accumulated depreciation	-	-	-	-	-	-	269	-	86	649
	-	-	-	-	-	-	-	-	-	-
Depreciation charge for the year	-	-	(133,228)	(20,511)	(1,010,356)	(13,319)	(48,779)	(2,249,551)	(47,430)	(77,364)
Closing net book value	5,410,000	24,400	1,120,794	506,853	55,602,447	126,225	58,921	11,633,570	151,100	299,100
As at December 31, 2012										
Cost or revalued amount	5,410,000	24,400	1,386,655	840,028	65,273,733	902,235	780,800	41,337,733	789,982	1,615,681
Accumulated depreciation	-	-	(265,861)	(333,175)	(9,671,286)	(776,010)	(721,879)	(29,704,163)	(638,882)	(1,316,581)
Net book value	5,410,000	24,400	1,120,794	506,853	55,602,447	126,225	58,921	11,633,570	151,100	299,100
Annual depreciation rate (%)	-	-	2.5	2.5	30 - 50	5	20	5 - 100	10	10 - 20

5.1.1 These represent leasehold land and buildings owned by the Holding company that are freely transferable and can be disposed off as and when required.

5.1.2 Land and buildings classified as 'Others' are amenity plots licensed from Civil Aviation Authority (CAA). These are non-transferable as these were allotted at below market price.

5.1.3 During the year, the lease term of an engine and propulsor expired (note 23.3.1) and these have been transferred from leased assets. However, the title was not transferred in the name of the Corporation as at December 31, 2012, due to certain formalities required to be fulfilled.



Traffic equipment	Furniture, fixtures and fittings	Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Heat ventilation and air conditioning	Kitchen and bar equipment	Television / dish / stand	Other equipment	Capital spares	Total
----- Rupees in '000 -----													
1,895,669 (1,453,197)	6,682,355 (4,789,590)	411,384 (334,549)	87,163 (81,683)	1,692,314 (1,469,990)	821,106 (809,110)	15,039 (15,039)	11,908 (11,908)	11,550 (8,020)	5,925 (4,352)	2,799 (2,745)	1,475,037 (448,129)	8,663,258 (4,222,207)	122,004,269 (46,831,118)
442,472	1,892,765	76,835	5,480	222,324	11,996	-	-	3,530	1,573	54	1,026,908	4,441,051	75,173,151
442,472	1,892,765	76,835	5,480	222,324	11,996	-	-	3,530	1,573	54	1,026,908	4,441,051	75,173,151
24,622	893,000	34,447	1,796	17,935	2,756	-	-	1,379	-	-	1,897	188,789	2,314,178
-	-	-	-	-	-	-	-	-	-	-	-	-	1,800,609
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	1,800,609
-	532,306 (385,701)	610 (299)	-	-	-	-	-	-	-	-	-	-	4,852,675 (1,067,659)
-	146,605	311	-	-	-	-	-	-	-	-	-	-	3,785,016
-	-	-	-	-	-	-	-	-	-	-	-	(254,730) 69,913	10,725,018 (5,923,362)
-	-	-	-	-	-	-	-	-	-	-	-	(184,817)	4,801,656
-	(16,107) 15,234	(14,348) 9,017	(362) 309	(15,054) 14,917	-	-	-	-	-	-	-	(18,486) 18,486	(178,541) 85,193
-	(873)	(5,331)	(53)	(137)	-	-	-	-	-	-	-	-	(93,348)
-	(376) 376	-	-	(581) 529	-	-	(109) 109	-	-	-	-	(132,619) 96,260	(134,689) 98,278
-	-	-	-	(52)	-	-	-	-	-	-	-	(36,359)	(36,411)
(65,860)	(505,201)	(28,851)	(1,473)	(61,639)	(2,417)	-	-	(1,066)	(248)	(23)	(59,582)	(263,762)	(4,590,660)
401,234	2,426,296	77,411	5,750	178,431	12,335	-	-	3,843	1,325	31	969,223	4,144,902	83,154,191
1,920,291 (1,519,057)	8,091,178 (5,664,882)	432,093 (354,682)	88,597 (82,847)	1,694,614 (1,516,183)	823,862 (811,527)	15,039 (15,039)	11,799 (11,799)	12,929 (9,086)	5,925 (4,600)	2,799 (2,768)	1,476,934 (507,711)	8,446,212 (4,301,310)	141,383,519 (58,229,328)
401,234	2,426,296	77,411	5,750	178,431	12,335	-	-	3,843	1,325	31	969,223	4,144,902	83,154,191
10 - 20	10	25	15	10 - 20	10	20	10	10	10	20	10	5 - 100	



5.2 Operating fixed assets - leased

Aircraft fleet

	2012 ----- Rupees in '000 -----	2011 ----- Rupees in '000 -----
As at the beginning of the year		
Revalued amount	72,779,943	70,371,838
Accumulated depreciation	(3,135,383)	(3,538,785)
Net book value	<u>69,644,560</u>	<u>66,833,053</u>
Movement during the year		
Opening net book value	69,644,560	66,833,053
Additions	4,592,624	2,408,105
Revaluation adjustment		
Revalued amount	1,840,609	-
Accumulated depreciation	1,445,861	3,968,247
	3,286,470	3,968,247
Transfer to owned		
Cost or revalued amount	(10,979,748)	-
Accumulated depreciation	5,993,275	-
	(4,986,473)	-
Depreciation charge for the year	(4,303,753)	(3,564,845)
Net book value	<u>68,233,428</u>	<u>69,644,560</u>
As at the end of the year		
Revalued amount	68,233,428	72,779,943
Accumulated depreciation	-	(3,135,383)
Net book value	<u>68,233,428</u>	<u>69,644,560</u>
Annual depreciation rate (%)	<u>5 - 20</u>	<u>5 - 13</u>

5.3 Revaluation of leasehold land and buildings

The leasehold land and buildings were revalued by the following independent professional valuers as of December 31, 2011:

- Arif Evaluators, based in Pakistan;
- Narender Consultants and Subhash Shah and Associates, based in India;
- Eastern Appraisal Co. INC, based in USA;
- Olimp – Baholash Va Ekspertiza Markazi LLC, based in Tashkent; and
- Lankhorst Vastgoed, based in Netherlands.

The valuation was carried out on the basis of professional assessment of fair values with reference to market based evidence, based on active market prices, and adjusted for any difference in nature, location or condition of specific property and resulted in a revaluation surplus of Rs 300.736 million as at December 31, 2011.

5.4 Aircraft fleet

The aircraft fleet of the Holding company was revalued by an independent valuer, Ascend - part of Reed Business Information Limited, on the basis of professional assessment of current market values as of December 31, 2012. The current market value represents the value that an aircraft could best achieve under today's open market conditions and, therefore, takes into account a thorough review of market activity and known transaction data involving the subject aircraft types, covering 'open' market and financial sales. It additionally considers the perceived demand for each type, its availability in the market and further takes into account the expressed views of informed industry sources.



The appraisal has taken into account the age, specification, accrued hours and cycles of the aircraft and produced Current Market Half Life Values (CMHLV). Half life or mid-time assumes that the airframe, engine, landing gears and all major components are half way between major overhauls or in the mid point of their useful lives for the life limited parts. CMHLV has then been adjusted to account for the maintenance status of the aircraft in accordance with the information supplied. The determination of such values involves a multiplicity of variables and some variation in perceived value must be expected.

The valuer has conducted an extended desktop appraisal of the aircraft and engines. This does not include an inspection of the aircraft or engines nor their records, but does take into account the maintenance status of the airframe, engine, landing gears, auxiliary power units (APUs) and engine limited life parts (LLPs).

5.5 Hotel property

Roosevelt Hotel Corporation N. V.

The latest valuation of Roosevelt Hotel was carried as at December 31, 2012 by an independent appraiser who has determined that the market value of the combined fee simple and leased fee interest in Roosevelt Hotel (excluding any unused development air rights) is Rs 35,002.8 million (US\$ 360,000,000). This valuation includes lands, buildings and improvements and furniture and equipment. However, fair value of furniture and equipment approximates its carrying value resulting in the entire revaluation surplus allocated to lands, buildings and improvements. Before revaluation the carrying value of lands, buildings and improvements at December 31, 2012 amounted to Rs 32,190.751 million (US\$ 331,078,382) and accordingly a surplus of Rs 2,147 million (US\$ 22,078,064) has been credited to 'surplus on revaluation of property, plant and equipment'. Such estimate was based primarily on arm's length market transactions in New York city.

Minhal France S.A.

The latest valuation of the Scribe Hotel was carried out as at December 31, 2012 by an independent appraiser. The appraiser has determined that the market value of the freehold interest in Scribe Hotel as on December 31, 2012 amounted to Rs 22,834.777 million (US\$ 234,853,200) using Discounted Cash flow method with an exit cap of 5.8% and discount rate of 7.25%. This valuation includes lands, buildings and improvements and furniture and equipment. However, fair value of furniture and equipment approximates its carrying value resulting in the entire revaluation surplus allocated to lands, buildings and improvements. Before revaluation the carrying value of lands, buildings and improvements at December 31, 2012 amounted to Rs 18,055.752 million (US\$ 185,701,450) and accordingly a surplus of Rs 3,447.746 million (US\$ 35,459,690) has been credited to 'surplus on revaluation of property, plant and equipment'.

5.6 Had there been no revaluation, the written down value of the revalued assets in the balance sheet would have been as follows:

	Cost	Accumulated Depreciation	Book value
	----- Rupees in '000 -----		
December 31, 2012			
Leasehold land	44,166	-	44,166
Buildings on leasehold land	351,558	176,287	175,271
Hotel property	23,498,339	8,117,951	15,380,388
Aircraft fleet	122,284,511	48,346,073	73,938,438
	<u>146,178,574</u>	<u>56,640,311</u>	<u>89,538,263</u>
December 31, 2011			
Leasehold land	44,166	-	44,166
Buildings on leasehold land	348,488	167,737	180,751
Hotel property	21,548,062	7,738,867	13,809,195
Aircraft fleet	121,935,050	43,394,508	78,540,542
	<u>143,875,766</u>	<u>51,301,112</u>	<u>92,574,654</u>



5.7 Depreciation charge for the year has been allocated as under:

	Note	2012	2,011
		----- Rupees in '000 -----	
Cost of services - others	33	8,690,017	8,004,205
Distribution costs	34	37,391	41,085
Administrative expenses	35	217,290	229,990
		<u>8,944,698</u>	<u>8,275,280</u>

5.8 Following fixed assets were disposed off during the year:

Description	Sold to	Method of disposal	Cost	Accumulated depreciation	Net book value	Sale proceeds
----- Rupees in '000 -----						
Motor vehicles to employees						
Honda City	Mr. Asghar M Wardag	As per Group policy	846	761	85	85
Honda City	Mr. Mamoon Rashid	-----do-----	846	761	85	85
Honda City	Ms. Maheen Fatima	-----do-----	846	761	85	85
Honda City	Mr. Irshad Ghani	-----do-----	854	832	22	85
Honda City	Mr. Mansoor A Khan	-----do-----	854	816	38	85
Honda City	Mr. Jawed Sardar	-----do-----	854	816	38	85
Honda City	Mr. Nazir Hussain	-----do-----	746	587	159	150
Toyota Corolla	Mr. Hasan Jamil Alvi	-----do-----	1,068	401	667	548
Toyota Corolla	Mr. Ejaz Latif	-----do-----	1,111	354	757	645
Toyota Corolla	Mr. Tariq Farooq	-----do-----	1,144	172	972	669
Toyota Corolla	Mr. Amin Ullah	-----do-----	1,311	197	1,114	1,450
Toyota Corolla	Mr. Iftikhar Jawed	-----do-----	1,200	112	1,088	700
			<u>11,680</u>	<u>6,570</u>	<u>5,110</u>	<u>4,672</u>
Aircraft fleet		Exchange	114,184	27,230	86,954	72,398
Aggregate value of other items where NBV is above Rs 50,000 - Various*			20,723	20,500	223	2,172
Aggregate value of items where NBV is less than Rs 50,000 - Various			15,847	15,659	188	14,821
	Total	2012	<u>162,434</u>	<u>69,959</u>	<u>92,475</u>	<u>94,063</u>
		2011	<u>57,825</u>	<u>50,165</u>	<u>7,660</u>	<u>10,791</u>

* This includes various operating fixed assets, having NBV above Rs 50,000. In view of large number of items, the management considers it impracticable to disclose the particulars of all items.

Sale of fixed assets of the Holding company is made through disposal committee in accordance with the prescribed procedures.

