

We stand for
National
Values

faith

unity

discipline

courage

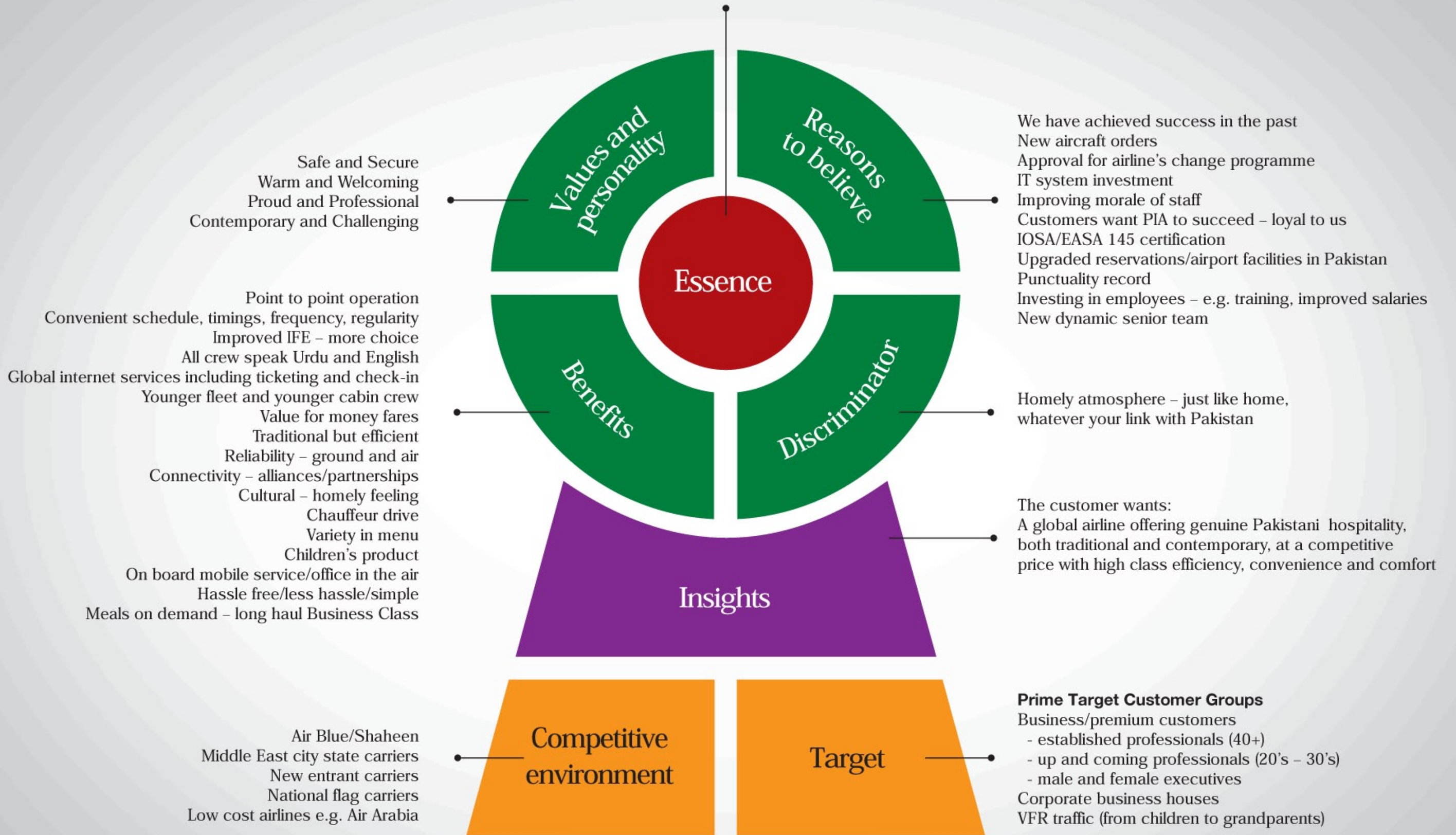
pride

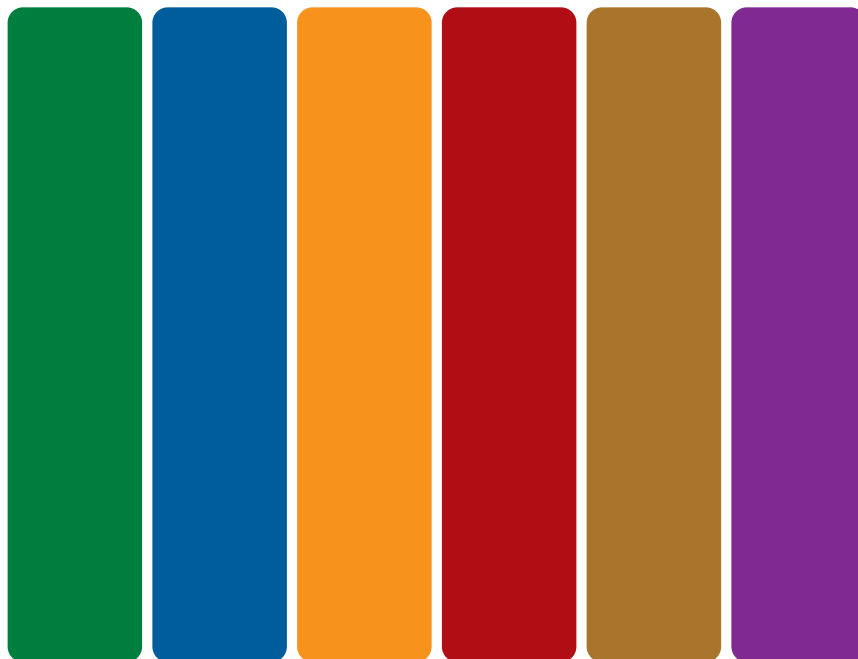
diversity



Great People to Fly With

"PIA - Personifying the Pride of Pakistan"



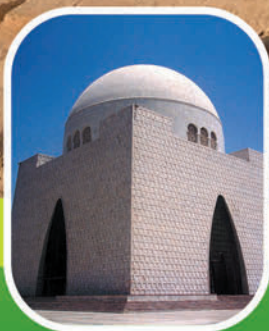
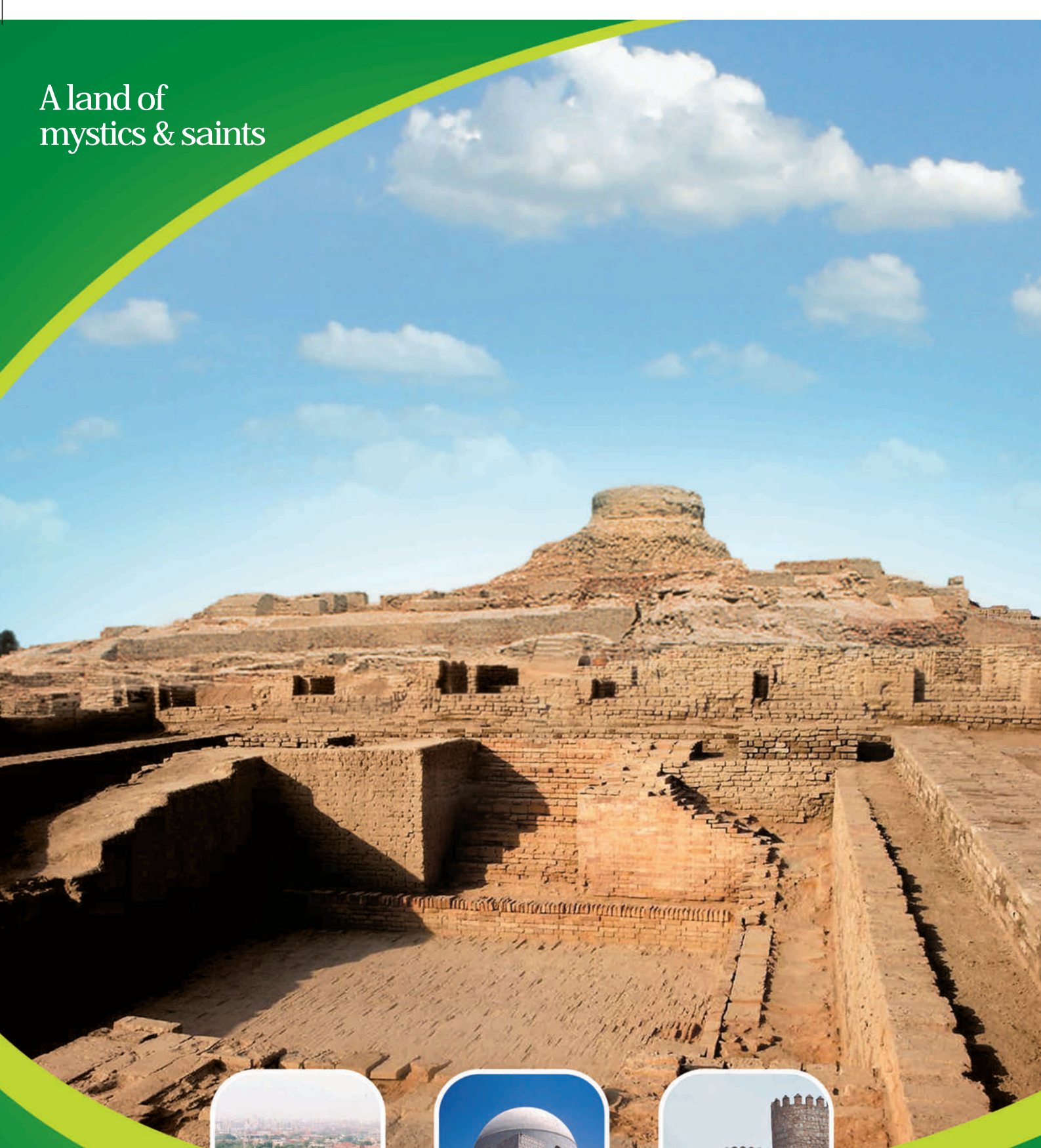


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A land of mystics & saints



Hyderabad • Karachi • Moenjodaro • Sukkur • Nawabshah

faith "If you think you can win, you can win.
FAITH is necessary for victory."

vision

PIA's vision is to be a world class 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.

core values

Customer Expectations
Convenience, Care and Affordability.

Service
Personalized, Courteous and Passionate.

Innovation
New Ideas, Products and Value Added Services.

Cohesiveness
Respect for Individuals, Teamwork and Effective Communication.

Integrity
Business Ethics, Accountability, and Transparency.

Reliability
Loyalty and Consistency.

Safety
Passengers, Employees and Environment.

Social Responsibility
Welfare, Health and Education.

The land of five rivers



Bahawalpur • Dera Ghazi Khan • Faisalabad • Lahore • Multan • Rahim Yar Khan • Sialkot

unity "UNITY in crucial things,
generosity in all the things."

notice of 53rd annual general meeting

Notice is hereby given that 53rd Annual General Meeting of the Shareholders of Pakistan International Airlines Corporation will be held at 10:00 A.M. on Saturday, April 24, 2010 at Pearl Continental Hotel, Club Road, Karachi to transact the following business:

1. To receive and adopt the Audited Accounts for the Financial Year ended December 31, 2009, 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

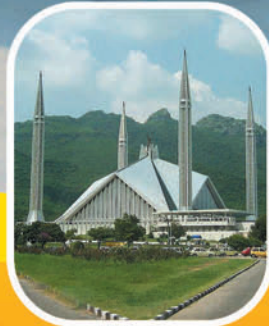
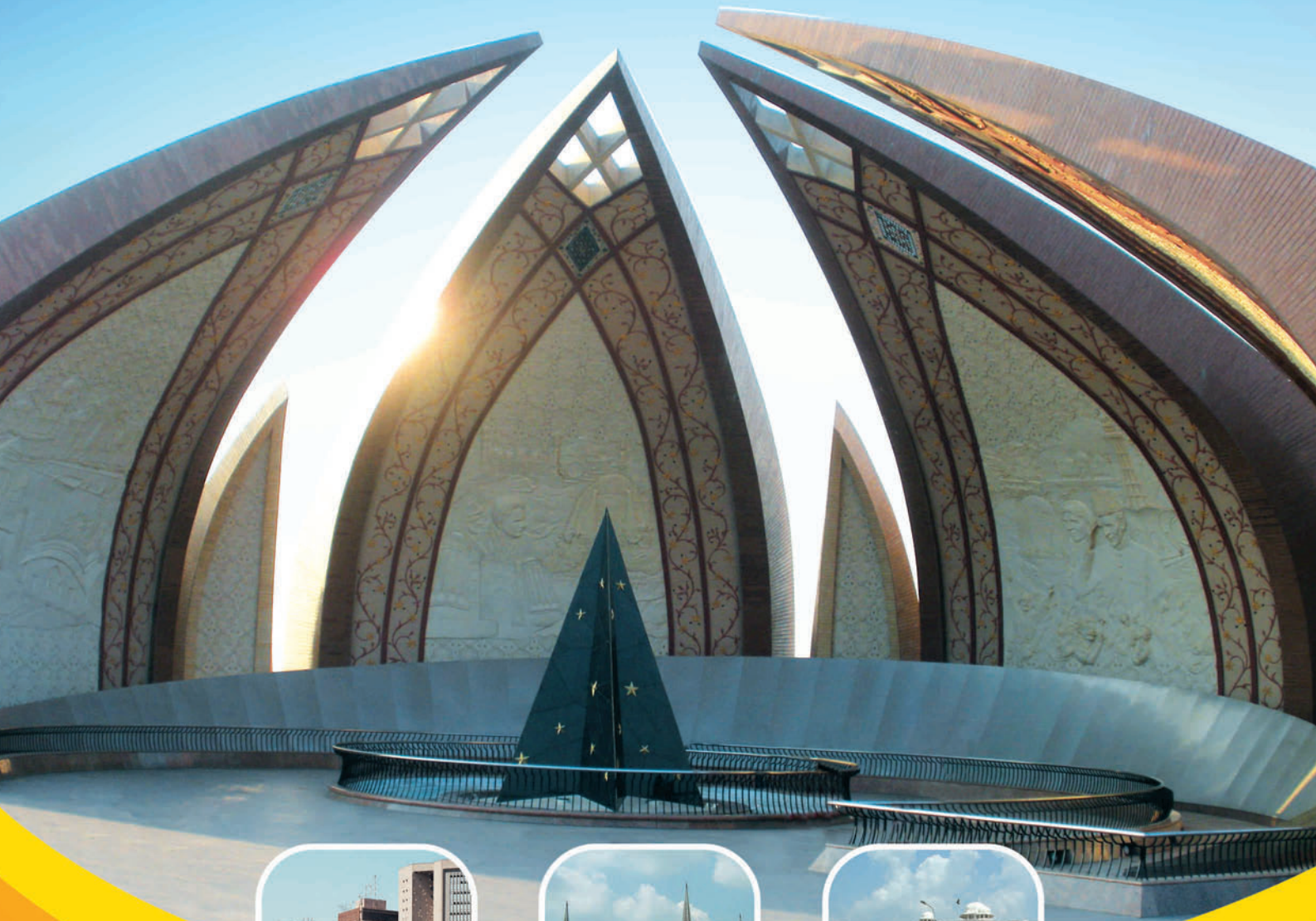
Karachi
April 02, 2010

Muhammad Shuaib
Secretary-PIA

Notes

1. The shares transfer books of the Corporation will remain closed from Monday, April 12, 2010 to Saturday, April 24, 2010 (both days inclusive). Transfer documents (Physical Scrip Transfers / CDC 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 Saturday, April 10, 2010 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 i.e. upto 10:00 A.M. Thursday, April 22, 2010 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.

The land of the regulations



Rawalpindi • Islamabad

discipline

“Seek freedom and become captive of your desires. Seek DISCIPLINE and find your liberty.”

corporate information (as at march 16, 2010)

Board of Directors

Ch. Ahmed Mukhtar
Minister for Defence and Chairman - PIA

Syed Naseer Ahmad

Malik Nazir Ahmed

Mr. Javed Akhtar

Lt. Gen. (Retd.) Syed Athar Ali
Federal Secretary Defence

Capt. Muhammad Aijaz Haroon
Managing Director - PIA

Prof. Mian Ijaz ul Hassan

Mr. Mubashir Iftikhar

Mr. Husain Lawai

Mr. Shaukat Ali Rana

Mr. Salman Siddique
Federal Secretary Finance

Corporate Secretary
Mr. Muhammad Shuaib

Acting Head of Internal Audit
Mr. Bhagwan Bharvani

Executive Management

Capt. Muhammad Aijaz Haroon
Managing Director

Mr. M. Salim Sayani
Deputy Managing Director

Mr. Imraan Ahmed Khan
Director - Marketing

Mr. M. Haneef Pathan
Director - Human Resource,
Administration & Coordination

Mr. Shahnawaz Rehman
Director - Corporate Planning

AVM Muhammad Kamal Alam
Siddiqui
Director - Precision Engineering Complex

Capt. Shuja Naqvi
Director - Flight Operations

Mr. Dilawar Fareed Beg
Director - Training and Development

Mr. Maqsood Ahmed
Director - Line Maintenance

Mr. Richard Bate
Director - Special Projects

Mr. Faisal I. H. Malik
Director Finance &
Chief Financial Officer

Mr. S. Kamran Hasan
Director

Auditors

Messrs Anjum Asim Shahid
Rahman
Messrs M. Yousaf Adil Saleem &
Co.

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)

Fax: (92-21) 3432 6053

Email: info@cdcpak.com

Website: www.cdcpakistan.com

Head Office

PIA Building
Jinnah International Airport
Karachi - 72500
PAKISTAN
Website: www.piac.aero

Board of directors



Seated (left to right): Lt. Gen. (Retd) Syed Athar Ali Federal Secretary Defence & Director, Javed Akhtar Director, Ch. Ahmed Mukhtar Minister for Defence & Chairman PIA

Standing (left to right): Muhammad Shuaib Secretary PIA, Prof. Mian Ijaz ul Hassan Director, Husain Lawai Director

We stand for National Values


Pakistan International
Great People to Fly With



Seated (left to right): Capt. Muhammad Aijaz Haroon Managing Director PIA & Director
Shaukat Ali Rana Director, Syed Naseer Ahmad Director

Standing (left to right): Mubashir Iftikhar Director, Malik Nazir Ahmed Director
Salman Siddique Federal Secretary Finance & Director

Board of directors' profile

Ch. Ahmed Mukhtar,
Chairman

Ch. Ahmed Mukhtar, the Federal Minister for Defence, was nominated as Chairman of the Corporation in May, 2008. He holds a Masters Degree in Operational Management from California, USA and also a Diploma in Plastic Technology from West Germany. He is presently the Member of National Assembly of Pakistan. He is an experienced businessman and had been Member of Board of Directors of Service Industries Limited. He has also served the nation as Federal Minister for Commerce in early 90s. Ch. Mukhtar is a perfect blend of a businessman and a politician.

Capt. Muhammad Aijaz Haroon,
Managing Director

Capt. Muhammad Aijaz Haroon was appointed as Managing Director of the Corporation in May 2008 and nominated as Director in July, 2008. He holds ICAO Airline Transport Pilots License with Simulator / Flight Instructor Rating on all PIA aircraft flown by him. He has over 30 years of airline experience with expertise in major operational areas including the positions of General Manager (Central Control), General Manager (Airport Services), and Director (Airport Services). He is Member of the Board's Brand & Advertisement Committee, Finance Committee and Human Resource Committee. Capt. Haroon hails from the famous Memon community known for its business acumen in Pakistan.

Syed Naseer Ahmad,
Director

Syed Naseer Ahmad is a nominated Director since July, 2008. He holds a Bachelors Degree from Punjab University and a Post Graduate fellowship from the University of Oxford, UK. During his career of 42 years as a civil servant, he held numerous administrative assignments at the Provincial and Federal levels which include Chairman Pakistan Railways, Northern Gas Pipelines Ltd, Sui Southern Gas Company Limited and PARCO; before he retired as Federal Secretary, Petroleum & Natural Resources. He also remained as Commissioner Rawalpindi Division, Provincial Secretary for Health, Forests and Home Departments in Punjab. Syed Ahmad headed different delegations and represented the Government of Pakistan on numerous missions to international bodies including UNICEF and WHO. Syed Ahmad is also Chairman of Board's Human Resource Committee.

Malik Nazir Ahmed,
Director

Malik Nazir Ahmed is an elected Director since March, 2008. He holds a Bachelors Degree in Laws from Punjab University. Malik Ahmed is a renowned Businessman and is presently CEO of Nam International (Pvt.) Ltd, Namco Associates 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 Ahmed is also Member of Board's Audit Committee and Board's HR Committee.

Mr. Javed Akhtar,
Director

Mr. Javed Akhtar is a nominated Director since July, 2008. 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 also working as Director of Karachi Garment City. He was formerly Member Managing Committee and currently Member General Body 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. Mr. Akhtar is also Member of Board's Brand & Advertisement Committee and Human Resource Committee.

Lt. Gen. (Retd) Syed Athar Ali,
Director

Lt. Gen. (Retd) Syed Athar Ali is a nominated Director since November, 2008. He holds Masters Degrees in War Studies from National Defence University, Islamabad and International Relations from Columbia University, USA. He is presently Federal Secretary Defence. He held various command, staff and instructional appointments which include representation of Pakistan on UN Peace-Keeping Mission in Sierra Leone in the dual capacity of Deputy Force Commander and Chief Military Observer for more than two years. Lt. Gen. Ali is a recipient of Hilal-i-Imtiaz (Military).

**Prof. Mian Ijaz ul Hassan,
Director**

Prof. Mian Ijaz ul Hassan is a nominated Director since July, 2008. He holds Masters Degree in English from St. John's College, Cambridge, UK and Fine Arts from St. Martin's School of Arts, London. He is one of Pakistan's leading artists who identify nature through his paintings. He had been teaching at historic National College of Arts, Lahore. Prof. Hassan worked as Cultural Advisor to Ministry of Foreign Affairs in 1997. He is a recipient of 'Pride of Performance' which is the highest national award in the field of art. Prof. Hassan was appointed as Chairman, National Task Force for Culture and Heritage in 2009 and chaired the Working Group that prepared the 10th National Five-Year Plan for Culture and Heritage. He is Chairman of the Board's Brand and Advertisement Committee and Member of the Board's Audit Committee.

**Mr. Mubashir Iftikhar,
Director**

Mr. Mubashir Iftikhar is an elected Director since March, 2008. He holds a Bachelors Degree in Business and Finance from Suffolk University, Boston, USA. He is a well known businessman and is presently looking after the general administration of Diamond Group of Companies where his areas of interest are Finance, Audit, Monitoring of Purchases / Production and MIS development. Mr. Iftikhar is also Member of Board's Audit Committee, Brand & Advertisement Committee, Finance Committee and Human Resource Committee.

**Mr. Husain Lawai,
Director**

Mr. Husain Lawai is a nominated Director since July, 2008. Presently, he is President and Chief Executive Officer of Arif Habib Bank Limited. He holds Masters Degree in Business Administration from Institute of Business Administration, Karachi. Formerly, Mr. Lawai served as President & Chief Executive Officer at Muslim Commercial Bank and Director Security Investment and Finance Ltd, UK. He established Pakistan Branches of Faysal Islamic Bank - the first Islamic Sharia compliant Bank in Pakistan. He was General Manager, Emirates NBD Bank for Pakistan and Far East. Mr. Lawai is also Chairman of Board's Audit Committee.

**Mr. Shaukat Ali Rana,
Director**

Mr. Shaukat Ali Rana is a nominated Director since September, 2008. He is an Attorney at Law. He has received training at Harvard University, Massachusetts, USA in Public Enterprises - Policy and Management in Developing Countries, and also in Project Management from USDA Graduate School, Washington DC, USA. As a Civil Servant, he has more than 36 years varied experience in administration of justice, maintenance of law & order, land revenue administration, and eradication of corruption. He retired as Secretary/Member Inquiries SGA&I Department, Government of Punjab. He has also served as Director on the Board of Sui Northern Gas Pipelines Ltd. Mr. Rana is also Member of Board's Human Resource Committee.

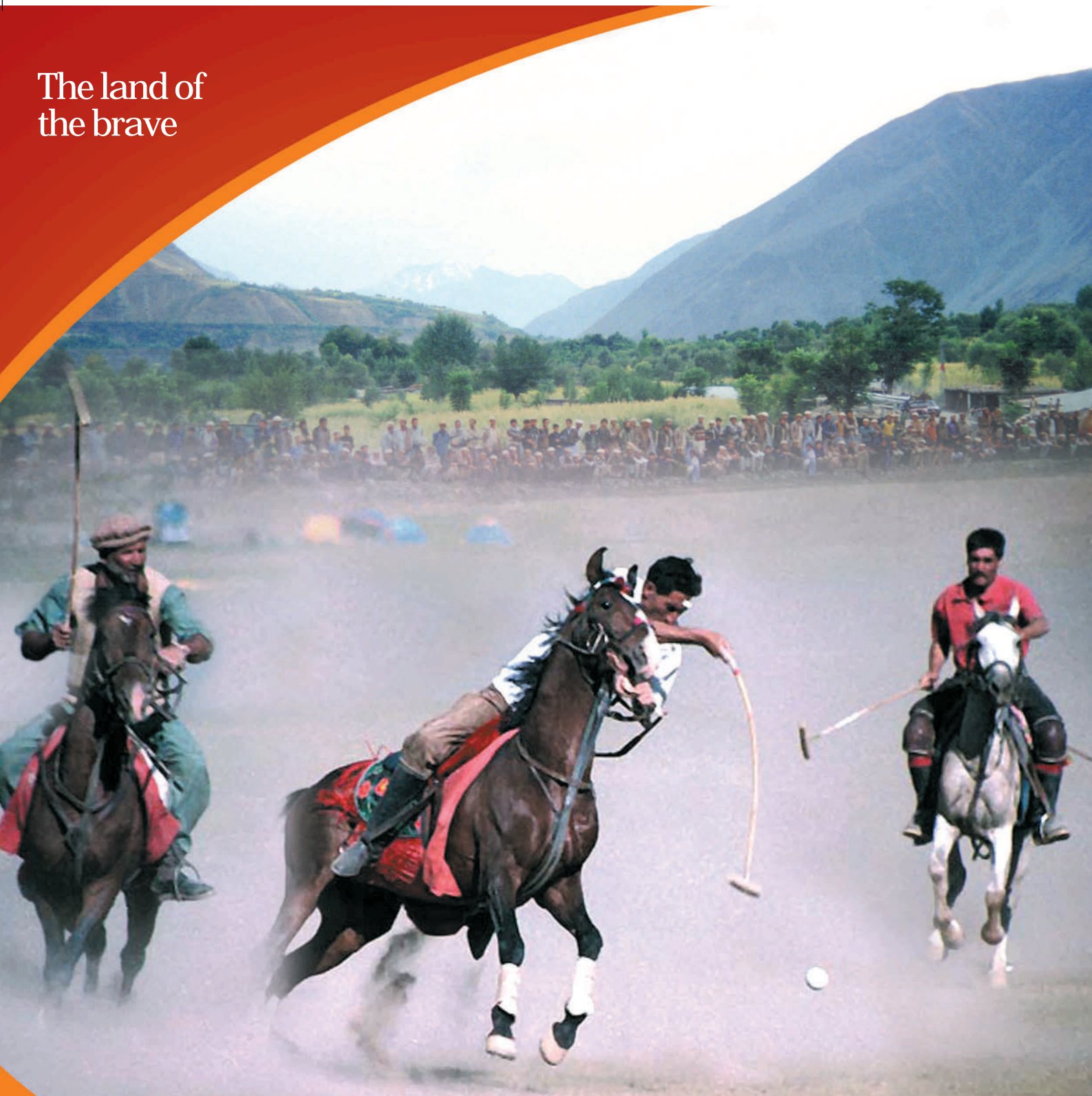
**Mr. Salman Siddique,
Director**

Mr. Salman Siddique is a nominated Director since March, 2009. He holds Masters Degree in English from Punjab University, Social Sciences and Planning from London School of Economics & Political Science from University of London. He is presently Federal Secretary Finance. He held various senior positions during his service with the Government of Pakistan and Government of Punjab, which include Federal Secretary Kashmir Affairs and Northern Areas, Joint Secretary Cabinet Division, Chief Secretary Punjab, Provincial Census Commissioner Punjab, Commissioner Lahore Division and Secretary S&GA Department. Mr. Siddique played a vital role in acquiring World Bank and International Monetary Fund assistance for development of education and health in Punjab. Mr. Siddique is also Chairman of Board's Finance Committee.