5.9 Capital work-in-progress

	Aircraft fleet	Others	Total
	-----Rupees in '000-----		
Year ended December 31, 2012			
Balance as at January 1, 2012	777,957	618,749	1,396,706
Additions during the year	1,965,070	347,936	2,313,006
Transfer to operating assets	(770,282)	(664,984)	(1,435,266)
Balance as at December 31, 2012	<u>1,972,745</u>	<u>301,701</u>	<u>2,274,446</u>
Year ended December 31, 2011			
Balance as at January 1, 2011	-	1,129,146	1,129,146
Additions during the year	777,957	633,107	1,411,064
Transfer to operating assets	-	(1,143,504)	(1,143,504)
Balance as at December 31, 2011	<u>777,957</u>	<u>618,749</u>	<u>1,396,706</u>



6. INTANGIBLES

	Note	Computer	Goodwill	Total
-----Rupees in '000 -----				
As at December 31, 2010				
Cost		275,701	2,786,934	3,062,635
Less: accumulated amortisation		(206,256)	-	(206,256)
Net book value		<u>69,445</u>	<u>2,786,934</u>	<u>2,856,379</u>
Year ended December 31, 2011				
Opening net book value		69,445	2,786,934	2,856,379
Additions during the year		3,314	-	3,314
Translation adjustment		-	134,123	134,123
Amortisation charge for the year	6.1	(19,826)	-	(19,826)
Net book value		<u>52,933</u>	<u>2,921,057</u>	<u>2,973,990</u>
As at December 31, 2011				
Cost		279,015	2,921,057	3,200,072
Less: accumulated amortisation		(226,082)	-	(226,082)
Net book value		<u>52,933</u>	<u>2,921,057</u>	<u>2,973,990</u>
Year ended December 31, 2012				
Opening net book value		52,933	2,921,057	2,973,990
Additions during the year		53,944	-	53,944
Translation adjustment		-	236,563	236,563
Amortisation charge for the year	6.1	(26,452)	-	(26,452)
Net book value		<u>80,425</u>	<u>3,157,620</u>	<u>3,238,045</u>
As at December 31, 2012				
Cost		332,959	3,157,620	3,490,579
Less: accumulated amortisation		(252,534)	-	(252,534)
Net book value		<u>80,425</u>	<u>3,157,620</u>	<u>3,238,045</u>
Useful Life		<u>5-10 years</u>		

6.1 Amortisation charge for the year has been allocated as under:

	Note	2012	2011
-----Rupees in '000 -----			
Cost of services - others	33	1,667	1,967
Distribution costs	34	50	50
Administrative expenses	35	24,735	17,809
		<u>26,452</u>	<u>19,826</u>



	Note	2012 ----- Rupees in '000 -----	2011 ----- Rupees in '000 -----
7. LONG-TERM INVESTMENTS			
Associate	7.1 & 7.2	66,013	61,744
Other investments	7.3	28,381	24,344
		<u>94,394</u>	<u>86,088</u>

7.1 Movement in investment in Associate - unquoted

As at January 1		61,744	60,253
Share of loss during the year		(637)	(790)
		<u>61,107</u>	<u>59,463</u>
Translation adjustment		4,906	2,281
As at December 31		<u>66,013</u>	<u>61,744</u>

7.2 Associate - unquoted

Summarised financial information of the associate of the Group along with its respective share is as follows:

	Name of associate	Country of incorporation	Total assets	Total liabilities	Revenue	Loss	Interest held by the Group
			----- Rupees in '000 -----				(%)
2012	Minhal Incorporated	British Virgin Islands	177,129	3,365	-	(1,591)	40%
2011	Minhal Incorporated	British Virgin Islands	165,393	3,028	1	(1,609)	40%

	Note	2012 ----- Rupees in '000 -----	2011 ----- Rupees in '000 -----
7.3 Other investments			
Available for sale	7.3.1	<u>28,381</u>	<u>24,344</u>

7.3.1 Available for sale

Quoted

Pakistan Services Limited

172,913 (2011: 172,913) ordinary shares of Rs 10 each having market value per ordinary share of Rs 162 (2011: Rs 138.65) each

28,012 23,975

Unquoted

Pakistan Tourism Development Corporation Limited

10,000 (2011: 10,000) ordinary shares of Rs 10 each

100 100

Duty Free Shops (Private) Limited - Pakistan

87,512 (2011: 87,512) ordinary shares of Rs 100 each

269 269

28,381 24,344



	Note	2012	2011
----- Rupees in '000 -----			
8. RECEIVABLE IN RESPECT OF CENTRE HOTEL			
	8.1	734,496	679,487

- 8.1** This represents PIAL's share of net current assets of Centre Hotel, Abu Dhabi, a joint venture between the Holding company and Sheikh Hamdan Bin Mohammed Al Nahyan. The parties entered in a Partnership Agreement on June 8, 1977 and simultaneously entered in a Joint Venture Agreement on the same day to construct and operate a hotel on a land owned by Sheikh Hamdan, to be known as Centre Hotel. Subsequently, under a Supplemental Agreement dated January 12, 1978, the rights and obligations of Shaikh Hamdan and the Holding company under both the agreements were assigned to Shaikh Khalifa and PIAL respectively, however, the assignment to PIAL was not registered.

The joint venture was for a period of 17½ years, which expired on April 21, 1997. In accordance with the terms of the agreement, net current assets of the joint venture at the end of the term were to be distributed to joint venture partners in the ratio of their investment. However, a dispute arose between the parties over a renovation program initiated by Sheikh Khalifa prior to the expiry of the joint venture term. PIAL disputed the said renovation on the grounds that there was no obligation on the joint venture to renovate or reinstate the Hotel premises prior to its reversion to Shaikh Hamdan.

The parties could not reach an amicable agreement as to the above and on February 23, 1997, Notice of Arbitration was sent to Sheikh Khalifa. Subsequently an application was submitted to the Abu Dhabi Courts for an order to appoint arbitrator. PIAL won the case at various courts in Abu Dhabi and finally in March 2010, Supreme Court of Abu Dhabi advised the Federal Supreme Judicial Council to appoint one of its judges as an Arbitrator in the subject dispute. In August 2010, Judge Ahmed Al Mulla of Al Sharjah Court was appointed as the Judge Arbitrator. The arbitration proceedings concluded during the year, and the Arbitrator, based on the reports submitted by a panel of three experts from the Ministry of Justice, has ordered Sheikh Khalifa to pay PIAL a sum of Rs 617.897 million (AED 23.342 million) along with interest at the rate of 6% from the date of the issuance of judgment.

PIAL, in order to have the Arbitrator's aforesaid award ratified, filed a ratification claim with the Court of First Instance, Abu Dhabi. However, Sheikh Khalifa also filed a claim for nullification of Arbitrator's aforesaid Award. The Court of First Instance, Abu Dhabi adjudicated that it did not have the jurisdiction to decide in the matter, and matter be referred to the competent court at the Abu Dhabi judicial department for a decision. The summon from Abu Dhabi Court of First Instance to the Competent Court for carrying out further proceedings is awaited.

The amount for PIAL's share of net assets as at April 21, 1997 has been calculated on the basis of unaudited management accounts of the joint venture.

	Note	2012	2011
----- Rupees in '000 -----			
9. LONG-TERM LOANS AND ADVANCES			
Secured, considered good			
Employees	9.1	20,701	23,057
Current maturity shown under short-term loans and advances	13	(8,692)	(7,650)
		12,009	15,407
Unsecured, considered doubtful			
Midway House (Private) Limited		82,476	82,476
Provision for doubtful advances		(82,476)	(82,476)
		-	-
		12,009	15,407

- 9.1** This represents loans given by SRL to its employees which are secured against gratuity fund balances of respective employees. The loans carry interest at the rate of 8% to 20% (2011: 8% to 20%) per annum and is receivable within four years from the date of disbursement. The maximum aggregate balance due from employees at the end of any month during the year was Rs 22.539 million (2011: Rs 24.660 million).



	Note	2012	2011
		----- Rupees in '000 -----	
10. LONG-TERM DEPOSITS AND PREPAYMENTS			
Deposits			
Aircraft fleet lease deposits		3,342,482	3,479,587
Maintenance reserve	10.1	1,482,576	4,292,547
Engine maintenance		8,948	81,851
Rent		79,741	81,231
Other lease and utilities		42,216	57,414
Aircraft fuel		12,577	11,730
Guarantee deposit		23,660	21,891
Others		177,900	154,500
		5,170,100	8,180,751
Prepayments			
Finance charges		-	48,724
Rental commission		23,291	13,816
Premium on acquisition of leased land	10.2	50,778	50,778
Less: amortisation to date		(20,312)	(18,619)
		30,466	32,159
Exposure fee to support financing	10.3	1,015,924	1,227,831
		1,069,681	1,322,530
Current portion shown under short-term prepayments	14.1	(219,755)	(224,300)
		6,020,026	9,278,981

10.1 This represents the remaining balance of maintenance reserve which was required to be kept by the Holding company with a lessor under the terms of the lease agreement that has been terminated during the year. The balance will be utilised for future purchases from lessor, as disclosed in note 24.2.

10.2 This represents lease rentals prepaid by SRL to Civil Aviation Authority, Pakistan for acquisition of the right to use plot of land and hotel building which is amortised over a period of 30 years on a straight line basis.

Initial lease agreement was effective from June 3, 1981 for a period of 20 years which expired on June 2, 2001. Lease arrangement for further 30 years has been finalised between SRL and Pakistan CAA in their meeting held on January 7, 2008. However, the subject agreement has not yet been registered due to disagreement between the parties over the completion of certain legal formalities. SRL is currently pursuing the subject matter with relevant government authorities and is confident that following resolution of the dispute, the lease agreement will be registered.

Amortisation charge for the year has been allocated as under:

	Note	2012	2011
		----- Rupees in '000 -----	
Cost of services - others	33	1,608	1,608
Administrative expenses	35	85	85
		1,693	1,693

10.3 This represents consideration paid to Ex-Im Bank for the purpose of 12 years guarantees issued by it in favour of the Holding company, which is being amortised over lease term.



	Note	2012	2011
----- Rupees in '000 -----			
11. STORES AND SPARES			
Stores		793,930	890,835
Spare parts		6,238,426	5,707,043
Inventory held for disposal - adjusted to net realisable value		252,859	252,859
		<u>7,285,215</u>	<u>6,850,737</u>
Provision for slow moving and obsolete spares	11.1	(3,262,882)	(2,959,535)
		<u>4,022,333</u>	<u>3,891,202</u>
Stores and spares-in-transit		74,070	4,630
		<u>4,096,403</u>	<u>3,895,832</u>
11.1			
Movement in provision is as follows:			
Balance at the beginning of the year		2,959,535	2,836,293
Provision for the year	36	303,347	123,242
Balance at the end of the year		<u>3,262,882</u>	<u>2,959,535</u>
12. TRADE DEBTS			
Considered good		10,014,544	8,936,690
Considered doubtful		1,188,191	961,301
Less: provision for doubtful debts	12.1	(1,188,191)	(961,301)
		<u>-</u>	<u>-</u>
		<u>10,014,544</u>	<u>8,936,690</u>

The ageing analysis of these trade debts are as follows:

	2012		2011	
	Trade debts gross	Impaired	Trade debts gross	Impaired
-----Rupees in '000-----				
Within current year	9,659,581	250,192	8,636,405	43,197
1 year old	440,774	155,691	322,065	107,486
2 years old	327,165	199,830	418,864	265,656
Over 3 years old	775,215	561,818	520,657	512,347
General provision	-	20,660	-	32,615
	<u>11,202,735</u>	<u>1,188,191</u>	<u>9,897,991</u>	<u>961,301</u>

	Note	2012	2011
----- Rupees in '000 -----			
12.1			
Movement in provision is as follows:			
Balance at the beginning of the year		961,301	942,814
Written off during the year		(55,666)	(115,421)
Provision for the year - net	36	279,082	132,426
Exchange translation		3,474	1,482
Balance at the end of the year		<u>1,188,191</u>	<u>961,301</u>
12.2			
Certain portion of trade debt of the Holding company is secured by cash and bank guarantees received from agents however due to very large number of agents all over the world the amount of secured trade debts is not determinable.			



	Note	2012	2011
		----- Rupees in '000 -----	
13. SHORT-TERM LOANS AND ADVANCES			
Loans - unsecured			
Current maturity of long-term loans - employees	9	8,692	7,650
Advances - secured			
Due from related parties		-	4,315
		8,692	11,965
Others			
Employees		178,544	178,888
Fuel suppliers		1,397,157	10,364
Other suppliers		464,047	122,401
Others		5,713	5,815
		2,045,461	317,468
Considered doubtful			
Suppliers		55,339	55,339
Provision for doubtful advances	13.1	(55,339)	(55,339)
		-	-
		2,054,153	329,433
13.1 Movement in provision is as follows:			
Balance at the beginning of the year		55,339	31,915
Provision for the year	36	-	23,424
Balance at the end of the year		55,339	55,339
14. TRADE DEPOSITS AND PREPAYMENTS			
Trade deposits		52,152	44,311
Prepayments	14.1	1,152,482	1,260,957
		1,204,634	1,305,268
14.1 Prepayments			
Current portion of long-term prepayments	10	219,755	224,300
Real estate taxes		383,344	350,511
Commission		184,854	317,775
Interest on leased aircraft		125,287	148,188
Insurance		88,976	116,952
Rent		17,428	34,089
Others		132,838	69,142
		1,152,482	1,260,957



	Note	2012	2011
		----- Rupees in '000 -----	
15. OTHER RECEIVABLES			
Considered good			
Claims receivable		92,968	71,751
Excise duty	31.1 (a)	100,000	100,000
Sales tax receivable		3,404,720	1,595,090
Receivables from PCB	15.1	71,297	66,002
Rental income	15.2	96,246	61,520
Receivables from GoP	15.3	332,809	332,809
Others	15.4	202,325	196,301
		4,300,365	2,423,473
Considered doubtful			
Provision for doubtful other receivables		177,077	177,077
		(177,077)	(177,077)
		-	-
		4,300,365	2,423,473

15.1 This represents receivable from Pakistan Cricket Board (PCB) on account of various payments made during the calendar years 1980, 1981, 2008 and 2009 in terms of agreements dated October 7, 1980 and October 11, 2007 signed between PIAL and PCB for commercial development of a land owned by PCB. In order to settle PIAL's aforesaid outstanding amount, PCB and PIAL, during the year 2007, had entered into a Joint Venture Agreement, whereby, it was agreed that PCB would transfer a parcel of land measuring 5.8 acres to a new company with ownership ratio of 62.5% and 37.5% to be held by PIAL and PCB respectively. Accordingly, during the year 2008, a separate company was formed with the name of Avant Hotels (Private) Limited (Avant), which is owned by PIAL and PCB in the aforesaid agreed ratio. Subsequent to December 31, 2012, on February 14, 2013 representatives of PCB and Avant have signed the sub-lease agreement before the registrar for transfer of 5.8 acres plot to Avant.

Based on the foregoing, the management considers that PIAL's share of fair value of assets in Avant shall sufficiently cover the amount presently receivable from PCB.