**Mr. Muhammad Shuaib,
Secretary**

Mr. Muhammad Shuaib is the Corporate Secretary since January 2008. Besides first class first MBA, he holds an LLB Degree. He is a "Certified Director" from Pakistan Institute of Corporate Governance (PICG) as accredited by RiskMetrics Group, USA. He participated in various conferences, seminars and workshops on corporate affairs held in Pakistan, India, UK, and USA. During his career in PIA, he held the position of Secretary Board's Audit Committee, Deputy General Manager (Corporate Affairs), Asstt Corporate Secretary, and Manager, Managing Director's Secretariat. Voluntarily, Mr. Shuaib is associated with PIA Scouts Association as Asstt Provincial Commissioner. He is also the elected International Commissioner of Pakistan Boy Scouts Association since October 2009.

The land of the brave



Chitral • Dera Ismail Khan • Peshawar

courage

"If you have the COURAGE to begin,
you have the COURAGE to succeed."

board of directors' committees (as of march 16, 2010)

Audit Committee

Mr. Hussain Lawai	Chairman
Malik Nazir Ahmed	Member
Prof. Mian Ijaz ul Hassan	Member
Mr. Mubashir Iftikhar	Member
Chief Internal Auditor	Secretary (ex-officio)

Brand & Advertisement Committee

Prof. Mian Ijaz ul Hassan	Chairman
Malik Nazir Ahmed	Member
Mr. Javed Akhtar	Member
Capt. Muhammad Aijaz Haroon Managing Director	Member (ex-officio)
Mr. Mubashir Iftikhar	Member
General Manager Marketing Planning	Secretary (ex-officio)

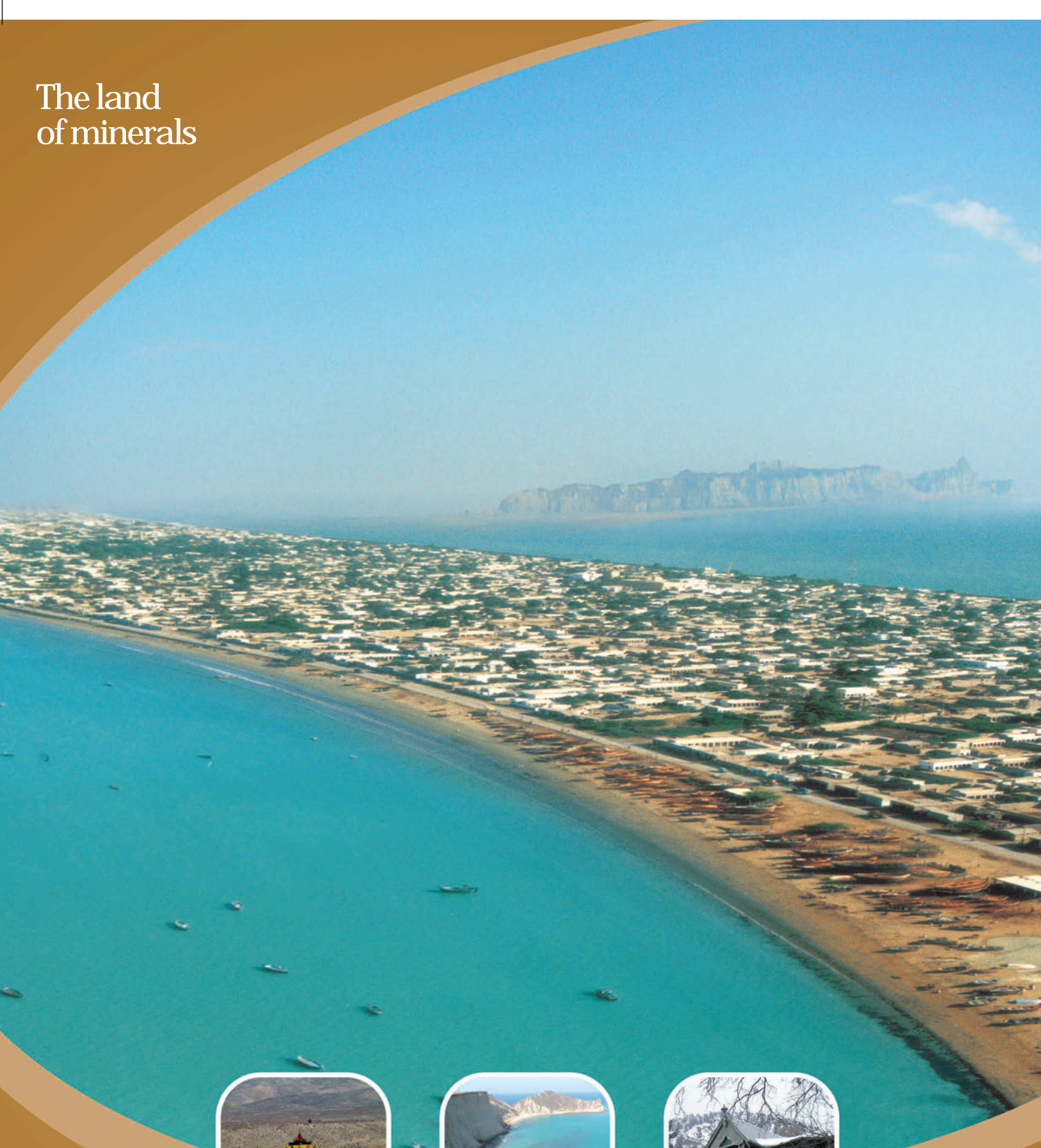
Finance Committee

Mr. Salman Siddique	Chairman
Capt. Muhammad Aijaz Haroon Managing Director	Member (ex-officio)
Mr. Mubashir Iftikhar	Member
Mr. Husain Lawai	Member
Chief Financial Officer	Secretary (ex-officio)

Human Resource Committee

Syed Naseer Ahmad	Chairman
Capt. Muhammad Aijaz Haroon Managing Director	Member (ex-officio)
Malik Nazir Ahmed	Member
Mr. Javed Akhtar	Member
Mr. Mubashir Iftikhar	Member
Mr. Shaukat Ali Rana	Member
Director HRA&C	Secretary (ex-officio)

The land of minerals



Dalbandin • Gwadar • Panjgur

pride

"Look back with PRIDE,
Look forward with hope"

directors' report to the shareholders

The Directors are pleased to present their report together with the audited financial statements of the Corporation for the year ended December 31, 2009.

State of the Airline Industry

Global

Year 2009 proved to be a challenging year with widespread global recession and financial crises. The industry was adversely hit by over capacity and fuel price volatility. Globally, airlines have recorded dips both in passenger/cargo loads and yields. IATA predicted net losses for 2009 to be USD 11 billion (USD 3.4 billion for Asia Pacific carriers) and reiterated that the security of passengers is a top priority for the aviation industry which will increase costs further in upcoming years.

In 2009, passenger and cargo yields plummeted by 12% and 16% respectively. During 2009, passenger traffic shrunk by 3.4% globally. Industry Revenue Passenger Kilometers (RPKs) and Revenue Freight Tonne Kilometers (RFTKs) growths have been negative at -3.5% and -10.1% respectively.

Outgoing was yet another year of sharp swings in oil prices. Prices for a barrel (bbl) of IPE Brent ranged from around USD 40/bbl (in February) to USD 80/bbl (in October) last year. The average price was around USD 62.53/bbl, or 36 per cent lower than the previous year. Over the remainder of 2009, the crude oil price rose sharply. This trend was driven by positive expectations for the economy and speculation of a similar magnitude to that seen in 2008.

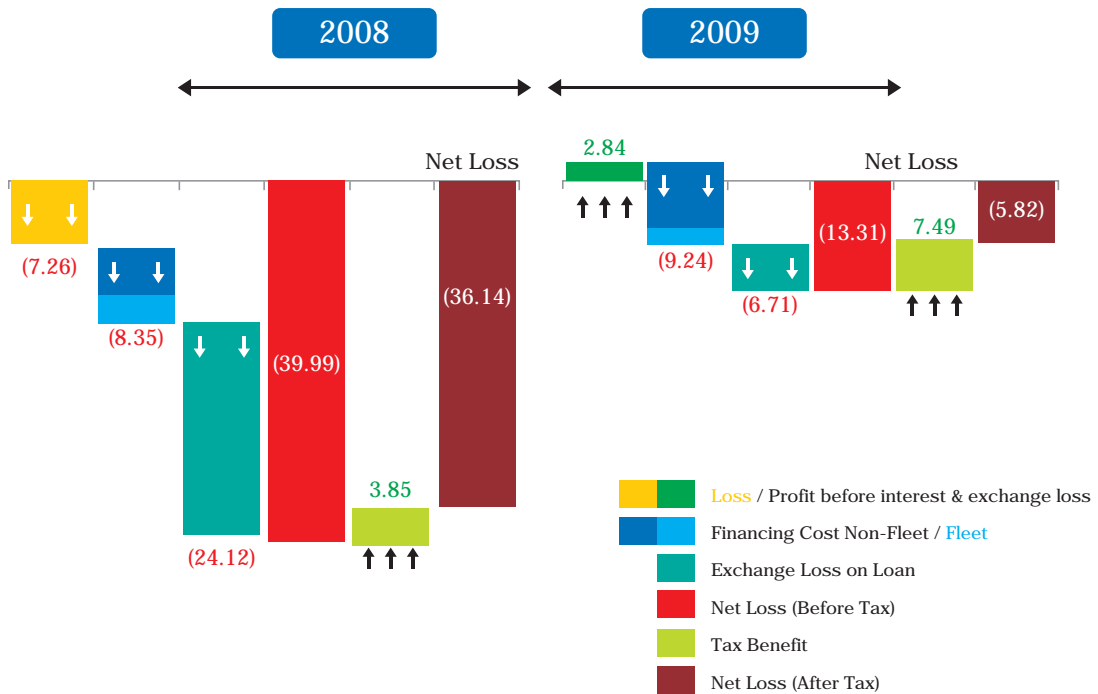
Last quarter of 2009 has shown more consistent signs of improvement in the air freight business. Volumes and yields are now moving in the right direction – upwards – although there is still a long way to go before early 2008 levels are regained. Several years of growth have been lost in this extraordinary downturn. Moreover, revival in the economic growth is very uneven – with a strong rebound in Asia and parts of South America but weak growth in developed markets – and is expected to remain that way for some time. But world trade is now picking up adding to the impetus given to air freight by the inventory cycle and mode switching. Yields are starting to turn up, as load factors recover, but low aircraft utilisation and scheduled deliveries imply that capacity remains a threat to restoring profitability.

Pakistan

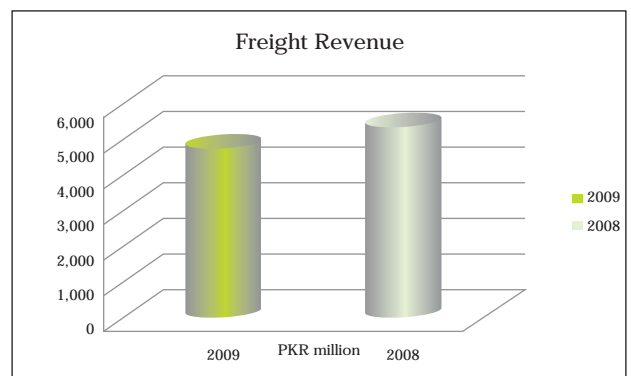
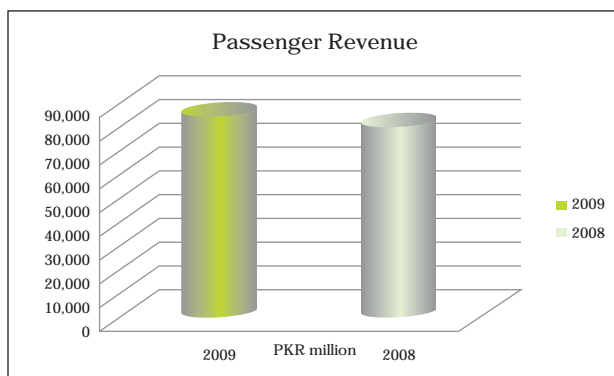
On domestic front Pakistan suffered from a worsening law and order situation coupled with energy and power crises and a not-so-stable currency. Law and order situation has made Pakistan an un-favourable destination which has impacted on non-Pakistani travelers number. This situation has been so significant for Pakistan that transit traffic is also low, adversely affecting international business.

Results for the year

We slashed our post tax losses by 83 percent in 2009 on the back of fuel cost reduction, a comparatively stable Pak Rupee, prudent financial management and higher revenues. The post-tax financial loss came down to PKR 5.82 billion in 2009 from PKR 36.14 a year ago. The drain caused by depreciation of Rupee was limited to PKR 6.71 billion in 2009, 72% less than PKR 24.12 billion in the preceding year. Our largest expense item is fuel. PIA had authorization to hedge 20% of its oil requirement in 2009. We saved PKR 500 million by hedging fuel for operations in 2009 and the Board of Directors have now increased the limit to 40% to capitalize on a potential to increase such savings in future. The comparative financial performance of the preceding two years has been explained below:



A significant reduction of loss testifies that the management capitalised on the opportunities offered by a changing macroeconomic environment – both global and domestic and successfully tackled the challenges of 2009, closing at a much better result in comparison with the previous years. However, it fell far short of the profitability required to earn a return on capital and create value.



Major Judgement Areas

Frequent Flyer Programme - IFRIC 13

IFRIC 13 'Customer Loyalty Programmes' (effective for periods beginning on or after July 01, 2008) – IFRIC 13 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, the customers can redeem in the future for free. According to the said interpretation, the Corporation is now required to recognize credits that it awards to customers as a separately identifiable component of revenue, which would be deferred at the date of the initial sale. The allocation between the award credits and other components of the sale is undertaken at fair value. The value attributable to the other component of sales is then recognized on passenger uplift, while the value attributable to the awarded credits is deferred as a liability (un-earned revenue) until the credits are ultimately utilized or they are expired.

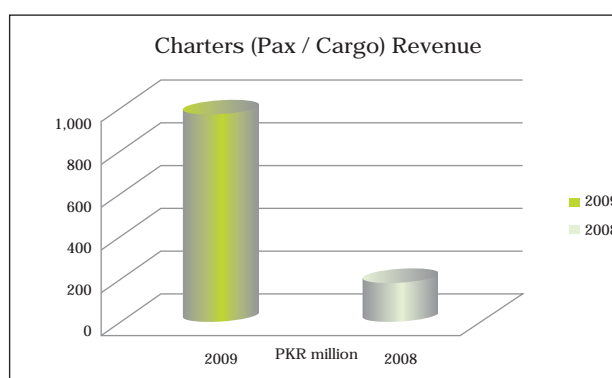
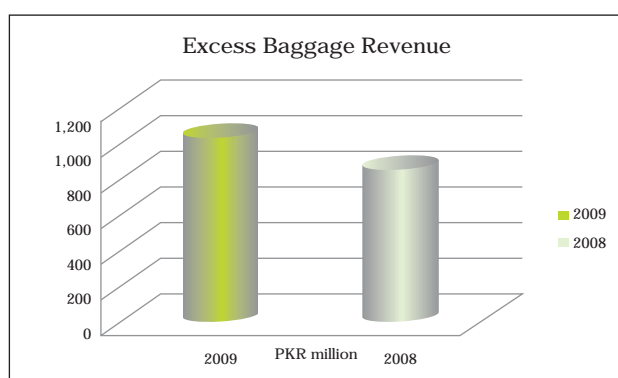
The Corporation has adopted this interpretation in the current year due to which the results for the year ended December 31, 2008, have been restated in accordance with the requirements of IAS-8 "Accounting Policies, Changes in Accounting Estimate and Errors". The impact of adopting IFRIC 13 on the balance sheet and the profit and loss account are shown in note 4.1.4 of unconsolidated financial statements.

Deferred Tax

A net reversal of PKR 8,852 million in deferred taxation has been recorded which has resulted in a significant reduction in amount of loss after taxation for the year. The reversal is caused due to recognition of deferred tax asset on account of unused tax losses related to unabsorbed depreciation amounting to PKR 91,709 million. In view of the history of losses, the amount of deferred tax asset is restricted to the amount of taxable temporary differences available and recognized only for tax losses related to unabsorbed tax depreciation which can be carried forward indefinitely.

Employee Benefits

Accounting for the absorption of contractual employees and for the increase in salary and pension, the Corporation has undertaken a thorough review of the valuation of post retirement benefits duly conducted by an actuary. As a result the expenditure recognized in 2009 is PKR 2,667 million. The method, assumptions and other key variables used in the valuation have been explained in detail in note 24 to the unconsolidated financial statements.



Business Review

Despite economic recession and competition, PIA's overall capacity and passenger traffic variation is better compared to many other airlines. This overall improvement in operating parameters to increase yield has come from cumulative endeavors that management undertook through a series of fresh initiatives as well as implementation of measures initiated earlier. Such measures have been briefly explained hereunder:

New twice weekly flights to Barcelona & Frankfurt were introduced during 2009 while frequencies on the following routes have been increased:

- Islamabad-Kuala Lumpur
- Islamabad-Kathmandu
- Peshawar-Kabul
- Dera Ghazi Khan-Dubai
- Sialkot-Abu Dhabi
- Sialkot-Bahrain
- Sialkot-Kuwait

Improvements were made in PIA's network infrastructure by upgrading network computers, replacing dumb terminals, implementing IBM Tivoli for network traffic & storage management and connecting PIA Data Centre directly to PTCL fiber optics network. Restructuring within marketing department was performed in order to improve formulation of targets for each market and their regular monitoring.

Cost reduction measures were taken during 2009 whereby PIA has started to shift agents to Sabre Global Distribution System (GDS). Zero commission to Agents in Pakistan market has been implemented with effect from Jan 16, 2009 while new General Sales Agents (GSAs) have been appointed in Barcelona, Copenhagen, Oslo, Dubai and Dhaka to reduce administrative costs and widen selling base. In addition, all GSAs in Pakistan market have been converted to Passenger Sales Agents to save selling costs.

Pakistan Remittance Initiative (PRI) Scheme

We entered into a joint venture with Pakistan Remittance Initiative - a body jointly setup by Ministry of Finance, State Bank of Pakistan and Ministry of Overseas Pakistanis, to enhance flow of remittances through legal channels by offering free tickets to overseas Pakistanis on behalf of PRI on achieving a minimum remittance slab. This scheme has the potential to enhance PIA's market share and revenue on international network.

Frequent Flyer Programme (Awards +Plus)

In order to facilitate our members, redemption process has been de-centralized. An in-house online redemption system was developed and implemented at city ticketing offices, airport ticketing offices and airport check-in on major domestic and international stations. The system has so far processed member rewards for approx 95.5 Million A+ Miles as well as collected PKR 5.9 Million through A+ miles sale. With the implementation of this system, we have been able to replace the 3rd party POS system which is saving approx PKR 1.5 Million per annum. Moreover the PIA A+ Executive Programme was successfully launched to attract corporate clients to boost our sales through Awards +Plus Programme.

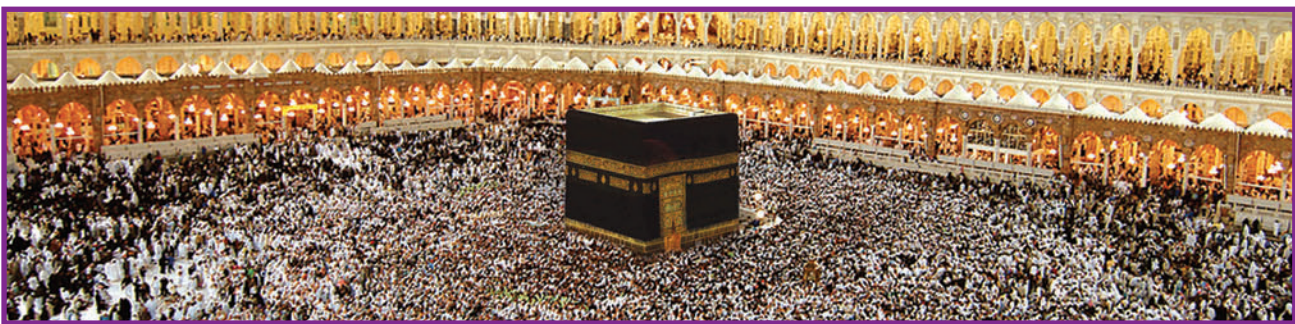


Web and e-Ticketing

We introduced online ticketing services in 2008 which gained a momentum during 2009. In line with the industry trends, web ticketing showed a consistent growth due to expansion in online markets on international routes and aggressive promotions. Over 60% of all International stations were enabled for web ticketing in 2009. PIA adopted strict fraud detection and prevention methods through tool developed in-house for which PIA received an award at Sabre global conference in USA. Further, we have achieved an overall 99% conversion to Electronic Tickets issuance in 2009 from conventional paper tickets which is in line with IATA mandate and industrial standards.

Hajj Operation

The entire Hajj Operation was conducted through PIA's own fleet in 2009 and has been quite a success. PIA operated direct flights from Karachi, Islamabad, Lahore, Peshawar and Quetta, while connections via Karachi were provided to passengers from other cities. We carried approximately 118,000 Hujjaj during the Hajj Operation. Our 2009 Hajj operational performance showed excellent technical reliability of 99.5%. For the first time in PIA's history, PIA Engineering provided one spare B747 aircraft stationed at Jeddah to support any unforeseen technical delays. We were awarded a shield by Saudi authorities for distinguished passenger handling services - another first for the airline.



Makkah

Special Projects

A Special Projects Directorate was formed in August 2009, with a broad remit to examine our product and service level in relation to those offered by our major competitors, and to recommend and implement a series of product and service improvements to enable PIA to meet and exceed these standards within a 2 year time frame. During the year 2009, following achievements were made:

- The development of a Brand Key for PIA, which determines the essence of the Corporation, together with a vision for the values, personality benefits, discriminators, insights and analysis of key competitors.
- First product to receive improvement would be the 'Business Plus'. An outline service concept, together with appropriate service flows and key product elements was approved by the PIA Board Brands Committee in December 2009. Implementation targets were set on a rolling basis for 2010.

It was decided to re-launch Business Plus on a progressive basis through the Summer of 2010. Key product elements, including the "soft" product (service procedures and associated training activities), "hard" product such as service equipment, cabin décor and furnishings and catering would all be revised and developed in line with the approved Brand Key.

Full Flight Simulator

During 2009, we signed an agreement with Thales for the purchase of a new Boeing 777 Full Flight Simulator Level D and associated options. The new simulator uses key technologies to drive down operational costs, exceeds the latest environmental directives and dramatically reduces the carbon footprint of the device. The acquisition of this full flight simulator will result in improved training standards, better coordinated crew scheduling & planning and will also be a potential for generating Third-party revenue.

Engineering and Maintenance

PIA engineering punctuality showed a remarkable improvement in the dispatch reliability, resulting in an overall performance of 90% on time system-wise departure and 95% dispatch reliability due to technical reasons. A new Central Network Control unit providing 24/7 hands-on management was put in place whereby we implemented major organizational changes to support line maintenance organization. Further, a smart route planning has been introduced to reduce consequential delays. We also initiated continuous improvement process such as 6 sigma & lean manufacturing to streamline operations and to reduce cost. We continued to reap the benefits of the CF6-80C2 overhaul which was initiated in 2008. This saved us over US \$ 20 million during the year by not offloading engines to KLM. During 2009 PIA engineering obtained certification from regulatory authorities of Qatar, Indonesia and Zimbabwe for providing services to third party customers whose aircraft are registered in those countries. During the year, we commissioned PW127E Engine test cell capable of testing A310/ B777 APU and PW127E Engine. This is expected to reduce repair abroad cost, and increase third-party revenue. Aircraft Overhaul facility upgraded to accommodate A310 major checks.



PK-MRO: Where Excellence is a Way of Life

PIA Engineering and Maintenance is an established aircraft maintenance and repair facility that provides world-class solutions to the aviation industry. PIA's Engineering base is strategically located for the convenience of airlines whose operations extend to Asia; it is equipped with the most advanced, modern aircraft maintenance and overhaul facilities. It is manned by a team of highly trained personnel.

Capabilities

As a full-service MRO provider, PK-MRO is involved in the day-to-day maintenance operations of many airlines. On-time delivery, frequent progress reporting and flexibility are key factors in number of hundreds of C-checks and D-checks PK-MRO carry out. Following is a list of Aircraft Checks that PK-MRO can perform;

Aircraft	Engines	Types of Checks				
		A	C	QBC	MBC/Inter D	D/Base Check
Boeing 747-300	RR RB211	Yes	Yes	-	-	Yes
Boeing 747-200	CF6 / JT9D	Yes	Yes	-	Yes	-
Boeing 777	GE90	Yes	Yes	-	-	-
Boeing 737-300	CFM56	Yes	Yes	-	-	Yes
Airbus A300B4/B2	GE CF6	Yes	Yes	Yes	Yes	Yes
Airbus A310-300	GE CF6 PW4152	Yes	Yes	-	Yes	Yes
ATR 42-500	PW127	Yes	Yes	-	-	-
QBC - Quarter Base Check	MBC - Mid Base Check					

Engine overhaul capabilities

Aircraft Engine-GE CF6-50C2/E2, GE CF6-80C2, CFM56-3B				
Engine	Capabilites			
CF6-50C2/E2	Full Refurbish	MC	MO	OH
CFM-563B	Full Refurbish	MC	MO	OH
RB211-524	Fan Blade Replacement	-	-	-
CF6-80C2A8	BSI/Fan Blade Replacement	MC	MO	OH
PW4152	BSI	-	-	-
Dart MK532	HSI	MC	MO	OH
GE90-94/GE90-115B	BSI/Fan & Propulsion Separation	-	-	-

Legends:

MC: Module Change BSI: Boroscopic Inspection MO: Module Overhaul HIS: Hot Section Inspection
OH: Overhaul

Approvals/Certifications

- CAA Pakistan
- CAA Thailand
- European Aviation Safety Agency (EASA)- Part145

Customers

- ACT Airlines
- Airbus
- Air Blue
- Air Universal
- Avient Aero
- Edhi Air Ambulance
- Emirates
- General Electric
- Hellenic Imperial
- Iran Air
- Kuwait Airways
- Logistic Air
- Mahan Air
- MNG Airlines
- Orient Thai Airlines
- Pakistan Air Force
- Pakistan Navy
- Patriot Aviation
- Qatar Airways
- Royal Airlines
- SAGA Airlines
- Shaheen Airlines
- Syrian Air
- Tri – Star Airlines

PK MRO to become One Stop Shop Premier MRO Service Provider in the region by providing

- Competitive Labour Price
- Excellent Turn Around Time
- Material at better than Market Price
- Quality - VALUE FOR MONEY

Continuous Improvement Initiatives – The Way Forward

- Simplification and standardization – Maintenance Program
- Industry best practices and techniques – Lean Six Sigma
- Multi-skilled appropriately qualified staff
- Expansion and improvement of facilities
- Reduction in material expenses
- Use of modern Technology – ERP Solution

Key Projects: Vision 2020

- Landing Gear Overhaul Shop
- GE 90 Test Facilities with Modular Repairs
- Full Capacity CF6- 80 Engine Overhaul Operations
- ATEC shop working on optimum capability / capacity
- Maintenance base at ISB, LHE & PEW
- Full Integrated ERP Solution
- New Wide Body Maintenance Hangar
- Lean 6 Sigma initiatives for process improvement

Passenger Handling Services & Flight Operations

We automated dispatch of Post Flight Report and Departure Performance Report, and extended our Departure Control System (Sabre) at additional 07 International Airports, adding to the flight processing efficiency resulting in enhanced flight monitoring. Further, we have introduced graphical user interface of our current check in system at major Domestic airport, like KHI, LHE and ISB. Resultantly, check-in response time has improved leading to shorter passenger queues at Check-in. During the year, we centralized our load control set up and introduced as advanced version of "SABRE Steady State" named as "Load Manager". Through Load Manager, load sheets of all domestic and international stations can be prepared in KHI. By the end of 2009, 16 out of 36 stations have been successfully cutover to "Centralized Load Control" (CLC). Initially, load sheet preparation was being done by the handling agents at international stations at a certain charge. With the introduction of CLC, a significant financial saving would be achieved as now; this service will be rendered internally. Moreover, we have also initiated the process of CLC cutovers at domestic stations and to begin with, we have achieved successful CLC cutover at KHI which has resulted in better resource utilization.

Through effective operational administration, we have seen visible improvement in flight punctuality whereby flight delays have decreased from 337 in year 2008 to 208 in 2009 i.e. an overall decrease of 38% in delays. We successfully exceeded targeted excess baggage revenue of PKR one billion and earned PKR 1,080 million – an increase of PKR 80 million.

Information Technology

During 2009, in addition to installation of latest version of IBM Z10 series mainframe, we implemented the following new IT systems:

- Cargo Tracking/Reservation System (CargoSpot)
- Aircraft ULD Management System
- AIRCOM/Flight Explorer which provides aircraft location and movement in real time
- Movement Manager and Dispatch Manager in PIA Flight Operations

Human Resources

In line with the directives of the Federal government and as approval by the Board, the Corporation has regularized all such contractual employees, who had at least six month of service and were not above 50 years of age. Consequently, around 850 contractual employees were permanently absorbed in the Corporation with effect from July 1, 2009. The Corporation allowed salary increases to all employees as directed by the Federal government. As approved by the Board, pension of all pensioners was increased at a rate of 15% with effect from August 1, 2009.