15.2 RHC's commercial leases provide for scheduled rent increases and free rent periods. The rental income receivable represents pro-rata future receipts. RHC, as lessor under the various net leases at the Hotel, will receive rental income over the next five years, and thereafter as follows:

	2012	2011
	----- Rupees in '000 -----	
Not later than 1 year	330,321	207,567
Later than 1 year but not later than 5 years	1,131,555	646,427
Later than 5 years	814,938	300,820
	2,276,814	1,154,814

15.3 This represents maintenance and other charges incurred in respect of aircraft owned by the GoP.

15.4 These include taxes recoverable, credits on value added tax, supplier rebates and deposit on CVAE in respect of MFSA.



	Note	2012 ----- Rupees in '000 -----	2011
16. SHORT-TERM INVESTMENTS			
At fair value through profit or loss			
Bred Institution 58 (2011: 34) Ordinary shares	16.1	297,327	157,430
Available for sale - unquoted			
SITA Inc., N.V., 325,491 (2011: 325,491) ordinary shares	16.2	19,220	19,220
Loans and receivables			
Certificate of deposits	16.3	201,220	418,099
		<u>517,767</u>	<u>594,749</u>

16.1 This represents 58 (2011: 34) Bred Institution Shares held by MFSA. The cost of these securities was US \$ 3,049,407 (2011: US \$ 1,742,843).

16.2 These shares are held by SITA INC. N.V. , on behalf of the Holding company and are transferable, subject to certain specified conditions.

16.3 These certificates carry a mark-up rate of 0.37% per annum and shall mature on July 1, 2013.

	Note	2012 ----- Rupees in '000 -----	2011
17. CASH AND BANK BALANCES			
In hand		20,814	21,001
In transit		97,146	59,495
		<u>117,960</u>	80,496
With banks:			
- in current accounts	17.2	5,383,184	1,515,369
- in deposit accounts	17.1 & 17.2	802,733	1,644,078
		<u>6,185,917</u>	<u>3,159,447</u>
		<u>6,303,877</u>	<u>3,239,943</u>

17.1 These carry interest ranging from 0.1% to 7% (2011: 0.125% to 5%) per annum.

17.2 These include restricted balances aggregating Rs 706.640 million (2011: Rs 700.703 million) maintained in escrow accounts by RHC against the loans of RHC.



18. SHARE CAPITAL

2012		2011		Note	2012		2011	
----- No. of shares -----		----- No. of shares -----			----- Rupees in '000 -----		----- Rupees in '000 -----	
Authorised capital								
Ordinary share capital								
2,949,250,000	2,949,250,000	'A' class shares of Rs 10 each			29,492,500	29,492,500		
1,500,000	1,500,000	'B' class shares of Rs 5 each			7,500	7,500		
2,950,750,000	2,950,750,000				29,500,000	29,500,000		
Preference share capital								
50,000,000	50,000,000	Preference shares of Rs 10 each			500,000	500,000		
3,000,750,000	3,000,750,000				30,000,000	30,000,000		
Issued, subscribed and paid-up share capital								
Ordinary share capital								
'A' class shares of Rs 10 each								
2,642,351,957	2,642,351,957	Issued for consideration in cash			26,423,519	26,423,519		
931,028	931,028	Issued for consideration other than cash			9,310	9,310		
233,934,482	233,934,482	- for acquisition of shares			2,339,345	2,339,345		
2,877,217,467	2,877,217,467	Issued as bonus shares		18.1	28,772,174	28,772,174		
'B' class shares of Rs 5 each								
1,003,374	1,003,374	Issued for consideration in cash			5,017	5,017		
2,625	2,625	Issued for consideration other than cash			13	13		
494,000	494,000	- for acquisition of shares			2,470	2,470		
1,499,999	1,499,999	Issued as bonus shares			7,500	7,500		
					28,779,674	28,779,674		

18.1 Reconciliation of number of 'A' class Ordinary shares of Rs 10 each:

2012		2011		Note	----- No. of shares -----	
Shares at the beginning of the year	2,877,217,467	2,576,744,828				
Issued during the year for cash	-	300,472,639		18.3		
Shares at the end of the year	2,877,217,467	2,877,217,467				

18.2 At December 31, 2012, the GoP held 2,435,208,439 'A' class ordinary shares and 1,462,515 'B' class ordinary shares respectively (2011: 2,435,208,439 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively).

18.3 This represents shares issued to GoP against reimbursement of mark-up payments on term finance and sukuk certificates. During the year, the Holding company has not issued the shares to GoP due to the reasons as set out in note 20.

19. RESERVES

Capital reserves

2012		2011		Note	----- Rupees in '000 -----	
Reserve for replacement of fixed assets	1,966,779	1,966,779				
Capital redemption reserve fund	250,000	250,000				
Others	284,259	284,259				
	2,501,038	2,501,038				
Revenue reserve	1,779,674	1,779,674				
	4,280,712	4,280,712				
Unrealised gain on remeasurement of investments	26,818	22,781				
Accumulated loss	(146,466,912)	(114,722,720)				
Foreign exchange translation reserve	3,930,083	2,987,298				
Other reserves	11,352	11,249				
	(142,498,659)	(111,701,392)				
	(138,217,947)	(107,420,680)				



19.1 Upto June 1988, depreciation on fully depreciated aircraft was charged and credited to the reserve for replacement of fixed assets and excess of sale proceeds over cost of fixed assets disposed off was also credited to the aforesaid account. With effect from 1989 - 90, the Holding company changed this policy to comply with the IFRSs and the depreciation and excess proceeds over cost of relevant assets are recorded in the consolidated profit and loss account.

20. **ADVANCE AGAINST EQUITY FROM GOVERNMENT OF PAKISTAN**

2012 2011
-----Rupees in '000-----

	1,928,167	-
--	------------------	---

This represents advance received from the Government of Pakistan (GoP) for mark-up payments on term finance and sukuk certificates. The Holding company has not issued shares to GoP as the authorised share capital of the Holding company was insufficient to cover the amount of ordinary shares to be issued in lieu of advance against equity. The Holding company is currently in the process of increasing its authorised share capital.

21. **SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET OF TAX**

2012 2011
-----Rupees in '000-----

As at January 1	36,802,201	33,904,096
Surplus arising on property, plant and equipment during the year	4,742,304	2,254,667
	41,544,505	36,158,763
Less: transferred to accumulated loss:		
- Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	(657,996)	(407,733)
- Related deferred tax liability	(377,718)	(201,721)
	(1,035,714)	(609,454)
Translation and other adjustments	2,081,308	1,085,622
	42,590,099	36,634,931
Less: related deferred tax liability on:		
- Revaluation as at January 1	13,947,612	12,844,671
- Surplus arising on property, plant and equipment during the year	1,784,997	759,597
- Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	(377,718)	(201,721)
- Translation and other adjustments	1,021,922	545,065
	16,376,813	13,947,612
	26,213,286	22,687,319
Acquisition of non controlling interest	-	167,270
As at December 31	26,213,286	22,854,589



22. LONG-TERM FINANCING

Financier	Note	Type of facility	Facility amount (million)	Repayment period	Number of installments / mode	Mark-up	2012	2011
							----- Rupees in '000 -----	
Secured								
Holding Company								
Citibank, N.A.	22.1	Demand Finance	82 USD	2006 - 2017	20 Half-yearly	5.28% fixed	3,309,941	3,795,958
Citibank, N.A.	22.2	Islamic Finance	75 USD & 91.825 AED	2011 - 2014	30 Monthly	3 month LIBOR + 4.25% & 3 month EIBOR + 3.75%	7,779,413	8,994,570
Faysal Bank Limited	22.3	Term Finance	2,000 PKR	2013 - 2016	36 Monthly	6 month KIBOR + 1.75%	2,000,000	2,000,000
National Bank of Pakistan - Bahrain	22.4	Syndicate Finance	120 USD	2013	Bullet	Note 22.4	11,667,600	10,793,484
National Bank of Pakistan - Bahrain	22.5 & 22.17	Term Finance	70 USD	2010 - 2012	24 Monthly	1 month LIBOR +5.50%	-	2,098,733
National Bank of Pakistan - Bahrain	22.5 & 22.17	Demand Finance	30 USD	2010 - 2012	24 Monthly	1 month LIBOR +5.50%	-	1,124,321
National Bank of Pakistan - Bahrain	22.6 & 22.17	Demand Finance	40 USD & 75 SAR	2011 - 2013	24 Monthly	1 month LIBOR + 5.25% & 1 month SIBOR + 5.25%	259,273	3,282,992
Royal Bank of Scotland - Netherlands	22.7	Demand Finance	59.5 USD	2009 - 2013	19 Quarterly	3 month LIBOR +1.60%	1,120,405	2,131,844
KASB Bank Limited	22.8 & 22.17	Demand Finance	500 PKR	2012 - 2013	36 Fortnightly	3 month KIBOR +2.5%	186,851	-
PIAIL								
JP Morgan Chase	22.9 to 22.10	Loan	75 USD	2011-2014	Variable	1 month LIBOR + 5.85%	7,197,107	6,609,924
JP Morgan Chase	22.9 to 22.10	Mezzanine Finance	56.5 USD	2011-2014	Variable	1 month LIBOR + 5.85%	5,421,821	4,979,476
Hong Kong Banking Shanghai Corporation	22.11 to 22.14	Loan	28.867 Euro	2004-2017	Variable	3 months EURIBOR + 1.15%	1,952,783	2,122,371
Abacus								
Abacus International (Pte) Ltd (AIPL)	22.15	Loan	0.75 USD	2006 - 2013	Monthly	-	8,589	17,423
Unsecured- Holding Company								
Long-term loan - GoP	22.16	Term Finance	8,000 PKR	2011 - 2020	16 Half-yearly	10% fixed	8,000,000	8,000,000
Current maturity shown under current liabilities							48,903,783	55,951,096
							(20,783,496)	(11,317,288)
							28,120,287	44,633,808



22.1 The finance is secured by way of:

- Mortgage over each of the seven ATR aircraft purchased; and
- European Credit Agencies / GoP Guarantee.

22.2 The finance is secured against all the present and future receivables of the Holding company generated through sale of tickets in United Arab Emirates and United States of America.

22.3 The finance is secured by way of GoP guarantee. The first instalment of principal is due in June 2013. Interest amounting to Rs 138.832 million due on November 15, 2012 was paid by the Holding company subsequent to the year end on February 21, 2013.

22.4 The following are the participating banks:

- National Bank of Pakistan (NBP) - Bahrain; and
- Habib Bank Limited (HBL).

This finance is secured by way of GoP Guarantee. Initially it was carrying mark-up at the rate of 3 months LIBOR + 1.325 %. On January 15, 2010, the finance was renegotiated for additional three years at following mark-up rates:

- NBP - 3 months LIBOR + 3.60%; and
- HBL - 3 months LIBOR + 3.25%

The payment of full amount was due subsequent to year end on January 16, 2013, which has not been made. The Holding company is in the process of renewing this loan.

22.5 The finance is secured against all the present and future receivables generated from the sale of tickets in United Kingdom.

22.6 The finance is secured against all the present and future receivables generated from the sale of tickets in United Kingdom and Kingdom of Saudi Arabia.

22.7 The Holding company has entered into an arrangement with the bank to finance 15% of the purchase price of two B 777-300 aircraft acquired from Boeing Company. The finance is secured by GoP Guarantee.

22.8 The finance is secured by way of 1st Pari Passu charge over the Holding company's receivables amounting to Rs 666.660 million.

22.9 On November 9, 2011, RHC entered into a loan agreement and two mezzanine loan agreements amounting to US\$ 75,000,000 and US\$ 56,500,000 respectively, aggregating to US\$ 131,500,000. The proceeds of these loans were primarily used to settle the then outstanding loans. All loans shall mature on November 9, 2014. These loans are secured by, amongst other things, RHC's property and equipment and require payments of interest at the annual rate of 1 month LIBOR plus a spread as defined in the agreement (5.85% for 2012 and 5.85% for 2011).

22.10 On the same date, i.e. November 9, 2011, RHC entered into an interest rate cap agreement on its loan with the intent to manage interest rate exposure. This interest rate cap agreement, with an aggregate notional amount of US\$ 131,500,000, expires on November 15, 2014, which caps the variable rate debt at a rate of 4.40% per annum. The cost of the interest rate cap was US\$ 186,120.

22.11 This includes original loan amounts of Euro 12,000,000 and Euro 16,267,353. The loan amount of Euro 12,000,000 was obtained on March 8, 2004 for renovation works whereas loan amount of Euro 16,267,353 was refinanced on March 20, 2008 with an additional loan of Euro 600,000 obtained at that date. The refinanced loan was initially obtained to partially finance the acquisition of Scribe Gestion and Canadian National France. The above loans shall mature on May 13, 2017 and carry interest at a variable rate indexed on three month EURIBOR plus 1.15%.



- 22.12** The loans stated in note 22.11 above are secured by mortgage on the building located at 1 rue Scribe amounting to Euro 16,867,353 plus 10% for associated costs and Euro 12,000,000 plus 10% for associated costs. There is a first ranking pledge of MFSA's goodwill 'Fonds de Commerce' for a total amount of Euro 12,000,000 plus 10% related to associated costs and a third ranking pledge of MFSA's goodwill 'Fonds de Commerce' for a total amount of Euro 16,867,353 plus 10% related to associated costs. The Banks also hold a pledge on MFSA's cash account. Further, pooled-receivables bank-factoring guarantees for rental of all or part of the building and general insurance policies (in relation to loss of earnings and damage to properties) have also been granted.
- 22.13** During the year 2007, MFSA had entered into an interest rate cap agreement for the loan amount of Euro 12,000,000 with the intent of managing its exposure to interest rate risk. This interest rate cap agreement, with the same notional amount covered by the loan shall expire on May 13, 2017 and effectively caps the variable rate debt at a maximum rate of 5% per annum. The cost of interest rate cap was Euro 160,072. MFSA entered into this contract with a large financial institution and considers the risk of non-performance to be remote.
- 22.14** Further during the year 2008, MFSA had entered into another interest rate cap agreement for the loan amount of Euro 16,267,353 with the intent of managing its exposure to interest rate risk. This interest rate cap agreement, with the same notional amount covered by the loan shall expire on May 13, 2017 and effectively caps the variable rate debt at a maximum rate of 5% per annum. The cost of interest rate cap was Euro 151,806. MFSA entered into this contract with a large financial institution and considers the risk of non-performance to be remote.
- 22.15** This represents balance amount of interest free loan amounting to US\$ 750,000 given by AIPL. The loan is repayable in monthly installments commenced from October 2006. Abacus shall not be entitled to declare any dividend, until the loan is fully repaid.
- 22.16** The Holding company has not paid any instalment since the due date of first instalment, i.e., October 23, 2011. The overdue principal and mark-up as at December 31, 2012 is Rs. 1,062.5 million and Rs. 2,452.055 million respectively. The overdue principal amount is included in current maturity.
- 22.17** During the year, the Holding company has not paid some installments of principal and/or mark-up of these financings on the due dates, however the default was rectified before the year end.