PIA Training Centre (PTC)

PTC, an advanced Airline Training Institution, offers training in all areas of the Airline Industry as approved by local and international regulatory authorities such as CAA, ICAO and IATA. We acquired certification of International Training Quality Standard ISO 9000 for PTC that will help us impart quality training to IATA approved airlines. Moreover we obtained regulatory approval of newly designed basic engineering courses from CAA hence saving training period for engineering personnel and resulting in man-hours savings.

PTC, during 2009, developed a customized training program in Airline Marketing for the youth of the rural Sind. This was conducted under the sponsorship of Shaheed Benazir Bhutto Youth Development Program.



Competition

Most of the markets in which we operate are highly competitive. We face competition from other airlines on the same routes, from indirect flights, from charter services and from other modes of transport. The intensity of the competition varies from route to route, depending on the number and nature of the competitors, particularly whether or not they are state-owned or state supported, and on the regulatory environment and other factors. At one extreme, there are a few international routes on which competition is limited to the other state's designated airline and fares are regulated. At the other extreme, there is a free market for internal flights within the whole of Europe allowing any European airline to operate on any route, setting whatever fares they wish, subject only to infrastructure constraints and competition law. On many of the routes with multiple carriers, our pricing decisions are affected by competition from other airlines, some of which have cost structures that are different from ours or other competitive advantages allowing them to operate at lower fare levels.

Financial risk management

We are exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance. This is covered in more detail in note 41 to the unconsolidated financial statements.



President of Pakistan distributes BESOS Unit Certificates



PIA is proud to acknowledge the distribution of Unit Certificates of Benazir Employees Stock Option Scheme (BESOS) to PIA employees by the President of Pakistan, Mr. Asif Ali Zardari, at a ceremony held at Governor House Punjab, Lahore.

Corporate Social Responsibility

As a public sector organization and an active corporate citizen, the national flag carrier has a strong relationship with the community. We consider Corporate Social Responsibility (CSR) as the human face of PIA. It is the deliberate inclusion of public interest into corporate decision taking, and the honouring of a triple bottom line: People, Profit and Planet. Some of our engagements in relation to CSR are Boy Scouts Association, Cricket Academy, Planetaria, Model School, Industrial Training Institute, Sports Division, Al-Shifa Trust and Baby Day Care Centre. An in-house CSR Committee, duly constituted by the Board provides a platform to evaluate, update and recommend the best practices as PIA continues to exemplify its values in a range of corporate initiatives designed to impact positively on the lives of multiple stakeholders.

Pattern of Shareholding

A statement showing the pattern of shareholding in the Corporation and additional information as at December 31, 2009 appears on page 34.

The highest and lowest market prices for 'A' class ordinary share of PKR 10 were PKR 5.10 and PKR 2.31 per share, respectively. The highest and lowest market prices for 'B' class ordinary share of PKR 5 were PKR 32.23 and PKR 1.00 per share, respectively.

Government of Pakistan through Ministry of Defence holds 81.01% of the shares. During 2009, the Government of Pakistan, through Benazir Employees Stock Option Scheme (BESOS) transferred 12% of its shareholding to employees, which is now held by PIA Employees Empowerment Trust (PEET). Total shares held by PEET is 9.96%. Individuals and others hold 7.83% whereas, financial institutions hold 1.20%.

Changes in Board of Directors

Since the publication of Annual Report 2008, there has been no change in the Board of Directors.

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:

- a. 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.
- b. Proper books of account of the Corporation have been maintained.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- e. 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.
- f. There are no significant doubts upon the Corporation's ability to continue as a going concern.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the Listing Regulations.
- h. Key operating and financial data of last six years in summarized form is annexed to this Report.
- i. The reason for non-declaration of dividend / non-issuance of bonus shares is net loss during the year.
- j. During the year, the Board of Directors held six meetings. The attendance record of Directors is annexed to this Report.
- k. 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.
- l. The Board Members, CEO, CFO, Corporate Secretary and 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, 2009 were PKR 18,111 million and PKR 10,905 million respectively.

Fleet

Boeing 747



No. of Aircraft 6

Total Aircraft 40

Boeing 737



No. of Aircraft 6

Boeing 777



No. of Aircraft 9

ATR 42



No. of Aircraft 7

Airbus A310



No. of Aircraft 12

PIA's Network

Domestic - 24 Destinations

- | | | | |
|-------------|------------------|----------------|--------------|
| • Karachi | • Faisalabad | • Panjgur | • Dalbandin |
| • Islamabad | • Sukkur | • Mohenjo-Daro | • Sialkot |
| • Lahore | • Quetta | • Turbat | • Nawab Shah |
| • Peshawar | • D. G. Khan | • Gwadar | • Hyderabad |
| • Skardu | • Rahim Yar Khan | • Chitral | • D.I. Khan |
| • Multan | • Bahawalpur | • Gilgit | • Zhob |

International - 36 + 2 Destinations

- | | | | |
|--------------|----------------|-------------|------------------|
| • New York | • Istanbul | • Dammam | • Chicago (2010) |
| • Toronto | • Oslo | • Riyadh | • Canton (2010) |
| • Manchester | • Copenhagen | • Jeddah | |
| • Leeds | • Bangkok | • Muscat | |
| • Birmingham | • Hong Kong | • Kuwait | |
| • London | • Beijing | • Doha | |
| • Glasgow | • Tokyo | • Bahrain | |
| • Paris | • Kuala Lumpur | • Dubai | |
| • Milan | • Bombay | • Sharjah | |
| • Barcelona | • Delhi | • Al Ain | |
| • Frankfurt | • Katmandu | • Abu Dhabi | |
| • Amsterdam | • Dhaka | • Kabul | |

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:

- a) Efficiency and effectiveness of operations
- b) Compliance with laws and regulations
- c) Reliability of financial reporting

The Board has established an Audit Committee comprising four 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. It also carries out ongoing reviews of internal controls and has identified certain areas for further improvement which inter alia include the following:

- a) Revenue Accounting System
- b) Stores and Spares
- c) Anti-fraud program and controls

The Corporation's internal audit function is headed by a qualified Chartered Accountant. The internal audit shall be further strengthened in the near future by adding further resources and by co-sourcing with a firm of Chartered Accountants.

Future Outlook

Following the steepest fall in GDP, experienced since 1930s, economic growth is expected to return in 2010. However, growth is widely expected to vary dramatically between regions. There is a forecast of reasonably robust growth in the emerging economies. In the US, Europe and Japan, growth will be held back for an extended period of time while problems of highly leveraged household and bank balance sheets are resolved. The major challenges ahead of the Corporation are to regain its market share and profitability through achievement of higher yield, focus on profitable routes, improved revenue management, network optimization, product improvement, focused management and cost-cutting measures.

As part of continuous planning process and based on current market outlook, we have reviewed our short term forecasts and a revised strategic plan is being prepared. This plan shall spell-out our future strategies to turnaround the Corporation and would entail appropriate restructuring of our business, our loans and liabilities, and further injection of equity/funds.

For long term sustainability, brand building and organizational restructuring is being pursued. Several measures have already been taken and strategies are being developed to achieve an optimum customer satisfaction through cabin interior up-gradation, as well as training for cabin crew and other employees.

In pursuit of achieving improvement both in operational and financial efficiency, PIA is currently utilizing its existing human resource and infrastructure. To achieve these objectives, management intends to convert its business activities (Speedex, Training Center, engineering MRO, Technical Ground Support, Passenger Handling and Flight Kitchen) presently carried out under the umbrella of overall operations of PIA into Strategic Business Units (SBUs).

The Board, as well as Management, stay committed, firmly and steadily, to the path of recovery. We acknowledge full support of Government of Pakistan, employees, our valued customers, bankers and other stakeholders. Excited by the 83% reduction in the post tax losses, we are confident that measures taken to contain the loss situation will bring about sustainable improvements in the near future.

For and on behalf of the Board

Ch. Ahmed Mukhtar
Chairman - PIA
March 16, 2010

Attendance of Directors at Board Meetings

During the Financial Year 2009, six meetings of the Board of Directors were held and the number of Meetings attended by each Director is given hereunder:-

S. No.	Name	Meetings Attended	Meetings Held during the tenure
1.	Ch Ahmed Mukhtar Minister for Defence & Chairman-PIA	4	6
2.	Mr Malik Nazir Ahmed	6	6
3.	Mr Mubashir Iftikhar	6	6
4.	Syed Naseer Ahmad	6	6
5.	Mr Javed Akhtar	5	6
6.	Capt. Muhammad Aijaz Haroon Managing Director-PIA	6	6
7.	Prof. Mian Ijazul Hassan	5	6
8.	Mr Hussain Lawai	5	6
9.	Mr Shaukat Ali Rana	5	6
10.	Dr Waqar Masood Khan * Federal Secretary Finance	1	1
11.	Lt Gen Syed Athar Ali Federal Secretary Defence	5	6
12.	Mr Salman Siddique ** Federal Secretary Finance	1	5

* Relinquished on March 03, 2009

** Nominated on March 16, 2009

Attendance of Directors at Audit Committee Meetings

During the Financial Year 2009, four meetings of the Audit Committee were held and the number of Meetings attended by each Director is given hereunder:

S. No.	Name	Meetings Attended	Meetings Held during the tenure
1.	Mr Husain Lawai	3	4
2.	Malik Nazir Ahmed	4	4
3.	Prof. Mian Ijaz ul Hassan	4	4
4.	Mr Mubashir Iftikhar	3	4

Leave of absence was granted to Directors who could not attend some of the Board/Audit Committee Meetings.

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

Anjum Asim Shahid Rahman
Chartered Accountants
1st Floor, Modern Motors House
Beaumont Road
Karachi

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 prepared by the Board of Directors of Pakistan International Airlines Corporation (“the Corporation”) to comply with the listing regulations of the 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 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 risk and controls, or to form an opinion on the effectiveness of such controls, the corporation’s corporate governance procedures and risk.

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 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, 2009.

Chartered Accountants
Syed Asad Ali Shah

Chartered Accountants
Shahzada Saleem Chughtai

Karachi: March 16, 2010

Statement of Compliance for 2009

This Statement is being presented to comply with the Code of Corporate Governance (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 Corporation is managed in compliance with the best practices of corporate governance.

PIA has applied the principles contained in the Code in the following manner:

1. PIA is a statutory Corporation existing under Pakistan International Airlines Corporation Act, 1956 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. Presently all the Directors are non-executive except the Managing Director who has been delegated all administrative and financial powers by the Chairman and is the Chief Executive as per PIAC Act.
2. None of the Directors is serving on the Boards of more than ten listed companies inclusive of the Corporation.
3. All the Directors are registered tax payers 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 defaulter by that Stock Exchange.
4. Casual vacancy occurred in the Board during the year, was filled in by appointment by the Federal Government.
5. The Corporation has developed a "Statement of Ethics and Business Practices". The Statement has been signed by Directors whereas signatures of employees are being obtained.
6. The Board has developed and already adopted Vision and Mission Statements, overall corporate strategy and significant policies of the Corporation. A complete record of particulars of significant policies along with the dates on which these were approved or amended is available with relevant departments.
7. The Board exercised powers and took decisions in the general direction and the administration of the Corporation and its affairs inclusive of material transactions in accordance with PIAC Act 1956, PIAC Rules & Regulations 1958, and the Code.
8. The Meetings of the Board held during the Financial Year ended December 31, 2009 were presided over by the Chairman except two meetings when the Chairman was outside Pakistan and the meetings were chaired by one of the Board Members as per Section 11 (4) of PIAC Act 1956. The Board met at least once in every quarter. Written notices of the Board Meetings along with the agenda and working papers were circulated, Minutes of the Meetings were appropriately recorded and circulated.
9. The Directors are aware of their duties and responsibilities. An orientation course was arranged for PIA Board of Directors during the year 2008. PIAC Act 1956, PIAC Rules & Regulations 1958, alongwith Code of Corporate Governance have been circulated to two directors who joined subsequently.
10. Since the publication of Annual Report 2008, there was no change in the position of Corporate Secretary whose appointment had earlier been approved by the Board. Position of Chief Financial Officer was filled in as per the Code, whereas that of Head of Internal Audit which fell vacant during the said period, is presently being looked after. Appointment against the same is under process.

11. The Directors' Report for financial year 2009 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 presented to the Board by the CEO and the CFO duly endorsed under their respective signatures.
13. The Directors, CEO 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 corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee comprising four non-executive Directors including the Chairman of the Committee.
16. The Meetings of the Audit Committee were held to review quarterly, half-yearly, and annual financial statements of the Corporation prior to their approval by the Board, as per requirement of the Code. The Audit Committee operates under terms of reference set out in the Code.
17. The Corporation has an Internal Audit Division which carries out, on a continuing basis, the audit of various Head Office / station functions.
18. 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), and that they or any of the partners of the firms, their spouses and minor children do not hold Shares of the Corporation and that the firms and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
19. 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.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Karachi
March 16, 2010

Ch. Ahmed Mukhtar
Chairman

Pakistan International Airlines Corporation

Categories of Shareholders As at December 31, 2009

Categories of Shareholders	Number of Shareholders	Number of Shares Held		Percentage
		Ordinary 'A' Class of Rs. 10/- Each	Ordinary 'B' Class of Rs. 5/- Each	
Associated Companies, undertakings related parties	-----	-----	-----	-----
NIT & ICP				
National Investment Trust	1	100	-----	0.00
Investment Corporation of Pakistan	1	7,825	100	0.00
NBP Trustee Department	1	4,904,352	-----	0.21
Directors, CEO and their spouses and minor children				
Malik Nazir Ahmed, Director	1	1,800,000	-----	0.08
Mr. Mubashir Iftikhar, Director	1	50,000	-----	0.00
Executives	117	17,042	-----	0.00
Public Sector Companies and Corporations	-----	-----	-----	-----
Banks, DFIs, NBFIs, Insurance Companies, Modarabas and Mutual Funds	44	28,011,726	3	1.20
Shareholders holding 10% or more voting interest (Secretary - Ministry of Defence, Govt. of Pakistan)	1	1,885,276,556	1,462,515	81.01
PIA Employees Empowerment Trust (PEET)	1	231,855,493	-----	9.96
Individuals	56,188	71,574,733	33,954	3.08
Others	287	103,787,757	3,427	4.46
TOTAL	56,643	2,327,285,584	1,499,999	100.00

The above two statements include 7,811 Shareholders holding 184,412,815 Ordinary 'A' Class Shares and 2,416 Ordinary 'B' Class Shares through the Central Depository Company of Pakistan Limited.

Pattern of Shareholding

As at December 31, 2009

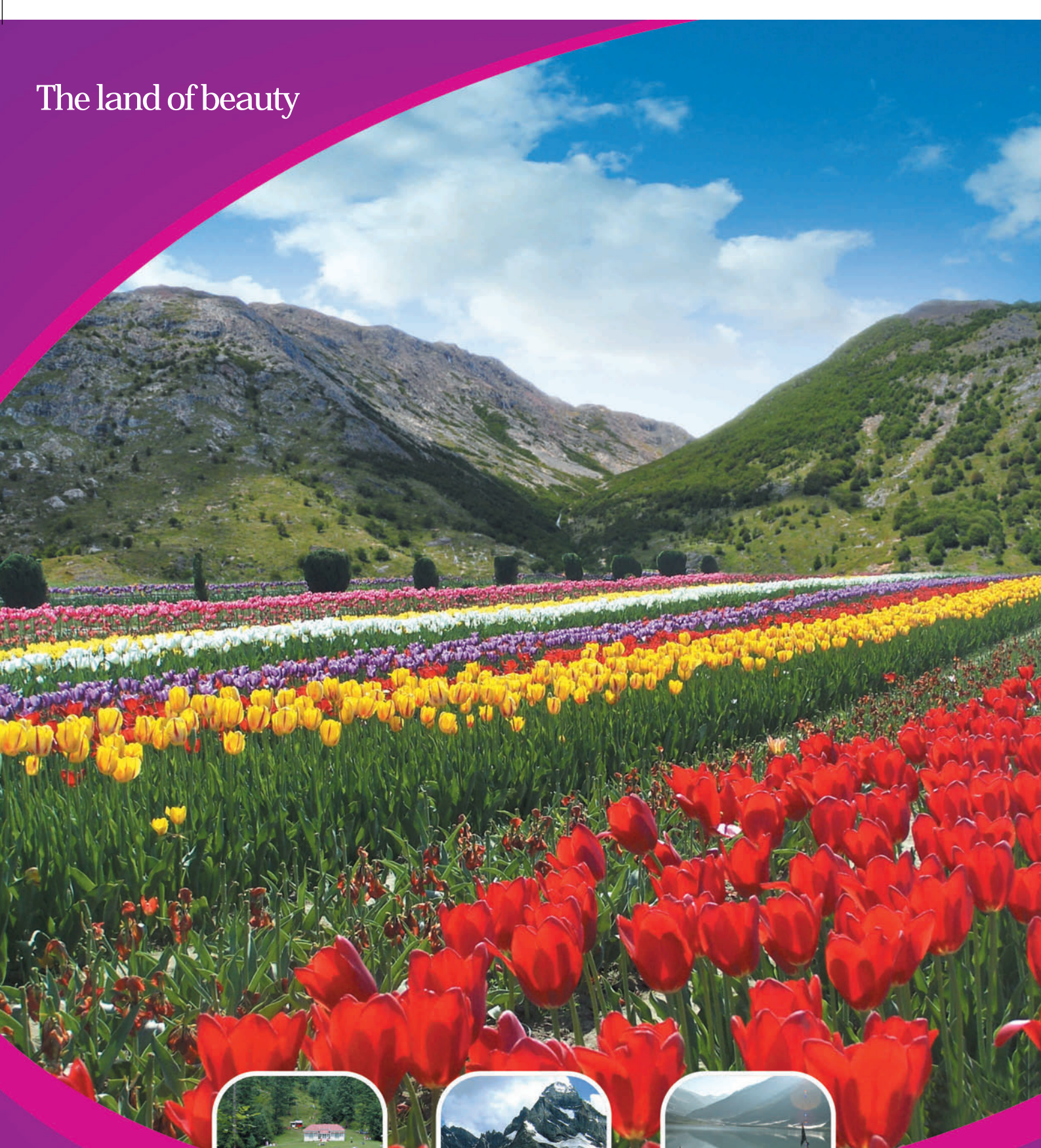
No. of Shareholders	Shareholdings		Total Shares Ordinary 'A' Class Shares of Rs.10/- Each	Total Shares Ordinary 'B' Class Shares of Rs.5/- Each
	From	To		
13,756	1	100	267,926	13,188
31,209	101	500	8,831,039	10,471
4,939	501	1,000	4,235,147	1,339
5,024	1,001	5,000	12,066,074	12,486
841	5,001	10,000	6,434,979	0
222	10,001	15,000	2,778,502	0
160	15,001	20,000	2,904,911	0
96	20,001	25,000	2,262,233	0
64	25,001	30,000	1,821,636	0
33	30,001	35,000	1,107,051	0
34	35,001	40,000	1,317,029	0
25	40,001	45,000	1,078,782	0
48	45,001	50,000	2,373,569	0
13	50,001	55,000	684,668	0
14	55,001	60,000	825,021	0
6	60,001	65,000	380,770	0
11	65,001	70,000	751,139	0
5	70,001	75,000	373,265	0
4	75,001	80,000	316,500	0
4	80,001	85,000	332,689	0
1	85,001	90,000	86,049	0
3	90,001	95,000	282,000	0
27	95,001	100,000	2,694,335	0
5	100,001	105,000	517,658	0
4	105,001	110,000	436,500	0
2	110,001	115,000	230,000	0
3	115,001	120,000	356,010	0
2	120,001	125,000	244,000	0
2	125,001	130,000	252,289	0
4	130,001	135,000	531,091	0
4	135,001	140,000	553,561	0
5	145,001	150,000	750,000	0
1	155,001	160,000	159,999	0
1	160,001	165,000	163,500	0
3	165,001	170,000	508,005	0
3	175,001	180,000	532,019	0
3	180,001	185,000	550,000	0
3	195,001	200,000	600,000	0
2	200,001	205,000	401,500	0
2	210,001	215,000	425,380	0
1	215,001	220,000	220,000	0
2	225,001	230,000	459,000	0
1	230,001	235,000	233,135	0
1	240,001	245,000	243,840	0
1	245,001	250,000	250,000	0

No. of Shareholders	Shareholdings		Total Shares Ordinary 'A' Class Shares of Rs.10/- Each	Total Shares Ordinary 'B' Class Shares of Rs.5/- Each
	From	To		
1	255,001	260,000	258,500	0
2	260,001	265,000	525,154	0
1	290,001	295,000	291,500	0
4	295,001	300,000	1,200,000	0
1	310,001	315,000	310,450	0
1	320,001	325,000	320,808	0
1	360,001	365,000	361,653	0
1	370,001	375,000	372,500	0
1	395,001	400,000	400,000	0
1	420,001	425,000	425,000	0
1	425,001	430,000	426,745	0
1	465,001	470,000	465,723	0
1	490,001	495,000	490,500	0
1	495,001	500,000	499,500	0
1	500,001	505,000	500,185	0
1	525,001	530,000	529,500	0
1	565,001	570,000	567,504	0
1	605,001	610,000	608,000	0
1	630,001	635,000	630,067	0
1	800,001	805,000	800,600	0
1	865,001	870,000	867,500	0
1	1,020,001	1,025,000	1,020,740	0
1	1,155,001	1,160,000	1,157,500	0
1	1,245,001	1,250,000	1,248,023	0
1	1,510,001	1,515,000	1,510,001	0
1	1,760,001	1,765,000	1,765,000	0
1	1,795,001	1,800,000	1,800,000	0
1	2,295,001	2,300,000	2,300,000	0
1	2,440,001	2,445,000	2,440,257	0
1	2,995,001	3,000,000	3,000,000	0
1	3,240,001	3,245,000	3,241,466	0
1	3,915,001	3,920,000	3,916,884	0
1	4,025,001	4,030,000	4,029,000	0
1	4,900,001	4,905,000	4,904,352	0
1	4,960,001	4,965,000	4,960,500	0
1	4,965,001	4,970,000	4,965,119	0
1	9,210,001	9,215,000	9,212,000	0
1	9,360,001	9,365,000	9,364,142	0
1	10,535,001	10,540,000	10,535,389	0
1	13,370,001	13,375,000	13,374,500	0
1	15,745,001	15,750,000	15,750,000	0
1	16,875,001	16,880,000	16,876,347	0
1	19,105,001	19,110,000	19,108,125	0
1	231,855,001	231,860,000	231,855,493	0
1	1,885,275,001	1,885,280,000	1,885,276,556	1,462,515
56,643			2,327,285,584	1,499,999

Six-year Summary

	2009	2008	2007	2006	2005	2004
OPERATION						
Route Kilometers	380,917	311,131	383,574	446,570	343,525	354,664
Revenue Kilometers Flown (000)	80,108	79,580	80,759	88,302	82,550	80,087
Revenue Hours Flown	132,155	132,378	132,416	141,479	134,039	130,977
Available Tonne Kilometers (000)	2,933,253	2,934,626	3,125,558	3,369,288	3,102,805	2,973,437
Available Seat Kilometers (000)	19,859,050	19,528,207	20,313,265	22,092,475	20,816,469	20,353,863
TRAFFIC						
Revenue Passengers Carried (000)	5,535	5,617	5,415	5,732	5,499	5,120
Revenue Passengers Kilometers (000)	13,891,225	13,925,297	13,680,916	15,124,413	14,506,683	13,519,847
Passenger Load Factor (%)	70	71	67	69	70	66
Revenue Freight Tonne Kilometers (000)	270,310	319,835	350,758	427,006	410,991	402,359
Kgs. of Excess Baggage & Cargo (000)	95,393	111,088	115,229	121,174	124,852	118,151
Kgs. of Mail (000)	702	778	1,127	1,410	1,433	1,649
Revenue Tonne Kilometers (000)	1,525,293	1,580,507	1,593,349	1,801,026	1,729,220	1,634,825
Revenue Load Factor (%)	52	54	51	54	56	55
Avg. Pax Stage Distance (Statute Kilometers)	2,510	2,479	2,527	2,639	2,638	2,641
FINANCIAL						
Operating Revenue (Rs. in million)	94,563.77	88,863.26	70,480.73	70,587.15	64,074.47	57,788.08
Operating Expenses (Rs. in million)	98,628.76	120,499.38	76,415.81	79,164.37	67,075.58	55,872.08
Operating Profit/(loss) (Rs. in million)	(4,064.99)	(31,636.12)	(5,935.08)	(8,577.22)	(3,001.11)	1,916.00
Profit/(loss) after tax (Rs. in million)	(5,822.43)	(36,138.64)	(13,398.71)	(12,763.42)	(4,411.66)	2,306.60
Fixed Assets (Rs. in million)	133,647.52	115,123.49	95,600.63	79,062.44	51,376.33	49,604.39
Current Assets (Rs. in million)	16,880.56	15,039.28	13,251.33	18,353.43	12,756.55	19,716.29
Current Liabilities (Rs. in million)	68,817.62	72,528.40	52,611.55	41,025.29	21,237.10	18,990.09
Long-Term Debts (Rs. in million)	105,418.23	96,926.21	74,284.84	62,650.89	38,099.18	42,517.85
Net Worth (Rs. in million)	(49,054.75)	(47,522.42)	(12,465.57)	(788.03)	10,446.30	13,441.19
Jet Fuel Prices (Rs. per US Gallon)	149.39	216.04	132.93	123.55	102.05	71.68
Cost per A. T. K. (Rs.)	33.62	41.06	24.29	23.49	21.62	18.79
RATIOS						
Earnings per share (Rs.)	(2.72)	(17.79)	(6.61)	(6.80)	(2.55)	1.76
Net assets per share (Rs.)	42.57	33.29	32.91	35.08	29.85	45.59
Debt equity ratio	NA	NA	NA	NA	4.15	3.52
Current ratio	0.25	0.21	0.25	0.45	0.60	1.04
SHARE PRICES (Rs. 10 Share)						
High	5.10	7.65	11.30	16.30	14.65	26.70
Low	2.31	1.70	6.10	7.05	6.50	9.90
Closing	2.61	3.51	6.30	7.05	12.30	13.70
PERSONNEL						
Average No. of Employees	17,944	18,036	18,149	18,282	19,263	19,634
Revenue per Employee (Rs.)	5,269,938	4,926,994	3,883,450	3,861,019	3,326,298	2,943,266
A. T. K. per Employee	163,467	162,709	172,217	184,295	161,076	151,443

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We stand for National Values



unconsolidated *financial statements*

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

Anjum Asim Shahid Rahman
Chartered Accountants
1st Floor, Modern Motors House
Beaumont Road
Karachi

Auditors' Report to the members

We have audited the annexed unconsolidated balance sheet of Pakistan International Airlines Corporation (the Corporation) as at December 31, 2009 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of cash flows 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. The financial statements of the Corporation for the year ended December 31, 2008 were audited by Anjum Asim Shahid Rahman Chartered Accountants and Ford Rhodes Sidat Hyder & Co. Chartered Accountants whose report dated March 26, 2009 expressed an unqualified opinion thereon. However, their report was modified by adding emphasis of matter paragraphs highlighting matters related to going concern and claim of Civil Aviation Authority.

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

- (a) in our opinion, proper books of account have been kept by the 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 account and are further in accordance with accounting policies consistently applied, except for the changes, as stated in note 4.1 to the accompanying unconsolidated financial statements, with which we concur;
 - (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 statement of cash flows 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, 2009 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.

Without qualifying our opinion, we draw attention to the following matters:

- i) note 1 to the unconsolidated financial statements, which states that the Corporation incurred a loss for the year of Rs. 5,822 (2008: Rs. 36,139) million during the year ended December 31, 2009, resulting in accumulated losses of Rs. 76,645 (2008: Rs. 73,174) million at the close of the year, and, as of that date, the Corporation's current liabilities exceeded its current assets by Rs. 51,937 (2008: Rs. 57,489) million. These conditions indicate the existence of a material uncertainty which may cast doubt about the Corporation's ability to continue as a going concern; and.
- ii) note 28.1(a) to the unconsolidated financial statements, which describes the uncertainty related to the difference between the amount due as per the Corporation's records and amounts claimed by the Civil Aviation Authority in respect of which a reconciliation and settlement exercise is currently in progress through the Ministry of Defence.