23. TERM FINANCE AND SUKUK CERTIFICATES

	Note	Security	Repayment period	Number of installments	Mark-up	2012	2011
						-----Rupees in '000-----	
Term finance certificates	23.1	GoP Guarantee	2009- 2014	10 half yearly	6 month KIBOR +0.85%	12,789,760	12,789,760
Sukuk certificates	23.2	GoP Guarantee	2012 - 2014	6 half yearly	6 month KIBOR +1.75%	6,800,000	6,800,000
						19,589,760	19,589,760
Less: current maturity	23.3					(15,195,733)	(8,664,107)
						4,394,027	10,925,653



- 23.1** The Holding company has not made payments of principal redemptions aggregating Rs 6,397.440 million due on various dates until December 31, 2012 as per repayment schedule. Management applied for restructuring of TFCs prior to the due date of first redemption and the Trustee on behalf of the TFC investors has not notified any event of default to the Holding company. During the year, the Economic Coordination Committee (ECC) has decided / approved the restructuring of term finance certificates from various banks alongwith restructuring of certain short-term borrowings (refer note 30.1.2) into a new term finance certificates for a period of 6 years with 2 years grace period on the terms and conditions to be approved by Ministry of Finance. Presently, finalisation of the restructuring process with a consortium of TFC investors is at an advanced stage. The overdue principal amount as at December 31, 2012 is included in current maturity.
- 23.2** The Holding company has not made payments of principal redemption amount of Rs 2,266.667 million which became due on various dates until December 31, 2012. The Sukuk investors were requested to re-profile the principal repayment schedule alongwith other terms of Sukuk Certificates with the assistance of the Ministry of Finance. The approval of revised proposal is currently awaited from the Ministry of Defence. The overdue principal amount is included in current maturity.
- 23.3** This includes current maturity of the TFC and Sukuk certificates related to the principal redemption including overdue installments as disclosed in note 23.1 and 23.2.

	Note	2012	2011
----- Rupees in '000 -----			
24. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Present value of minimum lease payments - aircraft fleet			
A-310-300	24.2	-	4,148,457
B-777 -200 ER	24.3	9,327,546	11,299,637
B-777 -200 LR	24.4	12,153,040	13,338,943
B-777 -300 ER	24.5	26,097,922	27,606,252
		47,578,508	56,393,289
Present value of minimum lease payments on equipment		2,244	28,281
		47,580,752	56,421,570
Less: current maturity		(9,275,195)	(9,070,002)
		38,305,557	47,351,568

- 24.1** The amount of future payments and the year in which they will become due are:

	2012			2011		
	Minimum lease payments	Finance cost	Present value of minimum lease payments	Minimum lease payments	Finance cost	Present value of minimum lease payments
-----Rupees in '000-----						
Not later than one year	10,741,937	1,466,742	9,275,195	11,071,397	2,001,395	9,070,002
Later than one year and not later than five years	35,787,131	2,726,527	33,060,604	39,909,206	3,894,802	36,014,404
Later than five years	5,320,497	75,544	5,244,953	11,652,354	315,190	11,337,164
	51,849,565	4,268,813	47,580,752	62,632,957	6,211,387	56,421,570

- 24.2** During the year, the Holding company entered into an agreement with the lessor for early purchase of six A310-300 leased aircraft at a price of US\$ 5.028 million per aircraft (aggregating to US\$ 30.168 million), which has been adjusted against the maintenance reserve (refer note 10.1). The remaining balance of the maintenance reserve will be available to the Holding company as a credit for future purchases from the lessor and will bear annual interest at LIBID rate. In accordance with the agreement, the transaction for relevant aircraft was executed on the delivery date, i.e. the date at which the title of relevant aircraft was transferred to the Holding company and a bill of sale was executed by the lessor. The delivery dates were between July 24 to 27, 2012. Further, the Holding company has also signed lease amendment and termination agreement by virtue of which the original lease agreement of A310-300 aircraft has been terminated upon delivery of aircraft and the lease liability has been extinguished. The transaction has resulted in net gain of Rs 1,307.524 million, which has been recorded as other income (refer note 37).



- 24.3** In 2004, the Holding company arranged an Ex-Im Bank guaranteed financing of US\$ 345 million to acquire three Boeing 777-200 ER aircraft, one spare engine and one propulsor, from Taxila Limited, a special purpose entity incorporated in Cayman Islands. The guaranteed lender is Citibank N.A. The salient features of the lease are as follows:

	Note	2012	2011
Discount rate - two aircraft		4.65%	4.65%
Discount rate - one aircraft and propulsor		Three month LIBOR	Three month LIBOR
Lease period - aircraft		144 months	144 months
Lease period - spare engine and propulsor		96 months	96 months
Security deposits (Rupees in '000)	24.3.1	818,292	853,081
Contingent rent (Rupees in '000)		(23,924)	(36,314)

- 24.3.1** The lease term of spare engine and propulsor expired in January 2012 and April 2012 respectively, hence the related security deposit was received during the year and the assets were transferred from leased assets to owned assets (notes 5.1 and 5.2).

- 24.4** During the year 2006, the Holding company arranged an Ex-Im Bank guaranteed financing of US\$ 266 million to acquire two Boeing B 777-200 LR aircraft and one propulsor from Taxila - 2 Limited, a special purpose entity incorporated in Cayman Islands. The guaranteed lender is Citibank N.A. The salient features of the lease are as follows:

	2012	2011
Discount rate - aircraft and propulsor	Three month LIBOR - 0.02%	Three month LIBOR - 0.02%
Lease period - aircrafts	144 months	144 months
Lease period - propulsor	96 months	96 months
Security deposits (Rupees in '000)	744,375	688,608
Contingent rent (Rupees in '000)	(638,335)	(702,059)

- 24.5** During the year 2006, the Holding company arranged an Ex-Im Bank guaranteed financing of US\$ 472 million to acquire three Boeing B 777-300 ER aircraft and one engine from White Crescent Limited, a special purpose entity incorporated in Amsterdam, Netherlands. The guaranteed lender is Royal Bank of Scotland. The salient features of the lease are as under:

	2012	2011
Discount rate - one aircraft	5.25%	5.25%
Discount rate - two aircraft	Three month LIBOR - 0.04%	Three month LIBOR - 0.04%
Discount rate - spare engine	1.12%	1.12%
Lease period - aircraft	144 months	144 months
Lease period - spare engine	96 months	96 months
Security deposits (Rupees in '000)	1,496,000	1,383,923
Contingent rent (Rupees in '000)	(138,775)	(182,159)

- 24.6** The Holding company has an option to acquire the ownership of the aircraft and engines mentioned in notes 24.3 to 24.5, at the end of lease term.



	Note	2012	2011
----- Rupees in '000 -----			
25. LONG-TERM DEPOSITS			
Deposits from agents		185,740	182,250
Retention money		348,772	262,415
Others		255	152
		<u>534,767</u>	<u>444,817</u>
26. DEFERRED TAXATION			
Roosevelt Hotel Corporation N.V.	26.1	10,959,008	9,221,921
Minhal France S.A.	26.2	7,358,189	5,965,219
Skyrooms (Private) Limited	26.3	(2,584)	2,290
Abacus Distribution Systems Pakistan (Private) Limited - accelerated depreciation		93	141
The Holding company	26.4	-	-
		<u>18,314,706</u>	<u>15,189,571</u>
The components of the net deferred tax liability are as follows:			
26.1 Roosevelt Hotel Corporation N.V.			
Deferred tax credit:			
Revaluation of hotel property		11,185,908	9,575,688
Deferred tax debits:			
Excess of tax over book depreciation		(100,111)	(232,817)
Allowance for doubtful debts		(9,121)	(14,337)
Accrued vacation		(117,668)	(106,613)
		<u>(226,900)</u>	<u>(353,767)</u>
Net deferred tax liability		<u>10,959,008</u>	<u>9,221,921</u>
26.2 Minhal France S.A.			
Deferred tax credits:			
Excess of book value over tax depreciation		2,561,486	2,440,337
Revaluation of hotel property		4,791,455	3,514,624
Provision for major repairs		21,588	19,585
		<u>7,374,529</u>	<u>5,974,546</u>
Deferred tax debit:			
Employees pension plan		(16,340)	(9,327)
Net deferred tax liability		<u>7,358,189</u>	<u>5,965,219</u>
26.3 Skyrooms (Private) Limited			
Deferred tax credits:			
Accelerated tax depreciation		12,142	10,844
Lease land acquisition premium		7,109	11,256
		<u>19,251</u>	<u>22,100</u>
Deferred tax debits:			
Provision against trade debts		(848)	(732)
Provision for gratuity		(20,987)	(19,078)
		<u>(21,835)</u>	<u>(19,810)</u>
		<u>(2,584)</u>	<u>2,290</u>



26.4 Holding company	2012	2011
	----- Rupees in '000 -----	
Deferred tax credits:		
Accelerated tax depreciation	22,913,491	23,239,832
Surplus on revaluation of property, plant and equipment	998,663	1,329,032
	23,912,154	24,568,864
Deferred tax debits:		
Unused tax losses	(17,678,665)	(19,491,009)
Provisions for liabilities and to write down other assets	(6,233,489)	(5,077,855)
	(23,912,154)	(24,568,864)
	-	-

26.4.1 In accordance with the accounting policy of the Holding company (note 4.10), deferred tax asset of Rs. 43,683.467 million (2011: Rs. 35,553 million) has not been recognised in these consolidated financial statements due to uncertainty in availability of sufficient future taxable profits.

26.5 Movement in temporary differences during the year

	Balance as at January 1, 2011	Recognised in profit and loss	Translation and other adjustment	Recognised in equity	Balance as at December 31, 2011	Recognised in profit and loss	Translation and other adjustments	Recognised in equity	Balance as at December 31, 2012
----- Rupees in '000 -----									
Deferred tax credits:									
Accelerated tax depreciation	25,556,600	(152,589)	54,326	-	25,458,337	(283,692)	212,455	-	25,387,100
Surplus on revaluation of operating fixed assets	13,294,164	(214,844)	565,532	774,492	14,419,344	(391,116)	1,049,589	1,898,208	16,976,025
Amortisation of leasehold land acquisition premium	11,847	(591)	-	-	11,256	(4,146)	-	-	7,110
Provision for major repairs	19,293	-	292	-	19,585	-	2,003	-	21,588
	38,881,904	(368,024)	620,150	774,492	39,908,522	(678,954)	1,264,047	1,898,208	42,391,823
Deferred tax debits:									
Unused tax losses	(19,270,487)	(220,522)	-	-	(19,491,009)	1,812,344	-	-	(17,678,665)
Provisions for liabilities and to write down other assets	(4,230,392)	(991,864)	(5,686)	-	(5,227,942)	(1,159,519)	(10,991)	-	(6,398,452)
	(23,500,879)	(1,212,386)	(5,686)	-	(24,718,951)	652,825	(10,991)	-	(24,077,117)
	15,381,025	(1,580,410)	614,464	774,492	15,189,571	(26,129)	1,253,056	1,898,208	18,314,706

27. DEFERRED LIABILITIES	2012	2011	
	-----Rupees in '000-----		
Post retirement medical benefits	27.1	5,777,883	4,648,297
Pension obligation	27.2	7,368,315	4,525,892
Unfunded staff retirement gratuity - SRL	27.3	59,961	54,508
		13,206,159	9,228,697
27.1 Post retirement medical benefits - Holding company			
Liability recognised in the consolidated balance sheet			
Present value of defined benefit obligation		5,777,883	4,648,297
Movement in liability during the year			
Balance at the beginning of the year		4,648,297	3,690,387
Expense recognised		1,643,671	1,321,617
Payments made during the year		(514,085)	(363,707)
Balance at the end of the year		5,777,883	4,648,297
Expense recognised in the consolidated profit and loss account			
Current service cost		88,076	65,858
Interest cost		548,907	473,652
Net actuarial loss recognised		1,006,688	782,107
		1,643,671	1,321,617



27.2 Pension obligation - Holding company

The details of three different categories of plans are as follows:

	PALPA		FENA		MAIN PENSION		TOTAL	
	2012	2011	2012	2011	2012	2011	2012	2011
----- Rupees in '000 -----								
Liability / (Asset) recognised								
Present value of defined benefit obligation	2,162,483	1,986,809	629,686	569,000	17,789,529	14,923,556	20,581,698	17,479,365
Fair value of plan assets	(1,904,687)	(1,861,421)	(1,064,367)	(1,018,064)	(10,244,329)	(10,073,988)	(13,213,383)	(12,953,473)
	257,796	125,388	(434,681)	(449,064)	7,545,200	4,849,568	7,368,315	4,525,892
Movement in the defined benefit obligation								
Obligation as at January 1	1,986,809	1,558,479	569,000	518,432	14,923,556	13,123,472	17,479,365	15,200,383
Service cost	40,991	37,975	4,907	6,819	394,034	355,640	439,932	400,434
Interest cost	238,076	202,635	67,105	67,461	1,787,272	1,707,955	2,092,453	1,978,051
Benefits paid	(164,402)	(114,958)	(64,315)	(37,445)	(1,250,768)	(943,904)	(1,479,485)	(1,096,307)
Actuarial loss	61,009	302,678	52,989	13,733	1,935,435	680,393	2,049,433	996,804
Obligation as at December 31	2,162,483	1,986,809	629,686	569,000	17,789,529	14,923,556	20,581,698	17,479,365
Movement in fair value of plan assets								
Fair value as at January 1	1,861,421	1,745,383	1,018,064	877,207	10,073,988	9,908,273	12,953,473	12,530,863
Expected return on plan assets	223,290	228,825	123,488	116,165	1,186,062	1,279,289	1,532,840	1,624,279
Employer contributions	14,199	14,199	3,995	3,995	79,786	79,786	97,980	97,980
Benefits paid	(164,402)	(114,958)	(64,315)	(37,445)	(1,250,768)	(943,904)	(1,479,485)	(1,096,307)
Actuarial (loss) / gain	(29,821)	(12,028)	(16,865)	58,142	155,261	(249,456)	108,575	(203,342)
Fair value as at December 31	1,904,687	1,861,421	1,064,367	1,018,064	10,244,329	10,073,988	13,213,383	12,953,473
Movement in liability / (asset) during the year								
Opening liability / (asset)	125,388	(186,904)	(449,064)	(358,775)	4,849,568	3,215,199	4,525,892	2,669,520
Expense recognised	146,607	326,491	18,378	(86,294)	2,775,418	1,714,155	2,940,403	1,954,352
Employer contributions	(14,199)	(14,199)	(3,995)	(3,995)	(79,786)	(79,786)	(97,980)	(97,980)
Closing liability / (asset)	257,796	125,388	(434,681)	(449,064)	7,545,200	4,849,568	7,368,315	4,525,892
Expense recognised in profit and loss account								
Current service cost	40,991	37,975	4,907	6,819	394,034	355,640	439,932	400,434
Interest cost	238,076	202,635	67,105	67,461	1,787,272	1,707,955	2,092,453	1,978,051
Expected return on plan assets	(223,290)	(228,825)	(123,488)	(116,165)	(1,186,062)	(1,279,289)	(1,532,840)	(1,624,279)
Actuarial loss / (gain) recognised - net	90,830	314,706	69,854	(44,409)	1,780,174	929,849	1,940,858	1,200,146
	146,607	326,491	18,378	(86,294)	2,775,418	1,714,155	2,940,403	1,954,352
The plan assets comprise of:								
Equity instruments	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%
Debt instruments	38.81%	12.85%	37.58%	55.45%	39.83%	8.25%	39.50%	12.62%
Others including cash and cash equivalents	61.19%	87.15%	62.42%	44.55%	60.17%	91.74%	60.50%	87.37%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Actual return on plan assets	193,469	216,797	106,623	174,307	1,341,323	1,029,833	1,641,415	1,420,937



Historical Information

	2012	2011	2010	2009	2008
	-----Rupees in '000-----				
Pension Funds					
Present value of defined benefit obligation	20,581,698	17,479,365	15,200,383	13,743,585	11,294,000
Fair value of plan assets	(13,213,383)	(12,953,473)	(12,530,863)	(12,068,540)	(11,288,000)
Deficit / (surplus)	7,368,315	4,525,892	2,669,520	1,675,045	6,000
Experience adjustments arising on plan liabilities	10.0%	5.70%	3.3%	16%	-
Experience adjustments arising on plan assets	(0.8)%	1.60%	(0.2)%	(4)%	6%
Medical Scheme					
Present value of defined benefit obligation	5,777,883	4,648,297	3,690,387	2,437,282	1,425,000
Experience adjustments arising on plan liabilities	17.4%	16.8%	28.4%	39.2%	(5.4)%

Actuarial valuations of pension funds, post retirement medical benefit scheme and compensated absences (Note 28) were carried out at December 31, 2012. The valuations have been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2012	2011
Valuation discount rate	11.50%	12.50%
Salary increase rate	10.50%	10.50%
Pension indexation rate	3.00%	3.00%
Medical inflation rate	10.00%	11.00%
Expected rate of return on plan assets	11.50%	12.50%

Expected rate of return on plan assets is based on the return earned on the market expectations and depends upon the asset portfolio of the Funds.

	2012	2011
	-----Number-----	
27.2.1 Number of employees covered by the various scheme are as follows:		
Pension scheme	13,799	14,724
Post retirement medical benefit scheme	16,226	16,954
27.2.2 The fair value of plan assets of pension fund includes investment in the Holding company's shares, amounting to Rs 2.287 million (2011: Rs 1.117 million).		
27.2.3 The expected pension and medical expense for the next one year from January 1, 2013 amounts to Rs 1,291.222 million and Rs. 737.489 million respectively. The expected amount of Pension fund is the amount which the Holding company has to contribute for the next one year.		
27.2.4 The total expense relating to Holding company's post retirement medical benefit and pension obligation has been allocated to cost of services, distribution expenses and administrative expenses in the amount of Rs 2,790.681 million (2011: Rs 1,684.458 million), Rs 587.383 million (2011: Rs 797.987 million) and Rs 1,206.01 million (2011: Rs 793.524 million) respectively.		
27.3 The scheme provides for post employee benefits for all permanent employees who complete qualifying period of five years of service with the company and are entitled to one months' last drawn basic salary for each completed year of service. Since the amount is not considered material to these consolidated financial statements, therefore detailed disclosures have not been presented. The expense recognised in consolidated profit and loss account amounts to Rs 11.770 million (2011: Rs 11.776 million)		



28. TRADE AND OTHER PAYABLES	Note	2012	2011
		----- Rupees in '000 -----	
Trade creditors			
Goods		1,738,390	6,190,476
Services		5,118,125	4,102,748
Airport related charges		7,944,902	4,978,793
Others		332,177	347,134
		15,133,594	15,619,151
Other liabilities			
Accrued liabilities		7,643,541	6,555,344
Advance against transportation (unearned revenue)		6,665,289	6,865,903
Obligation for compensated absences - Holding company	28.1	4,010,535	3,506,407
Unredeemed frequent flyer liabilities	28.2	1,683,665	1,610,507
Advance from customers		713,650	683,848
Amount due to associated undertaking	28.3	384,677	164,955
Advances and deposits		45,547	169,442
Earnest money		2,094	2,144
Payable to Holding company's employees' provident fund	28.4	5,412,964	3,378,726
Unclaimed dividend - preference shares		8,493	8,494
Collection on behalf of others		8,565,331	4,187,483
Customs and central excise duty		177,937	152,846
Capital value tax		4,307,929	2,832,283
Income tax deducted at source		156,516	244,433
Sales tax payable		7,394	5,076
Bed tax		3,740	2,432
Payable to EOBI/SESSI		468	447
Short-term deposits		326,961	321,887
Others		62,981	24,923
		55,313,306	46,336,731
28.1 Obligation for compensated absences - Holding company			
Liability recognised in the balance sheet			
Balance at the beginning of the year		3,506,407	2,493,033
Expense recognised during the year		515,075	1,032,109
Benefits paid during the year		(10,947)	(18,735)
		4,010,535	3,506,407
28.1.1	Number of employees covered by the compensated absences are 16,226 (2011: 16,954). The assumptions used to determine the obligation for compensated absences are disclosed in note 27.2		
28.1.2	The total expense relating to compensated absences has been allocated to cost of services, distribution expenses and administrative expenses in the amount of Rs 334.470 million (2011: Rs 679.005 million), Rs 81.417 million (2011: Rs 161.067 million) and Rs 99.188 million (2011: Rs 192.036 million) respectively.		
28.2	The liability for frequent flyer programme is based on the valuation carried out by an independent professional valuer. Significant assumptions include:		
	<ul style="list-style-type: none"> - ticket inflation and discount rate at the rate of 11.5% (2011: 12.5%); - expiry of unavailed points after three years; and - accumulated points above 11,000 can be used for purchase of tickets. Points lower than 11,000 are valued on aggregate cost of redeemed points. 		
28.3	This represents amount payable to Minhal Incorporated by PIAL.		
28.4	The amount is payable to Pakistan International Airlines Corporation Provident Fund and carries mark-up based on the discount rate announced by the State Bank of Pakistan.		
29. ACCRUED INTEREST	Note	2012	2011
		-----Rupees in '000-----	
Mark-up / profit payable on:			
- Long-term financing		3,062,508	2,303,419
- Term finance certificates		1,349,835	667,689
- Sukuk certificates		625,317	186,728
- Short-term borrowings		314,953	614,517
- Provident fund		1,431,743	954,672
		6,784,356	4,727,025
30. SHORT-TERM BORROWINGS			
Short-term loans - secured	30.1	56,557,824	21,390,191
Running finance under mark-up arrangements	30.2	4,796,706	4,410,836
		61,354,530	25,801,027



30.1 Short-term loans - secured

Financier	Note	Security	Facility amount (million)	Expiry date	2012 -----Rupees in '000-----	2011
From Banking Companies						
Askari Bank Limited	30.1.2	GoP Guarantee	1,500 PKR	31-Dec-12	1,500,000	1,500,000
KASB Bank Limited	30.1.2	GoP Guarantee	500 PKR	30-Sep-13	500,000	500,000
Habib Bank Limited	30.1.2	GoP Guarantee	2,000 PKR	8-Sep-13	2,000,000	2,000,000
Habib Bank Limited	30.1.2	GoP Guarantee	1,000 PKR	16-Aug-13	1,000,000	1,000,000
Habib Bank Limited	30.1.2	GoP Guarantee	1,600 PKR	12-Dec-13	1,600,000	1,600,000
Habib Bank Limited	30.1.2	GoP Guarantee	2,000 PKR	30-Dec-13	2,000,000	2,000,000
Habib Allied International Bank Limited - London		EURO receivables	4 USD 5 USD	02-Apr-13 31-Dec-12	875,070	809,511
National Bank of Pakistan	30.1.2	Hypothecation of entire receivables, book debts, stocks and spares amounting to PKR 2,667 million and lien / specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi	2,000 PKR	13-Mar-13	1,372,746	1,880,680
National Bank of Pakistan	30.1.2	GoP Guarantee; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	5,000 PKR	15-Jun-13 30-Sep-13 28-Oct-13	5,000,000	5,000,000
National Bank of Pakistan	30.1.2	GoP Guarantee	1,500 PKR	19-Aug-13	1,500,000	1,500,000
National Bank of Pakistan	30.1.2	GoP Guarantee; ranking charge over current and fixed assets amounting to PKR 4,800 million inclusive of 25% margin; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi	3,600 PKR	30-Dec-13	3,600,000	3,600,000
KASB Bank Limited		GoP Guarantee	1,000 PKR	30-Sep-13	1,000,000	-
National Bank of Pakistan - Bahrain		Lien over Saudi Arabia and UK collection and receivables.	25 USD	30-Jan-13	405,125	-
National Bank Of Pakistan	30.1.3	GoP Guarantee; ranking hypothecation charge over current and fixed assets amounting to PKR 5,813 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	4,360 PKR	24-May-13	4,360,000	-
National Bank Of Pakistan		GoP Guarantee; ranking hypothecation charge over current and fixed assets amounting to PKR 2,667 million inclusive of 25% margin; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	2,000 PKR	28-Jun-13	2,000,000	-
National Bank Of Pakistan		GoP Guarantee; ranking hypothecation charge over current and fixed assets amounting to PKR 2,667 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	2,000 PKR	15-Mar-13	2,000,000	-
National Bank Of Pakistan		GoP Guarantee; ranking hypothecation charge over current and fixed assets amounting to PKR 4,000 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	3,000 PKR	28-Jun-13	3,000,000	-
Standard Chartered Bank		First prior security over collection and facility service reserve account; assignments of ticket sales collection for UK sector through IATA; Charge over assets to the extent of facility amount with 25% margin.	35 USD	13-Aug-13	3,024,933	-
National Bank Of Pakistan		GoP Guarantee; ranking charge over movable current and fixed assets amounting to PKR 6,667 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	5,000 PKR	20-Dec-13	5,000,000	-
National Bank Of Pakistan		GoP Guarantee; ranking charge over movable current and fixed assets amounting to PKR 6,667 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	5,000 PKR	13-Nov-13	5,000,000	-
National Bank Of Pakistan		GoP Guarantee; ranking charge over movable current and fixed assets amounting to PKR 4,667 million inclusive of 25% margin; lien and specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	3,500 PKR	3-Oct-13	3,500,000	-
National Bank of Pakistan - Bahrain		Lien over collection proceeds from Kingdom of Saudi Arabia, Sultanate of Oman and Bangladesh.	65 USD	27-Jun-13	6,319,950	-
					56,557,824	21,390,191



- 30.1.1** The borrowings in PKR carry mark-up with a spread of 0.85% to 2% over 1 month and 3 months KIBOR (2011: spread of 0.85% to 2% over 1 month and 3 months KIBOR). The borrowings in foreign currency carry mark-up of 2.25% to 5.75% over 1 month LIBOR and 3 months LIBOR (2011: a spread of 2.25% over 3 months LIBOR).
- 30.1.2** During the year, the Economic Coordination Committee (ECC) has approved the conversion of short-term loans amounting to Rs. 20,700 million into term finance certificate for a period of 6 years with 2 years grace period on the terms and conditions to be approved by the Ministry of Finance. At present the finalisation of the restructuring process is at advanced stage (refer note 23.1).
- 30.1.3** The Holding company has not paid the balances of the short-term loans that became due during the year. As at December 31, 2012, the overdue balances of principal amounts of these short-term loans aggregate to Rs 202.530 million (USD 2.083 million).

30.2 Running finance under mark-up arrangements

Banks	Security	Facility amount (million)	Unavailed credit (million)	Expiry date	2012	2011
-----Rupees in '000-----						
Secured						
The Bank of Punjab	Ranking charge on present and future stocks and book debts of Mirpur Azad Jammu Kashmir (AJK) for PKR 1,000 million including 25% margin; irrevocable undertaking to route all collection in Mirpur, AJK from BOP counter.	550 PKR	6 PKR	1-Jan-14	543,666	546,220
Habib Bank Limited	Hypothecation charge on all present and future spare parts, accessories of aircraft assets and on domestic receivables	350 PKR	-	9-Feb-13	460,991	256,168
Habib Allied International Bank Limited - London	EURO receivables	3 USD	-	On Demand	292,659	271,257
KASB Bank Limited	First pari passu charge on certain specific receivables amounting to PKR 533.33 million	155 PKR (2011: 400 PKR)	24 PKR	30-Jun-13	146,168	397,768
National Bank of Pakistan	First pari passu hypothecation charge of PKR 766.667 million on all present and future current assets with a margin of 25%; lien and specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	575 PKR	-	31-Jul-13	449,761	572,750
United Bank Limited - Karachi	Hypothecation charge of PKR 3,427 million on all present and future stocks and spares and assignment of receivables from Karachi and Lahore.	2,570 PKR	25 PKR	31-Jul-13	2,545,036	2,017,009
Un-secured						
Habib American Bank	-	1.5 USD	0.8 USD	On Demand	66,735	79,827
Citibank N.A.	-	3 USD	-	On Demand	291,690	269,837
					4,796,706	4,410,836

- 30.2.1** The borrowings in PKR carry mark-up with a spread of 2.0% to 2.5% over 1 month and 3 months KIBOR (2011: 2.0% to 2.5% over 1 month and 3 months KIBOR). Borrowings in USD comprise of fixed and variable rate borrowings. Fixed rate borrowing carries mark-up at the rate of 3.25% (2011: 3.25% per annum) whereas variable rate borrowings carry mark-up with a spread of 3.5% over 1 month LIBOR and 4% over USD Prime Rate (2011: spread of 3% over 1 month LIBOR and 4% over USD Prime Rate).

- 30.2.2** Unavailed credit represents the difference between the facility amount and the balance as per bank statement as at December 31, 2012.



31. CONTINGENCIES AND COMMITMENTS

31.1 Contingencies

- a) The tax department had raised demand of Rs. 566.544 million (2011: Rs. 566.544 million) as Federal Excise Duty (FED) along with penalty of Rs. 1 million (2011: Rs. 1 million) and additional duty of Rs. 2,923.005 million (2011: Rs. 2,923.005 million) on the contention that the Holding company had not collected FED on tickets provided to its employees either free of cost or at concessional rates. The Holding company has paid Rs. 100 million (note 14) against the subject demand which is considered fully recoverable from the department. This case is currently under adjudication before Appellate Tribunal Inland Revenue (ATIR). Management believes that the case will be decided in the favour of the Holding company. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.
- b) The tax department has also raised demands of Rs. 6.804 million (2011: Rs. 6.804 million) and Rs. 277.621 million (2011: Rs. 277.621 million) as FED and sales tax respectively along with penalty of Rs. 1.205 million (2011: Rs. 1.205 million) and additional duty / default surcharge of Rs. 17.91 million (2011: Rs. 17.91 million) during the audit of the Holding company for the periods 2004-2005 and 2005-2006. These demands were raised on the issues of late payment of FED, collection of FED at incorrect rate, incorrect apportionment of input tax and failure to collect FED on carriage of goods / mail of Pakistan Post. The Holding company has paid an amount of Rs. 25 million (2011: Rs. 25 million) in this regard which is considered fully recoverable. The Holding company filed an appeal with the Collector of Customs, Sales Tax and Federal Excise (Appeals), which has been decided partially in its favour, partially against it and partially remanded back. The Holding company and the department both have filed appeals at the ATIR level which are pending adjudication. Management believes that the case will be decided in the favour of the Holding company. Accordingly, no provision has been made in these consolidated financial statements in this regard.
- c) The tax department has also raised demands of Rs 2.065 million (2011: Rs 2.065 million) and Rs 1,319.101 million (2011: Rs 1,319.101 million) as FED and Sales Tax respectively along with penalty of Rs 66.058 million (2011: Rs 66.058 million) and additional duty / default surcharge of Rs 534.412 million (2011: Rs 534.412 million) during the audit of the Holding company for the period 2007-2008. These demands have been raised mainly on the issues of collection of FED at incorrect rate and incorrect apportionment of input tax. The Holding company filed appeal at Commissioner Inland Revenue (Appeals) level, which was decided in favour of the department. Currently, the Holding company has filed appeal against this at ATIR level and a rectification application with CIR(A) both of which are pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements in this regard.
- d) The tax department has levied penalties of Rs. 5,877.351 million (2011: Rs. 5,877.351 million), Rs. 5,679.110 million (2011: Rs. 5,679.110 million), Rs. 7,025.270 million (2011: 7,025.270 million) and Rs. 2,000 million (2011: Rs. 2,000 million) on account of delayed payment of sales tax and FED for the months of November - December 2008, January - March 2010, November 2010 - January 2011 and April 2011 respectively. In addition to this, the tax department has also levied default surcharge and 5% penalty on the unpaid sales tax and FED amounting to Rs. 38.88 million, Rs. 79.969 million, Rs. 74 million and Rs. 12.648 million respectively.

The Holding company has filed application for waiver of penalty for the months of November - December 2008 before Federal Board of Revenue on which the decision is pending.

For the months of January - March 2010 and November 2010 - January 2011, the Commissioner Inland Revenue (Appeals) - CIR(A) has deleted the penalties of Rs. 5,679.110 million and Rs. 7,025.270 million respectively through its orders in 2011, however, default surcharge and 5% penalty on the unpaid sales tax and FED were maintained. The Holding company and the department have filed appeal with the Tribunal, which are pending adjudication. Further, for the months of January - March 2010, the Holding company has filed an application for rectification, which is still pending before ACIR.

In respect to April 2011, the Holding company has received an order from CIR(A) deleting all penalties and default surcharges.

Management is confident that all the above appeals will be decided in favour of the Holding company, therefore, no provision has been made in these consolidated financial statements in respect of the subject orders / show cause notices.

- e) A show cause notice was issued to the Holding company by the Collector of Customs demanding payment of Rs. 87.926 million (2011: Rs. 87.926 million) in respect of custom duties and other taxes levied on the import of simulator. The Holding company has filed an appeal before the Appellate Tribunal which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements.



- f) The custom authorities raised demands aggregating Rs. 274.120 million (2011: Rs. 274.120 million) in total of 44 cases of identical nature by imposing custom duty, sales tax and income tax and penalty of Rs. 54.824 million (2011: Rs. 54.824 million) on re-import of aircraft engines after repair. The Holding company filed an application to the FBR at Alternate Dispute Resolution Committee (ADRC) for review of the demands. The total demand raised by the custom authorities was reduced to Rs. 226.172 million (2011: Rs. 226.172 million) as a result of the decision of ADRC. Against the amount of Rs. 226.172 million, the Holding company has paid an amount of Rs. 95.245 million and filed a petition in the High Court of Sindh, which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements in this regard.
- g) Competition Commission of Pakistan (CCP) vide its order dated November 20, 2009 has imposed a token penalty of Rs. 10 million on account of unreasonable increase in Hajj fare during the year 2008 as compared to Hajj season 2007. Further, on account of discrimination between Hajj passengers and regular passengers the Holding company was directed to work out an amount of refund to be paid back to Hajjis based on the difference of fare between regular passenger and short duration Hajjis who flew during Hajj season 2008. The total amount of refund estimated by the Holding company is Rs. 417 million. The Holding company has filed appeals simultaneously in Lahore High Court and the Supreme Court of Pakistan. The appeals are pending for hearing and accordingly stay order has not been granted to the Holding company till date. Management believes that both appeals will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements in this regard.
- h) Various ex-employees of the Holding company have lodged claims against the Holding company for their dues specifically relating to their reinstatements. However, the liability that may arise in these cases cannot be determined and consequently, no provision has been made in these consolidated financial statements.
- i) The Holding company is contesting several litigations mainly relating to suits filed against it for unlawful termination of contracts, breach of contractual rights and obligations, non-performance of servicing stipulations due to negligence or otherwise. Management is of the view that these cases have no sound legal footing and it does not expect these contingencies to materialise. Accordingly, no provision has been made in these consolidated financial statements against these claims amounting to Rs. 5,690.326 million (2011: Rs. 4,700 million).
- j) Claims against the Holding company not acknowledged as debt amount to Rs 1,259 million (2011: Rs 1,184 million).
- k) Contingencies relating to income tax matters are disclosed in note 39.1.
- l) Certain lawsuits which arose in the normal course of business are pending against RHC. The eventual disposition of these legal actions, in the opinion of management based upon available insurance coverage and the assessment of the merits of such actions by legal counsel, will not have a material adverse effect on the financial position of RHC.

31.2 Commitments

- a) Commitments for capital expenditure amounted to Rs. 130.473 million (2011: Rs. 27.525 million).
- b) Outstanding letters of credit amounted to Rs. 63.095 million (2011: Rs. 402.311 million).
- c) Outstanding letters of guarantee amounted to Rs. 508.372 million (2011: Rs. 531.210 million).
- d) Financial guarantee - Minhal France S.A amounted to Rs 1,282.852 million (2011: Rs 1,163.807 million)
- e) The Holding company has entered into an agreement with a vendor for supply of spare parts, materials, consumables, chemicals and repair / overhaul of rotables for a period of 5 years. According to the terms of the agreement, the Holding company is committed to buy goods and/or services in the amount of US\$ 40 million annually.
- f) The Holding company has entered into an agreement for purchase of aircraft, the remaining commitments of which aggregate to USD 1,527.904 million (2011: USD 1,536.413 million) equivalent to Rs. 148,558.129 million (2011: Rs. 138,193.609 million) based on catalogue prices.



- g) The amount of future payments in operating lease arrangement relating to Aircraft 777-200 ER and the period in which these payments will become due is as follows:

	2012	2011
	-----Rupees in '000-----	
Not later than one year	1,218,359	1,132,260
Later than one year but not later than five years	3,858,136	4,508,326
Later than five years	-	187,847
	<u>5,076,495</u>	<u>5,828,433</u>

- h) The amount of future payments in lease arrangement relating to leasehold land of SRL and the period in which these payments will become due is as follows:

	2012	2011
	-----Rupees in '000-----	
Not later than one year	20,311	10,156
Later than one year but not later than five years	81,245	50,778
Later than five years	507,782	238,657
	<u>609,338</u>	<u>299,591</u>

- i) Abacus has entered into an operating lease agreement in respect of vehicles. Rentals are payable in equal monthly installments whereas repair and insurance costs are borne by the lessor. The amount of future lease payments and the period during which they fall due are as follows:

	2012	2011
	-----Rupees in '000-----	
Not later than one year	284	426
Later than one year but not later than five years	-	284
	<u>284</u>	<u>710</u>

32. REVENUE - net

Passenger	100,805,806	103,505,676
Cargo	6,295,562	6,412,653
Excess baggage	983,063	1,147,920
Charter services	710,067	1,642,634
Engineering services	738,609	952,100
Handling and related services	667,519	674,016
Mail	415,142	471,578
Room, food and beverages sales	11,483,962	9,917,237
Others	2,677,815	2,752,378
	<u>124,777,545</u>	<u>127,476,192</u>



	Note	2012	2011
		-----Rupees in '000-----	
33. COST OF SERVICES - others			
Salaries, wages and allowances		14,474,441	13,795,255
Welfare and social security costs		87,951	127,790
Retirement benefits		3,073,994	1,997,478
Compensated absences		334,470	679,005
Legal and professional charges		17,352	59,833
Stores and spares consumed		2,497,104	2,832,362
Maintenance and overhaul		5,662,623	5,129,543
Flight equipment rental		1,497,186	2,072,435
Landing and handling		12,296,804	13,152,367
Passenger services		3,441,576	3,831,521
Crew layover		2,960,301	3,202,575
Food and beverages		515,074	506,744
Staff training		143,345	137,225
Food cost		36,213	37,401
Utilities		68,795	48,988
Communication		121,886	121,134
Insurance		1,312,731	1,428,932
Rent, rates and taxes		647,334	630,851
Printing and stationery		215,724	188,791
Depreciation	5.7	8,690,017	8,004,205
Amortisation of intangibles and prepayment	6.1 & 10.2	3,275	3,575
Others		947,190	704,923
		59,045,386	58,692,933
34. DISTRIBUTION COSTS			
Salaries, wages and allowances		1,958,653	1,905,541
Welfare and social security costs		118,454	135,170
Retirement benefits		633,162	845,364
Compensated absences		81,417	161,067
Distribution and advertising expenses		3,337,799	2,238,081
Legal and professional charges		33,697	30,224
Repairs and maintenance		63,812	95,970
Insurance		26,065	26,051
Printing and stationery		38,215	53,782
Communication		493,752	489,214
Staff training		70,564	54,409
Rent, rates and taxes		311,468	341,607
Utilities		22,662	24,728
Amortisation of intangibles	6.1	50	50
Depreciation	5.7	37,391	41,085
Others		403,788	388,507
		7,630,949	6,830,850



	Note	2012	2011
-----Rupees in '000-----			
35. ADMINISTRATIVE EXPENSES			
Salaries, wages and allowances		3,223,595	2,843,764
Welfare and social security costs		2,136,873	1,841,968
Retirement benefits		1,283,225	875,769
Compensated absences		99,188	192,036
Legal and professional charges		307,383	229,898
Repairs and maintenance		356,359	369,272
Insurance		28,260	21,824
Printing and stationery		71,217	70,980
Management fee	35.1	260,735	211,072
Staff training		107,314	70,547
Municipal taxes		731,221	658,247
Rent, rates and taxes		662,245	600,928
Utilities		721,623	652,340
Remuneration of subsidiaries' auditors		824	11,685
Auditors' remuneration	35.2	24,517	14,443
Communication		1,077,879	1,106,471
Amortisation of intangibles and prepayment	6.1 & 10.2	24,820	17,894
Depreciation	5.7	217,290	229,990
Donations	35.3	8,243	3,925
Others		955,357	986,285
		12,298,168	11,009,338

35.1 The breakup of management fee expense incurred during the year is set forth below:

	Note	2012	2011
-----Rupees in '000-----			
(i) Interstate Hotels and Resorts Corporation (IHC)	35.1.1	109,971	88,402
(ii) ACCOR	35.1.2	150,764	122,670
		260,735	211,072

35.1.1 RHC entered into a contract for management of day-to-day operations of Roosevelt Hotel with IHC. The agreement provides for a base management fee calculated at 1.20% of gross operating revenues per year and an incentive management fee calculated at 14.5% of net operating income as defined in the agreement.