Chartered Accountants
Syed Asad Ali Shah

Karachi: March 16, 2010

Chartered Accountants
Shahzada Saleem Chughtai

Unconsolidated Balance Sheet As at December 31, 2009

	Note	December 31, 2009	December 31, 2008	January 01, 2008	December 31, 2009	December 31, 2008	January 01, 2008
		Rupees in '000			US\$ in '000		
		Restated	Restated	Restated	Restated	Restated	Restated
ASSETS							
NON CURRENT ASSETS							
Fixed assets							
Property, plant and equipment	5	133,555,560	115,010,337	95,497,151	1,586,171	1,457,673	1,554,063
Intangibles	6	91,962	113,154	103,475	1,092	1,434	1,684
		133,647,522	115,123,491	95,600,626	1,587,263	1,459,107	1,555,747
Long-term investments	7	4,446,950	4,497,642	4,540,229	52,814	57,004	73,885
Long-term advances	8	-	-	1,283,000	-	-	20,879
Long-term deposits and prepayments	9	5,038,148	5,009,452	4,098,388	59,835	63,491	66,695
		143,132,620	124,630,585	105,522,243	1,699,912	1,579,602	1,717,206
CURRENT ASSETS							
Stores and spare parts	10	3,987,423	3,726,940	3,251,940	47,357	47,236	52,920
Trade debts	11	7,978,187	5,757,849	5,012,778	94,753	72,977	81,575
Advances	12	2,189,162	1,418,610	604,470	26,000	17,980	9,837
Trade deposits and prepayments	13	1,158,497	1,591,583	1,023,312	13,759	20,172	16,653
Accrued interest		-	1,325	32,789	-	17	534
Other receivables	14	799,193	1,441,564	1,043,971	9,492	18,271	16,989
Short-term investments	15	25,151	42,505	32,093	299	539	522
Taxation - net		-	269,351	274,519	-	3,414	4,466
Cash and bank balances	16	742,945	789,555	1,975,459	8,824	10,007	32,147
		16,880,558	15,039,282	13,251,331	200,484	190,613	215,643
TOTAL ASSETS		160,013,178	139,669,867	118,773,574	1,900,396	1,770,215	1,932,849

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated Balance Sheet As at December 31, 2009

	Note	December 31, 2009	December 31, 2008	January 01, 2008	December 31, 2009	December 31, 2008	January 01, 2008
		Rupees in '000			US\$ in '000		
		Restated	Restated	Restated	Restated	Restated	Restated
EQUITY AND LIABILITIES							
SHARE CAPITAL AND RESERVES							
Share capital	17	23,280,356	21,423,014	20,878,074	276,489	271,521	339,757
Reserves	18	(72,335,101)	(68,945,437)	(33,343,643)	(859,087)	(873,833)	(542,614)
TOTAL EQUITY		(49,054,745)	(47,522,423)	(12,465,569)	(582,598)	(602,312)	(202,857)
SURPLUS ON REVALUATION OF FIXED ASSETS	19	28,281,903	14,192,700	972,040	335,890	179,882	15,818
NON CURRENT LIABILITIES							
Long-term financing	20	24,553,113	19,471,411	17,037,075	291,605	246,786	277,251
Term finance and sukuk certificates	21	19,592,320	12,430,143	10,723,738	232,688	157,543	174,512
Liabilities against assets subject to finance lease	22	61,272,797	65,024,660	46,524,024	727,705	824,140	757,104
Long-term deposits	23	365,847	301,770	321,547	4,345	3,825	5,233
Deferred liabilities	24	6,184,327	3,243,205	3,049,166	73,448	41,105	49,620
		111,968,404	100,471,189	77,655,550	1,329,791	1,273,399	1,263,720
CURRENT LIABILITIES							
Trade and other payables including provisions	25	28,684,514	27,947,496	20,617,174	340,671	354,214	335,511
Accrued interest / mark-up / profit	26	1,845,592	1,475,456	978,317	21,919	18,700	15,920
Provision for taxation		848,890	-	-	10,084	-	-
Short-term borrowings	27	23,982,160	30,500,062	18,105,884	284,824	386,566	294,644
Current maturities of:							
Long-term financing	20	5,328,458	5,352,528	5,662,451	63,283	67,839	92,147
Term finance and sukuk certificates	21	5,120	-	2,523,232	61	-	41,062
Liabilities against assets subject to finance lease	22	8,122,882	7,252,859	4,724,495	96,471	91,927	76,884
		68,817,616	72,528,401	52,611,553	817,313	919,246	856,168
CONTINGENCIES AND COMMITMENTS							
	28						
TOTAL EQUITY AND LIABILITIES		160,013,178	139,669,867	118,773,574	1,900,396	1,770,215	1,932,849

The annexed notes 1 to 44 form an integral part of these unconsolidated financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated

Profit and Loss Account

For the year ended December 31, 2009

	Note	December 31, 2009 Rupees in '000	December 31, 2008 Restated	December 31, 2009 US\$ in '000	December 31, 2008 Restated
REVENUE - net	29	94,563,765	88,863,258	1,123,085	1,126,277
COST OF SERVICES					
Aircraft fuel		(31,371,753)	(45,854,357)	(372,586)	(581,171)
Others	30	(47,257,674)	(39,421,454)	(561,255)	(499,638)
		(78,629,427)	(85,275,811)	(933,841)	(1,080,809)
GROSS PROFIT		15,934,338	3,587,447	189,244	45,468
Distribution costs	31	(5,911,946)	(5,309,808)	(70,213)	(67,298)
Administrative expenses	32	(7,180,665)	(5,818,218)	(85,281)	(73,742)
Other provisions and adjustments - net	33	(689,849)	(1,807,645)	(8,193)	(22,911)
Exchange loss - net		(6,711,336)	(24,118,823)	(79,707)	(305,688)
Other operating income	34	494,462	1,830,920	5,872	23,206
		(19,999,334)	(35,223,574)	(237,522)	(446,433)
LOSS FROM OPERATIONS		(4,064,996)	(31,636,127)	(48,278)	(400,965)
Finance costs	35	(9,243,768)	(8,351,648)	(109,783)	(105,851)
LOSS BEFORE TAXATION		(13,308,764)	(39,987,775)	(158,061)	(506,816)
Taxation	36	7,486,333	3,849,133	88,911	48,785
LOSS FOR THE YEAR		(5,822,431)	(36,138,642)	(69,150)	(458,031)
		(Rupees)		(US\$)	
			Restated		Restated
EARNINGS PER SHARE - BASIC AND DILUTED	37				
'A' class Ordinary shares of Rs.10 each		(2.72)	(17.92)	(0.03)	(0.23)
'B' class Ordinary shares of Rs. 5 each		(1.36)	(8.96)	(0.02)	(0.12)

The annexed notes 1 to 44 form an integral part of these unconsolidated financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated

Statement of Comprehensive Income

For the year ended December 31, 2009

	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	Rupees in '000	Rupees in '000	US\$ in '000	US\$ in '000
		Restated		Restated
Loss for the year	(5,822,431)	(36,138,642)	(69,150)	(458,031)
OTHER COMPREHENSIVE INCOME				
Unrealised loss on re-measurement of investments	(43,987)	(24,101)	(522)	(305)
Cash flow hedge				
Loss arising during the year	-	(192,725)	-	(2,443)
Tax on fair value of cash flow hedge	-	67,454	-	855
Reclassification adjustment for loss transferred to profit and loss account	125,271	-	1,488	-
	125,271	(125,271)	1,488	(1,588)
COMPREHENSIVE INCOME TRANSFERRED TO EQUITY	(5,741,147)	(36,288,014)	(68,184)	(459,924)

The annexed notes 1 to 44 form an integral part of these unconsolidated financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated

Statement of Cash Flows

For the year ended December 31, 2009

	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	Note	Rupees in '000	US\$ in '000	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from / (used in) operations after working capital changes	38	7,191,582	(19,719,505)	85,411
Profit on bank deposits received		34,103	195,004	405
Finance costs paid		(8,873,632)	(7,854,509)	(105,388)
Deferred custom duties paid		123,205	-	1,463
Taxes paid		(248,103)	-	(2,947)
Staff retirement benefits paid		(288,735)	97,864	(3,429)
Long-term deposits and prepayments - net		(28,696)	(930,841)	(341)
Net cash used in operating activities		(2,090,276)	(28,211,987)	(24,826)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(2,729,994)	(9,531,163)	(32,423)
Proceeds from sale of property, plant and equipment		3,208	211,746	38
Purchase of intangibles		(1,344)	-	(16)
Proceeds from short-term investments		-	(8,104)	-
Proceeds from held to maturity investments		25,190	-	299
Dividend income received		-	1,077,900	-
Net cash used in investing activities		(2,702,940)	(8,249,621)	(32,102)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital		1,857,342	544,940	22,059
Repayment of long-term loans		(5,534,320)	-	(65,728)
Proceeds from long-term financing		10,591,952	2,124,413	125,795
Proceeds from issue of term finance and sukuk certificates		440,000	-	5,226
Redemption of term finance certificates		(2,703)	(816,827)	(32)
Restructuring of sukuk certificates		6,730,000	-	79,929
Proceeds from long-term deposits		64,077	-	761
(Repayment) of / proceeds from obligations under finance lease - net		(2,881,840)	21,029,000	(34,226)
Net cash generated from financing activities		11,264,508	22,881,526	133,784
Increase / (decrease) in cash and cash equivalents		6,471,292	(13,580,082)	76,856
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(29,710,507)	(16,130,425)	(352,856)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		(23,239,215)	(29,710,507)	(276,000)
CASH AND CASH EQUIVALENTS				
Cash and bank balances	16	742,945	789,555	8,824
Short-term borrowings	27	(23,982,160)	(30,500,062)	(284,824)
		(23,239,215)	(29,710,507)	(276,000)

The annexed notes 1 to 44 form an integral part of these unconsolidated financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated

Statement of Changes in Equity

For the year ended December 31, 2009

	Issued subscribed and paid-up capital	Capital reserves	Revenue reserves	Reserves			Total
				Unrealised loss on remeasur- ment of investments	Accumulated losses	Other reserves	
Rupees in '000							
Balance as at January 01, 2008	20,878,074	2,501,038	1,779,674	97,366	(37,159,710)	-	(11,903,558)
Effect of change in accounting policy for customer loyalty programme (note 4.1.4)	-	-	-	-	(562,011)	-	(562,011)
Balance as at January 01, 2008 - restated	20,878,074	2,501,038	1,779,674	97,366	(37,721,721)	-	(12,465,569)
Total comprehensive income for the year transferred to equity	-	-	-	(24,101)	(36,138,642)	(125,271)	(36,288,014)
Surplus on revaluation of fixed assets realized during the year on account of incremental depreciation charged thereon - net of tax	-	-	-	-	686,220	-	686,220
Transactions with owners							
Issue of share capital 'A' class ordinary shares	544,940	-	-	-	-	-	544,940
Balance as at January 01, 2009 - restated	21,423,014	2,501,038	1,779,674	73,265	(73,174,143)	(125,271)	(47,522,423)
Total comprehensive income for the year transferred to equity	-	-	-	(43,987)	(5,822,431)	125,271	(5,741,147)
Surplus on revaluation of fixed assets realized during the year on account of incremental depreciation charged thereon - net of tax	-	-	-	-	2,351,483	-	2,351,483
Transactions with owners							
Issue of share capital 'A' class ordinary shares	1,857,342	-	-	-	-	-	1,857,342
Balance as at December 31, 2009	23,280,356	2,501,038	1,779,674	29,278	(76,645,091)	-	(49,054,745)

The annexed notes 1 to 44 form an integral part of these unconsolidated financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Notes to the Unconsolidated

Financial Statements

For the year ended December 31, 2009

1. THE CORPORATION AND ITS OPERATIONS

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

During the current year, the Corporation has incurred a net loss of Rs. 5,822 (2008: Rs. 36,139) million, resulting in accumulated losses of Rs. 76,645 (2008: Rs. 73,174) million as of the balance sheet date. Further, as of that date, the current liabilities of the Corporation exceeded its current assets by Rs. 51,937 (2008: Rs. 57,489) million. As a result of the adverse financial position of the Corporation during the last few years, the Ministry of Finance (MoF), after considering the financial constraints and future funding requirements of the Corporation, agreed in a letter issued to the Corporation that the Government of Pakistan (GoP), as a majority shareholder, would extend support to maintain the going concern status of the Corporation.

The GoP had also agreed to provide equity contribution to cover interest / profit payments on long-term financing and TFCs and an amount of Rs. 10,729 (December 31, 2008 Rs. 8,872) million has been provided to the Corporation up to December 31, 2009 against which shares have been issued to the GoP.

During the current year, the MoF has also provided support with long-term loans of Rs. 7,000 million. Short-term borrowings amounting to Rs. 6,730 million were also restructured under the five years Islamic Financing Syndicated Sukuk facility with financial close on October 20, 2009. The GoP has also agreed to provide further equity contribution during the coming months as well as restructuring of short-term borrowings.

The Corporation, therefore, believes that the going concern assumption is appropriate and has, as such, prepared these unconsolidated financial statements on this 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 PIAC Act, 1956 (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 preparation

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 amounts;
- certain financial instruments are carried at fair values; and
- defined benefit obligation is stated at present value.

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 and cash flow statement are stated as additional information, solely for the convenience of the users of these unconsolidated financial statements. For the purpose of translation to US Dollar, the year end rate of Rs. 84.20 per US Dollar has been used (2008: Rs. 78.90 per US Dollar).

2.4 Standards, Interpretations and Amendments to Published Approved Accounting Standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2010. These standards are either not relevant to the Corporation's operations or are not expected to have a significant impact on the Corporation's unconsolidated financial statements other than increase in disclosures in certain cases:

- Revised IFRS 3 - Business Combinations (applicable for annual periods beginning on or after July 1, 2009) broadens, among other things, the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit and loss account and any non-controlling (minority) interest to be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.
- Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the profit or loss.
- IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after October 1, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete.
- Amendments to IAS 39 - Financial Instruments: Recognition and Measurement – Eligible hedged Items (effective for annual periods beginning on or after July 1, 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.
- IFRIC 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009) states that when an entity distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non-cash asset is distributed, the difference between the carrying amount and fair value is recognised in the profit and loss account.

The International Accounting Standards Board made certain amendments to existing standards as part of its annual improvements project and also issued certain new interpretations and standards. The effective dates for these amendments, interpretations and standards vary by standard and most will be applicable to the Corporation's financial statements from financial year 2010 and onwards. These amendments, interpretations and standards are either not relevant to the Corporation's operations or are not expected to have a significant impact on the Corporation's unconsolidated financial statements other than increase in disclosures in certain cases.