35.1.2 MFSA entered into a management agreement with ACCOR whereby ACCOR is entitled to a basic fee of 2.625% of Scribe Hotel's turnover less lease rentals plus an incentive fee of 9% of gross operating profit subject to a cap of 4.25% of turnover less lease rentals.

35.2 Auditors' remuneration

	2012			2011		
	-----Rupees in '000-----					
	M. Yousuf Adil Saleem & Co.	A. F. Ferguson & Co.	Total	M. Yousuf Adil Saleem & Co.	A. F. Ferguson & Co.	Total
Audit fee	4,254	4,254	8,508	3,867	3,867	7,734
Fee for review of condensed interim financial statements	1,275	1,275	2,550	1,159	1,159	2,318
Consolidated financial statements	633	633	1,266	575	575	1,150
Code of Corporate Governance	218	218	436	198	198	396
Tax and other services	-	10,023	10,023	-	2,105	2,105
Out of pocket expenses	392	1,342	1,734	327	413	740
	6,772	17,745	24,517	6,126	8,317	14,443



- 35.3 Donations include payments aggregating Rs. 4.529 million (2011: Rs. 3.325 million) to Al-Shifa Trust, situated at Terminal-2, Road, Karachi Airport, Pakistan in which the Managing Director of the Holding company acts as a Trustee, and Rs. 3.197 million (2011: Rs. Nil) to Pakistan Airline Pilots' Association (PALPA) which is an association of and run by Holding company's pilots. Besides this, none of the directors or their spouse have any interest in the donees.

	Note	2012	2011
-----Rupees in '000-----			
36. OTHER PROVISIONS AND ADJUSTMENTS			
Loss on disposal of fixed assets written off		36,411	68,872
Provision for slow moving and obsolete spares	11.1	303,347	123,242
Provision for doubtful debts	12.1	279,082	132,426
Derivative expense		15,948	-
Provision against doubtful advances	13.1	-	23,424
Loss on exchange of fixed assets		14,556	-
Others		48,966	304,986
		<u>698,310</u>	<u>652,950</u>
37. OTHER OPERATING INCOME			
Income from financial assets			
Profit on bank deposits		51,399	45,997
Derivative income		-	213,882
Interest on maintenance reserve		6,752	-
Others		-	1,462
		<u>58,151</u>	<u>261,341</u>
Income from assets other than financial assets			
Gain on disposal of operating fixed assets		1,588	3,131
Insurance claims		523	108,321
Gain on termination of lease		1,307,524	-
Income on settlement of fleet management program liability	37.1	1,848,931	-
Others		110,902	152,770
		<u>3,327,619</u>	<u>525,563</u>

- 37.1 During the year on August 23, 2012, the Holding company and a vendor mutually agreed to terminate a contract which was entered in the year 2003 by the Holding company for a period of ten years unless earlier terminated, to obtain repair and maintenance services for certain aircraft according to the Fleet Management Program (FMP) offered by the vendor. The Holding company was required to make monthly payments in accordance with the FMP rate mutually agreed with the vendor. On termination of the contract, a reconciliation of FMP services vis-à-vis FMP billings to the Holding company has been made, which resulted in a net gain of USD 19.528 million

	2012	2011
-----Rupees in '000-----		
38. FINANCE COSTS		
Mark-up on long-term financing	3,318,987	2,608,931
Mark-up on term finance certificates	1,598,972	1,834,026
Profit on sukuk certificates	906,688	1,018,962
Interest on liabilities against assets subject to finance lease	986,550	1,269,871
Mark-up on short-term borrowings	4,553,219	2,811,268
Interest on provident fund	477,071	342,897
Arrangement, agency and commitment fee	67,107	333,380
Amortisation of prepaid exposure fee	211,907	224,300
Bank charges, guarantee commission and other related charges	49,433	43,778
	<u>12,169,934</u>	<u>10,487,413</u>



	Note	2012	2011
-----Rupees in '000-----			
39. TAXATION			
Current - for the year	39.1	794,946	1,149,809
- for prior year		-	(504,189)
		794,946	645,620
Deferred	26.5	(26,129)	(1,580,410)
		768,817	(934,790)

39.1 Current

39.1.1 This includes Rs 280.325 million in respect of minimum tax expense related to the Holding company. In view of available tax losses for the year, provision for minimum taxation has been made in accordance with section 113 of the Income Tax Ordinance, 2001. No numeric tax rate reconciliation is given as the Holding company is liable for turnover tax only.

During the year, the Federal Board of Revenue (FBR) issued an S.R.O. 57 (I)/ 2012 dated January 24, 2012 whereby the rate of minimum tax for the Holding company was reduced by 50%. Further, through Finance Act 2012, the rate of turnover tax under section 113 was revised downward from 1% to 0.5% of turnover. Therefore, the applicable rate of minimum tax rate for the Holding company for tax year 2013 became 0.25% of turnover and the provision for taxation has been made accordingly.

39.1.2 The Holding company has filed tax returns for tax years up to tax year 2012 of which tax returns from tax years 2003 to 2012 have been filed under self assessment scheme. All assessments for tax years 1991 to 2002 have been finalized by the department. The minimum tax liability under section 80D of the repealed ordinance had been levied by the department from assessment year 1991-92 to assessment year 2002-03 after adding 10% of net turnover on estimated basis. The Holding company had filed appeals against the above demands which have been decided in favour of the Holding company at Appellate Tribunal Inland Revenue (ATIR) level. The department has now filed appeal at the Sindh High Court in respect of assessment year 2000-01. After decision by the Sindh High Court on a few grounds in favour of the Holding company, the department has filed appeal in the Supreme Court. Management believes that this issue will be decided in favour of the Holding company without any additional tax liability.

39.1.3 A demand of Rs. 898.177 million (2011: Rs. 898.177 million) was raised by the Deputy Commissioner Inland Revenue (DCIR) by issuing an amended order in relation to the tax year 2005. The main contention among others was disallowance of depreciation claimed on leased aircraft. The Holding company claimed the depreciation on the contention that those aircraft were obtained under hire purchase arrangement which has been approved by Ministry of Finance as a financing arrangement. The department did not accept this contention and disallowed depreciation expense as inadmissible. An amount of Rs. 48.235 million was also recovered by FBR in this respect. The Holding company filed appeal at CIT (A) level which was decided partially in favour of the Holding company. Being further aggrieved, the Holding company has filed appeal at ITAT level which is pending adjudication. The Holding company is confident that this issue will ultimately be decided in its favour and the amount will be recovered.

Further, the Additional Commissioner Inland Revenue (ACIR) has issued an order under section 122 (5A) of the Income Tax Ordinance, 2001 in respect of tax year 2006 disallowing the depreciation claimed on leased aircrafts and other provisions of Rs. 3,480.442 million. The Holding company has filed appeal before CIR (A) against the said order, however, the matter is still pending.

In addition to above, the Officer Inland Revenue (OIR) has issued an order under section 161 / 205 of the Income Tax Ordinance, 2001 pertaining to tax year 2011 and raised a demand of Rs. 324.319 million. The Holding company has filed an application for rectification against this order and also filed appeal before CIR(A). The Holding company has also received show cause notices in respect of tax years 2007 to 2009 on account of disallowance of depreciation on leased aircraft and other provisions. The Holding company has filed its reply in response to these notices.

Management believes that these issues will be decided in favour of the Holding company without any additional tax liability. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.



40. EARNINGS PER SHARE - BASIC AND DILUTED

The calculation of earnings per share at December 31 is based on loss attributed to owners of ordinary shares of the Holding company.

	2012	2011
Loss for the year (Rupees in '000)	<u>(32,401,413)</u>	<u>(25,970,801)</u>
Weighted average number of ordinary shares outstanding	<u>3,017,179,751</u>	<u>2,751,179,233</u>
Earnings per share		
'A' class Ordinary share (Rupees)	<u>(10.74)</u>	<u>(9.44)</u>
'B' class Ordinary share (Rupees)	<u>(5.37)</u>	<u>(4.72)</u>

40.1 Earnings per share has no dilution effect.

2012 2011
-----Rupees in '000-----

41. CASH GENERATED FROM OPERATIONS

Loss before tax	(31,599,456)	(26,858,145)
Adjustments for:		
Depreciation	8,944,698	8,275,280
Fair value change through profit and loss	(139,897)	-
Gain on disposal of operating fixed assets	-	(3,131)
Loss on disposal of fixed assets written off	36,411	68,872
Loss on disposal of fixed assets - net	13,116	-
Unrealised exchange loss	4,376,938	3,586,459
Amortisation of intangibles	28,145	19,826
Provision for slow moving stores and obsolete spares	303,347	123,242
Provision for doubtful debts	279,082	132,426
Provision for doubtful other receivables	-	-
Arrears of mandatory retirement	-	-
Provision against doubtful advances	-	23,424
Advance given to CAA written off	-	-
Reversal of provision no longer required in respect of CAA	-	-
Provision for staff retirement benefits	5,505,456	3,287,745
Currency translation difference	(540,397)	(365,005)
Finance cost	12,169,934	10,487,413
Share of loss from associates	637	790
Profit on bank deposits	(51,399)	(45,997)
Reversal of provision against short term investments	-	(880)
Gain on termination of lease liability	(1,307,524)	-
Income on settlement of fleet management liability	(1,848,931)	-
	<u>(3,829,840)</u>	<u>(1,267,681)</u>
Working capital changes		
Increase in stores and spares	(319,101)	(174,269)
Increase in trade debts	(1,360,410)	(280,902)
Decrease in short-term loans and advances	(1,724,720)	103,857
Decrease in trade deposits and prepayments	100,643	291,532
Increase in other receivables	(1,876,903)	(985,466)
Increase in trade and other payables	9,915,072	11,943,999
	<u>4,734,581</u>	<u>10,898,751</u>
Cash generated from operations	<u>904,742</u>	<u>9,631,070</u>



42. REMUNERATION OF MANAGING DIRECTOR AND EXECUTIVES

	Key management personnel				Others	
	Managing Director		Unit heads		Executives	
	2012	2011	2012	2011	2012	2011
-----Rupees in '000-----						
Managerial remuneration	6,723	12,887	67,622	98,671	2,358,520	2,581,387
Contribution to provident fund	70	157	1,251	1,278	117,090	116,024
Other perquisites	447	744	9,864	12,551	2,132,575	1,990,254
	7,240	13,788	78,737	112,500	4,608,185	4,687,665
Number	1	1	16	15	2,040	1,993

Aggregate amount charged in the financial statements for fee to directors was Rs Nil (2011: Rs Nil). Managing Director and certain executives are also provided with the Holding company's maintained cars and facilities as per the Holding company's rules.

42.1 The number of persons does not include those who left during the year but remuneration paid to them is included in the above amounts.

43. SEGMENT INFORMATION

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the services provided. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of services provided, with each segment representing a strategic business unit that serves different markets.

The airlines operations segment provides air transport and other allied services.

Hotel operation segment provides accommodation and related services in Pakistan, United States and Europe.

Transaction between business segments are set on arm's length basis at price determined under permissible method as allowed under Companies Ordinance, 1984. Segment revenue, segment expenses and segment results include transaction between business segments.

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

43.1 Revenue Analysis

	Airlines operations		Hotel operations		Others		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
-----Rupees in '000-----										
Revenue										
External sales	112,130,066	116,550,576	12,608,800	10,887,693	316,106	298,683	-	-	125,054,972	127,736,952
Intersegment sales	-	-	-	-	-	-	(277,427)	(260,760)	(277,427)	(260,760)
Total Revenue	112,130,066	116,550,576	12,608,800	10,887,693	316,106	298,683	(277,427)	(260,760)	124,777,545	127,476,192
Results										
Segment results	(21,342,897)	(17,926,755)	1,805,927	1,449,696	93,997	90,770	(14,088)	16,347	(19,428,885)	(16,369,942)
Interest expense	(11,380,757)	(10,099,046)	(809,865)	(403,472)	(7)	(2)	20,695	15,107	(12,169,934)	(10,487,413)
Interest income	51,399	45,997	-	-	-	-	-	-	51,399	45,997
Share of associate's loss	(637)	(790)	-	-	-	-	-	-	(637)	(790)
Income taxes	(457,886)	1,258,594	(278,056)	(289,993)	(32,875)	(33,811)	-	-	(768,817)	934,790
Depreciation	(7,397,143)	(7,032,743)	(1,486,484)	(1,232,966)	(10,788)	(9,571)	-	-	(8,894,415)	(8,275,280)
Amortisation	(26,403)	(19,803)	-	-	(49)	(23)	-	-	(26,452)	(19,826)

	Airlines operations		Hotel operations		Others		Eliminations / adjustments		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
-----Rupees in '000-----										
Assets and Liabilities										
Segment assets	128,673,943	126,828,577	66,127,498	55,652,775	263,337	231,475	(2,709,898)	(2,645,387)	192,354,880	180,067,440
Investment in Associates	396	396	-	-	-	-	65,617	61,348	66,013	61,744
Capital expenditure	7,214,596	3,650,542	897,291	473,707	11,121	7,312	-	-	8,123,008	4,131,561
Segment liabilities	238,352,556	204,928,100	35,561,826	31,127,558	34,841	63,756	(1,683,129)	(1,346,962)	272,266,094	234,772,452

43.2 Geographical segments - by area of original sale

	2012					2011				
	Pakistan	United States	Europe	Others	Total	Pakistan	United States	Europe	Others	Total
Segment revenue	53,578,003	17,810,797	24,966,763	28,421,982	124,777,545	58,758,248	16,028,049	24,860,971	27,828,924	127,476,192
Carrying amount of assets	115,682,180	40,821,917	21,879,398	1,390,653	179,774,148	124,687,878	35,013,550	18,970,046	1,395,966	180,067,440

The major revenue earning assets comprise the aircraft fleet, all of which are registered in Pakistan. Since the fleet of the Holding company is deployed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.



44. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, fuel price risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's senior management carries out financial risk management under policy approved by the Board of Directors. Senior management identifies, evaluates and hedges financial risks, wherever necessary.

44.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as fuel price and equity price risk. Financial instruments affected by market risk include loans and borrowings, bank deposits, available-for-sale investments and derivative financial instruments.

a) Fuel price risk

The Holding company's earnings are affected by changes in price of aircraft fuel. The Holding company hedges fuel prices to a limited extent through use of derivative contracts. There are no derivative contracts outstanding as of year end, therefore, the Holding company is not exposed to risk related to fuel price derivative contracts.

b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. In addition, the Group has substantial foreign currency borrowings and lease liabilities that are primarily denominated in US Dollar (USD), Saudi Riyal (SAR), United Arab Emirates Dirham (AED) and Great Britain Pound (GBP). The Group can experience adverse or beneficial effects arising from foreign exchange rate movements. The Group manages some of its currency risk by utilising its foreign currency receipts to satisfy its foreign currency obligations.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, on (loss) before tax.

	2012 -----Rupees in '000-----	2011	2012 -----Rupees in '000-----	2011
Change in USD rate (Increase) / Decrease in loss before tax	-----+5%----- <u>(4,426,617)</u>	<u>(4,173,930)</u>	-----(-5%)----- <u>4,426,617</u>	<u>4,173,930</u>
Change in GBP rate (Increase) / Decrease in loss before tax	-----+5%----- <u>(100,352)</u>	<u>(5,330)</u>	-----(-5%)----- <u>100,352</u>	<u>5,330</u>
Change in SAR rate (Increase) / Decrease in loss before tax	-----+5%----- <u>(62,459)</u>	<u>(51,566)</u>	-----(-5%)----- <u>62,459</u>	<u>51,566</u>
Change in AED rate (Increase) / Decrease in loss before tax	-----+5%----- <u>(140,263)</u>	<u>(78,236)</u>	-----(-5%)----- <u>140,263</u>	<u>78,236</u>
Change in Euro rate (Increase) / Decrease in loss before tax	-----+5%----- <u>(1,363)</u>	<u>(113,133)</u>	-----(-5%)----- <u>1,363</u>	<u>113,133</u>



c) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the following:

	2012	2011
	-----Rupees in '000-----	
Variable rate instruments at carrying amount:		
Long-term financing	37,585,253	44,137,715
Term finance and sukuk certificates	19,589,760	19,589,760
Liabilities against assets subject to finance lease	38,305,557	36,286,459
Short-term borrowings	61,287,795	25,721,200
	<u>156,768,365</u>	<u>125,735,134</u>
Fixed rate instruments at carrying amount		
Financial Assets		
Bank balances	802,733	1,644,078
Short-term investments	201,220	418,099
Long term loans	20,701	23,057
	<u>1,024,654</u>	<u>2,085,234</u>
Financial Liabilities		
Long-term financing	11,318,530	11,795,958
Liabilities against assets subject to finance lease	9,275,195	20,135,111
Short-term borrowings	66,735	79,827
	<u>20,660,460</u>	<u>32,010,896</u>

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair values through profit and loss. Therefore, change in interest rates at the reporting date would not affect profit and loss account.

Cash flow sensitivity analysis for variable rate instruments

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group loss before tax.

	KIBOR		LIBOR	
	2012	2011	2012	2011
	-----Rupees in '000-----			
Change in interest rate	-----+1%-----		-----+0.25%-----	
Increase in loss before tax	<u>(718,550)</u>	<u>(464,326)</u>	<u>(3,312,112)</u>	<u>(110,405)</u>
Change in interest rate	-----(-1%)-----		-----(-0.25%)-----	
Decrease in loss before tax	<u>718,550</u>	<u>464,326</u>	<u>3,312,112</u>	<u>110,405</u>

d) **Other price risk**

Other price risk is 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 currency risk or interest rate 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 Group is not significantly exposed to equity securities price risk.



44.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial asset. The Group manages its liquidity risk by maintaining sufficient cash and cash equivalents and through support of GoP either in the form of capital / loans or in the form of guarantee to obtain financing from lenders.

The following table shows the Group's remaining contractual maturities of financial liabilities, including estimated interest payments:

	Less than 1 year	1 - 5 years	More than 5 years	Total
-----Rupees in '000-----				
2012				
Long-term financing	15,944,356	46,044,499	2,178,219	64,167,074
Term finance and sukuk certificates	16,388,469	12,614,374	-	29,002,843
Liabilities against assets subject to finance lease	10,741,937	35,787,131	5,320,497	51,849,565
Trade and other payables	23,605,794	-	-	23,605,794
Accrued interest / mark-up / profit	6,784,356	-	-	6,784,356
Short-term borrowings	61,354,530	-	-	61,354,530
Long term deposit	-	-	-	-
	<u>134,819,442</u>	<u>94,446,004</u>	<u>7,498,716</u>	<u>236,764,162</u>
2011				
Long-term financing	15,944,356	46,044,499	3,547,071	65,535,926
Term finance and sukuk certificates	11,043,567	12,614,374	-	23,657,941
Liabilities against assets subject to finance lease	11,071,397	39,909,206	11,652,354	62,632,957
Trade and other payables	22,864,196	-	-	22,864,196
Accrued interest / mark-up / profit	4,727,025	-	-	4,727,025
Short-term borrowings	27,956,096	-	-	27,956,096
Long term deposit	-	132	-	132
	<u>93,606,637</u>	<u>98,568,211</u>	<u>15,199,425</u>	<u>207,374,273</u>

44.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. All financial assets except cash in hand are subject to credit risk. The carrying amount of financial assets as at December 31, 2012 represents the maximum credit exposure, which is as follows:

	2012	2011
-----Rupees in '000-----		
Long-term investments	28,381	24,344
Receivable in respect of Centre Hotel	734,496	679,487
Long-term loans and advances	12,009	15,407
Long-term deposits	5,170,100	8,180,751
Trade debts	10,014,544	8,936,690
Short-term loans and advances	2,054,153	329,433
Trade deposits	52,152	44,311
Other receivables	795,645	728,383
Short-term investments	517,767	594,749
Bank balances	6,283,063	3,218,942
	<u>25,662,310</u>	<u>22,752,497</u>



Trade debts

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Holding company normally grants a credit term of 30 to 60 days to customers and in certain circumstances such exposure is partially protected by bank guarantees. Trade debtors mainly represent passenger and freight sales due from agents and government organizations. The majority of the agents are connected to the settlement systems operated by the International Air Transport Association ("IATA") who is responsible for checking the credit worthiness of such agents and collecting bank guarantees or other monetary collateral according to local industry practice. In most cases amounts due from airlines are settled on net basis via an IATA clearing house. The credit risk with regard to individual agents and airlines is relatively low.

Ageing of past due and impaired trade debts is disclosed in note 12 to the consolidated financial statements.

Other financial assets

The credit risk on liquid funds (cash and bank balances) is limited because the counter parties are banks with a reasonably good credit rating i.e. at least "A3" or equivalent for short term and "BBB" or equivalent for long term.

There is no credit risk on aircraft lease deposits because they are security against the finance lease obligation. Other deposits are not significantly exposed to credit risk as they have been paid as security deposits to receive future services. Advances to employees are primarily against their salaries.

There is no significant credit risk against other receivables as majority of the receivable is from GoP.

44.4 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the consolidated financial statements approximate their fair value.

44.5 Capital management

The Holding company's objective when managing capital is to safeguard its ability to continue as a going concern. The Holding company has incurred losses in recent years and the disclosure in respect of the Holding company's ability to continue as a going concern is disclosed in note 1.2 to the consolidated financial statements.

45. TRANSACTIONS WITH RELATED PARTY

The related parties of the Group comprises associates, employee retirement benefit plans, directors and key management personnel. Transactions with related parties essentially entail sale and purchase of goods and services and expenses charged between these companies. Amounts due from and to related parties, amounts due from executives and remuneration of directors and executives are disclosed in the relevant notes. Transactions with related parties are as follows:

	Note	2012	2011
		-----Rupees in '000-----	
Retirement funds			
Contribution to Provident Fund and others		511,053	695,806
Profit oriented state-controlled entities			
- common ownership			
Purchase of fuel		20,360,973	19,676,705
Insurance premium		1,291,956	1,400,000
Mark-up paid		3,897,380	1,485,650
GoP - Major shareholder			
Finance cost		802,192	800,000
Shares issued during the year		-	3,004,726
Hajj revenue		4,410,495	4,558,708
Advance against equity from GoP		1,928,167	-



- 45.1 One of the hotels owned by PIAL, Hotel Scribe Paris, is managed by a related party, ACCOR. The amount of management fee is based on the agreement with the related party.
- 45.2 Transactions with the directors, chief executives and key management personnel have been disclosed in note 42 to these consolidated financial statements.
- 45.3 The Holding company's sales of transportation services to subsidiaries, associates, directors and key management personnel are not determinable.

46. **BENAZIR EMPLOYEE STOCK OPTION SCHEME (BESOS)**

On August 14, 2009, GoP launched the BESOS for employees of certain State Owned Enterprises (SOEs) including the Corporation and Non-State Owned Enterprises (Non-SOEs) where GoP holds significant investments. BESOS is applicable to permanent and contractual employees who were in employment of these entities on its launch date, subject to completion of five years' vesting period by all contractual employees and by permanent employees in certain instances.

BESOS provides for a cash payment to employees on retirement or termination based on the price of shares of the Holding company. Under the scheme, Pakistan Employees Empowerment Trust (PEET) was formed and 12% of the shares held by the Ministry of Defence were transferred to the Trust. The eligible employees have been allotted units by PEET in proportion to their respective length of service and on retirement or termination such employees would be entitled to receive such amounts from PEET in exchange for the surrendered units as would be determined based on market price of shares of the Holding company. The shares relating to the surrendered units would be transferred back to GoP.

BESOS also provides that 50% of dividend related to shares transferred to PEET would be distributed amongst the unit-holder employees. The balance 50% dividend would be transferred by PEET to the Central Revolving Fund managed by the Privatisation Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in PEET to meet the repurchase commitment would be met by GoP.

BESOS which has been developed in compliance with the policy of the GoP for empowerment of employees of SOEs needs to be accounted for by the covered entities, including the Holding company, under the provisions of the IFRS 2. However, keeping in view the difficulties that may be faced by the entities covered under BESOS, the Securities and Exchange Commission of Pakistan on receiving representations from some of entities covered under BESOS and after having consulted the Institute of Chartered Accountants of Pakistan has granted exemption to such entities from the application of IFRS 2 in respect of BESOS.

Had the exemption not been granted, the accumulated losses as at December 31, 2012 would have been higher by Rs. 542.477 million (2011: Rs. 412.275 million), staff costs and loss after taxation of the Holding company for the year then ended would have been higher by Rs. 130.202 million (2011: Rs. 148.189 million) while earnings per share would have been lower by Rs. 0.04 and Rs. 0.02 per share (2011: Rs. 0.05 and Rs. 0.03 per share) for class 'A' and 'B' shareholders respectively.

47. **AUTHORISATION OF CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements were authorised for issue by the Board of Directors of the Holding company in their meeting held on April 26, 2013.

Lt. Gen Asif Yasin Malik (Retd)
Chairman

Syed Omar Sharif Bokhari
Director



Form of Proxy 56th AGM of PIA

I / We _____ of _____ being Shareholder(s) of Pakistan International Airlines Corporation holding the following Shares:

Folio No. Participant ID No. / Account No.	"A" Class Shares	"B" Class Share

hereby appoint Mr / Mrs. / Miss _____ of _____ or failing him / her _____ of _____ who is / are also a Shareholder(s) of the corporation vide Registered Folio / Participant ID No. _____ Account No. _____ as my / our Proxy in my / our absence to attend and vote for me / us and on my / our behalf at the 56th Annual General Meeting of the Corporation to be held on Tuesday, May 28, 2013 and at any adjournment thereof.

As witness my/our hand/seal this _____ day of May 2013.

Signed by the said _____ in the presence of

Witnesses

1.

Name: _____

CNIC No: _____

Address: _____

2.

Name: _____

CNIC No: _____

Address: _____

Signature

(Affix Revenue Stamp of Appropriate Value)

NOTES

- (1) This Proxy Form, duly executed, must be lodged at the office of Secretary-PIA, PIA Head Office, Karachi, not less than 48 hours before the time fixed for holding the Meeting.
- (2) No person shall act as Proxy unless he himself/ she herself is a Shareholder of the Corporation except that a corporate entity may appoint a person who is not a Shareholder.
- (3) Proxies without Folio / Participant ID Number and Account / Sub-Account number will not be entertained.
- (4) Signature of the appointer Shareholder should agree with his/her specimen signature registered with the Corporation.
- (5) If a Shareholder appoints more than one proxy and more than one instruments of proxy are deposited by a Shareholder with the Corporation, all such instruments shall be rendered invalid.
- (6) In addition to the above the following requirements have to be met by CDC Account Holders / Corporate Entities:
 - (i) Attested copies of CNIC or Passport of the Beneficial Owner and the Proxy holder shall be furnished with the Proxy Form whereas the Proxy holder shall also show his/her original CNIC or Passport at the Meeting.
 - (ii) In case of corporate entity, the Board of Directors' Resolution / Power of Attorney with specimen signature of the Nominee / Attorney shall be produced at the Meeting unless these documents have already been provided.





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