- Amendment to IFRS 2 - Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 01, 2010). Currently, effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.
- Amendment to IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

- Amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.
- Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations – (effective for annual periods beginning on or after July 01, 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation.
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps.
- IAS 24 - Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 01, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Corporation will apply IAS 1 (amendment) from January 01, 2010. It is not expected to have a material impact on the Corporation's financial statements.
- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Corporation will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each has similar useful economic life. The amendment will not result in any impact on the Corporation's financial statements.
- IFRIC 18, 'Transfer of assets from customers' (effective for periods beginning on or after July 01, 2009). The interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash received and used to acquire or construct specific assets. This interpretation is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This interpretation is not expected to have a material impact on the Corporation's financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of unconsolidated financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods affected.

In the process of applying the Corporation's accounting policies, management has made the following estimates and judgements 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. Further, the Corporation estimates revalued amounts of aircraft fleet, land and buildings based on the periodic valuations carried out by external professional valuers. The said valuation also includes estimates with respect to residual values and useful lives. Any change in the estimates 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.

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 assets, future salary increases, mortality rates, future increase in medical costs and future pension increases. Any changes in these assumptions in future years might affect unrecognised gains and losses in those years. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 24 to the unconsolidated financial statements.

3.3 Stores and spares

The Corporation reviews the net realisable values of stores and spares to assess any diminution in their respective carrying values. Net realisable value is estimated with reference to the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. Provision against the slow moving stores and spares is made in proportion to estimated average useful 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 Corporation, the Corporation takes into account the applicable tax laws.

Deferred tax assets are recognised for all unused tax losses and credits to the extent that it is probable that taxable profit will be available against which such losses and credits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3.5 Trade debts

The Corporation reviews its doubtful trade debts at each reporting date to assess whether provision should be recorded in the profit and loss account. In particular, judgment by management 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 provisions.

3.6 Provision for frequent flyer programme

The Corporation operates a frequent flyer programme that provides travel awards to members of the program 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 credit involves estimating, 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.

3.7 Unearned and earned revenue

The value of unutilised passenger tickets and cargo airway bills is determined by the management 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 the same as those applied in the preparation of the unconsolidated financial statements of the Corporation for the year ended December 31, 2008 (except for the changes mentioned in note 4.1 below) and are enumerated as follows:

4.1 Changes in accounting policies

The following standards and interpretation are effective from 2009 and are applicable to the Corporation from the current financial year.

4.1.1 Presentation of financial statements

IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after January 1, 2009) – The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. Further, under revised standard, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. The Corporation has opted to present the components of profit or loss in a separate statement while a statement of comprehensive income is presented separately as permitted under revised IAS 1. As surplus on revaluation of fixed assets does not form part of the equity under the local laws and is presented below the equity in the balance sheet, accordingly changes in equity arising from surplus on revaluation of fixed assets have not been considered part of comprehensive income and accordingly these are not included in the statement of comprehensive income presented in these unconsolidated financial statements.

Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on the loss for the year.

4.1.2 Disclosure of financial instruments

IFRS 7 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after July 1, 2008) – IFRS 7 requires extensive disclosures about the significance of financial instruments and the nature and extent of risks arising from those financial instruments. Adoption of this standard has only resulted in additional disclosures given in notes 11 and 41 to the unconsolidated financial statements.

4.1.3 Operating segments

IFRS 8 'Operating Segments' (effective for annual periods beginning on or after January 1, 2009) – IFRS 8 requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The composition of the Corporation's business segments has not changed as a result of the adoption of IFRS 8.

4.1.4 Customer loyalty programme

IFRIC 13 'Customer Loyalty Programmes' (effective for periods beginning on or after July 01, 2008) – IFRIC 13 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, the customers can redeem in the future for free. The interpretation requires that the entity recognize credits that it awards to its customers as a separately identifiable component of revenue, which would be deferred at the date of the coupon uplift. The allocation between the value of the coupon uplifted and the value of the points awarded is undertaken at fair value of the consideration in respect of initial sale. The value attributable to the coupon is recognised at the point of uplift, while the value attributable to the awarded points is deferred as a liability until the points are ultimately utilised / expired. Previously, the Corporation created a provision for the incremental direct cost of providing free travel in exchange for redemption of miles.

The Corporation has adopted this interpretation in the current year due to which the results for the year ended December 31, 2008, have been restated in accordance with the requirements of IAS-8 "Accounting Policies, Changes in Accounting Estimate and Errors". The impact of adopting IFRIC 13 on the balance sheet as at January 1, 2008 and December 31, 2008 and the profit and loss account for the year ended December 31, 2008 is shown on next page.

	Reported previously January 1, 2008	Effect of adoption of IFRIC 13	Revised January 1, 2008	Reported previously December 31, 2008	Effect of adoption of IFRIC 13	Revised December 31, 2008
Rupees in '000						
BALANCE SHEET						
Trade and other payables	20,055,163	562,011	20,617,174	27,127,000	820,496	27,947,496
Accumulated loss	(37,159,710)	(562,011)	(37,721,721)	(72,353,647)	(820,496)	(73,174,143)

	Reported previously December 31, 2008	Effect of adoption of IFRIC 13	Revised December 31, 2008
Rupees in '000			
PROFIT AND LOSS ACCOUNT			
Revenue	89,201,567	(338,309)	88,863,258
Distribution costs	5,389,632	(79,824)	5,309,808
Loss for the year	(35,880,157)	(258,485)	(36,138,642)

EARNINGS PER SHARE

'A' class Ordinary shares of Rs. 10 each	(17.79)	(0.13)	(17.92)
'B' class Ordinary shares of Rs. 5 each	(8.90)	(0.06)	(8.96)

4.1.5 Borrowing Costs

IAS 23 (Revised) 'Borrowing Costs' (effective for periods beginning on or after January 1, 2009) - The revised standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of cost of that asset. The option of immediately expensing those borrowing costs has been removed. There is no impact on profit or loss and equity of the Corporation due to the adoption of this standard.

4.2 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 is the fair value 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.

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. The carrying amount of the replaced part is derecognised.

Major renewals, improvements and overhauls are capitalised and depreciated over the period to the next major overhaul. All other repairs and maintenance 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 off over their expected useful lives. Depreciation is separately charged for the airframes and engines based on their respective estimated useful lives. The rates of depreciation are disclosed in note 5.1 to the unconsolidated financial statements.

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, even if during that period the asset is idle. Proportionate depreciation on aircraft fleet is charged from the date of acquisition till the date of disposal.

Useful lives are determined by the management based on expected usage of asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of assets and other similar factors.

The assets' residual values, useful lives and methods are reviewed, and adjusted, if appropriate, at each financial year end.

Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount at the balance sheet date. 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.

The Corporation has adopted the following accounting treatment of surplus on revaluation of fixed assets and depreciation thereon, keeping in view the requirements of section 235 of the Companies Ordinance, 1984, and Securities and Exchange Commission of Pakistan (SECP) SRO 45(1)/2003, dated January 13, 2003:

- The surplus arising on revaluation of fixed assets is credited to the 'Surplus on Revaluation of Fixed Assets Account' and is shown in the balance sheet after share capital and reserves.
- An annual transfer from the 'Surplus on Revaluation of Fixed Assets Account' to unappropriated profits / accumulated losses through statement of changes in equity is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the assets' original cost.

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 currently. When revalued assets are sold, the relevant remaining surplus is transferred directly by the Corporation to retained earnings (unappropriated profits / accumulated losses).

The fair value of aircraft signifies cost less manufacturers' credits, if any.

Leased

Finance leases, which transfer to the Corporation substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease or incremental borrowing rate of the Corporation, where appropriate.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit and loss account.

Depreciation is charged to profit and loss account applying the straight-line method on a basis similar to owned assets.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to 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 useful remaining life of the related aircraft. The average rate is stated in note 5.1. Capital spares not repairable 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 fixed assets in the course of their acquisition, erection, construction and installation. The assets are transferred to relevant category of fixed asset when they are available for use.

4.3 Intangibles

Intangible assets acquired separately 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 any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment, whenever there is an indication that the intangible asset may be impaired. In respect of additions and deletions of intangible assets during the year, amortisation is charged from the month of acquisition and up to the month preceding the deletion respectively. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

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

Intangible assets with indefinite useful lives are tested for impairment annually. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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 when the asset is derecognised.

4.4 Investments

Subsidiaries, associates and joint venture

Investments in subsidiaries, associates and joint venture 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. Impairment losses are recognised as an expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognised in the profit and loss account.

Available for sale

All of the Corporation's investments other than fixed maturity investments and investments in subsidiaries, associates and joint venture are classified as 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 period 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 equity are included in the profit and loss account.

Held to maturity

Investments with fixed or determinable payments and fixed maturity, for which the Corporation has ability to hold them till maturity, are classified as held to maturity investments. These instruments 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.

4.5 Stores and spares

These are valued at lower of cost and net realisable value except goods-in-transit, which are valued at cost. Cost is determined as follows:

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

Net realisable value signifies the estimated selling price in the ordinary course of business less cost of completion and cost necessary to be incurred in order to make the sale.

4.6 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 using effective interest rate method less provision for impairment. 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. The amount of provision is charged to profit and loss account. Provision for impairment is made against the debts considered doubtful as per the Corporation's policy. Known bad debts are written-off as and when identified.

4.7 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks and short-term placements readily convertible to known amounts of cash and subject to insignificant risk of changes in value. 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.

4.8 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.

4.9 Interest / Mark-up bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs, if any.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost with any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the profit and loss account over the period of the borrowing using the effective interest method.

4.10 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

The Corporation operates a funded benefit pension scheme for all its permanent employees. Pension scheme is a final salary pension scheme and is invested through three funds for both cockpit and non-cockpit employees namely Pakistan Airline Pilot Association (PALPA), Flight Engineering Association (FENA) and Employees' Pension Funds. Contributions are made to the scheme on the basis of actuarial valuation that is carried out every year. Actuarial gains and losses are recognised immediately.

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 every year. Actuarial gains and losses are recognised immediately.

Compensated absences

The Corporation accounts for all accumulated compensated absences when the employees render service that increases their entitlement to future compensated absences based on actuarial valuation.

4.11 Equity instruments

Equity instruments issued by the Corporation are stated at their face value.

4.12 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss 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 half 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 provided using the liability method on temporary differences at the balance sheet date between the tax bases 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 realized 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 relating to items recognised directly in equity is recognised in equity and not in profit and loss account.

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

4.13 Revenue recognition

Passenger and cargo revenue

Passenger and cargo sales are recognised as revenue when the transportation service is provided. The value of unutilised passenger tickets and cargo airway bills are recorded as current liabilities as an “advance against transportation” account until recognised as revenue.

In view of the limitation of the Corporation’s revenue accounting system, the value of unutilised passenger tickets (other than Hajj operations) and cargo airway bills is not provided by the system and is determined by the management 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. In case of Hajj operation, value of unutilised passenger tickets is determined on the basis of actual unutilised passenger coupons.

Frequent flyer programme revenue

The Corporation operates a customer loyalty programme called “Frequent Flyer Programme” that provides award miles to programme members based on accumulated mileage. Consideration received in respect of miles earning flights is allocated, based on fair value, between the flight and miles earned by members of the “Frequent Flyer Programme”. The value attributed to the awarded miles is deferred as a liability until the miles are ultimately utilised or expired.

As members of the programme redeem miles for an award, revenue is brought to account within the profit and loss account. Revenue is recognised at point of redemption where non-flight rewards are awarded. Revenue in relation to flight awards is recognised when the passenger coupons are uplifted.

The value attributed to the available miles is recognised as revenue when the risk expires, based on the number of miles that have been redeemed during the year relative to the total number of miles expected to be redeemed. The miles can be redeemed for a range of benefits, including flights on Pakistan International Airlines, extra baggage tickets, hotel stays etc. The cost of providing redemption services is recognised when the miles are redeemed.

Engineering and other services

Revenue of engineering and other services is recognised when services are rendered and invoices are raised.

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 the effective interest method.

Dividend income is recognised, when the right to receive dividend is established.

4.14 Borrowing costs

The Corporation recognises the borrowing costs as an expense in the period in which these costs are incurred, except that borrowing costs which are 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.

4.15 Provision

Provision is 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.

4.16 Impairment

The carrying amount of the Corporation's assets is reviewed at each balance sheet date to determine whether there is any objective evidence that an asset or group of assets may be impaired. If any such evidence exists, the asset or group of assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account immediately.

4.17 Foreign currency translation

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 on 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.

4.18 Financial instruments

Financial assets and financial liabilities are recognised when the Corporation becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value and amortised cost respectively. 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.

4.19 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the Corporation has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5. PROPERTY, PLANT AND EQUIPMENT

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Operating fixed assets	5.1	132,790,938	114,538,250
Capital work-in-progress	5.2	764,622	472,087
		<u>133,555,560</u>	<u>115,010,337</u>

5.1 Operating fixed assets

	COST / REVALUED AMOUNT				DEPRECIATION				NET BOOK VALUE		Annual depreciation rate %
	As at January 1, 2009	Additions/ (disposals)	Revaluation	Adjustment	As at December 31, 2009	As at January 1, 2009	For the year/ (on disposals)	Adjustment / Revaluation	As at December 31, 2009	As at December 31, 2009	
(Rupees in thousand)											
Owned											
Land											
Leasehold (5.1.1)	3,404,592	–	–	2,057,372	5,461,964	–	–	–	–	5,461,964	–
Others (5.1.1)	22,854	–	–	–	22,854	–	–	–	–	22,854	–
Building on											
Leasehold land (5.1.1)	3,285,028	66,085	–	(2,057,372)	1,293,741	103,518	133,322	–	236,840	1,056,901	2.5
Others (5.1.2)	829,261	–	–	–	829,261	284,924	2,952	–	287,876	541,385	2.5
Workshops and hangars	848,894	47,046	–	–	895,940	718,207	14,489	–	732,696	163,244	5
Renovation and improvements	634,835	62,640	–	–	697,475	507,501	56,952	–	564,453	133,022	20
Aircraft fleet (note 5.1.3)	38,674,078	339,901	–	(3,599,763)**	35,414,216	18,816,125	4,516,591	(3,490,337)** (2,405,783)*	17,436,596	17,977,620	3.85 – 4.55
Operating ground equipment, catering, communication and meteorological equipment											
	620,299	15,081	–	–	635,380	410,869	33,739	–	444,608	190,772	10
Engineering equipment and tools											
	1,324,234	43,343	–	–	1,367,577	997,651	68,994	–	1,066,645	300,932	10 – 20
Traffic equipment											
	1,763,140	7,509 (5,301)	–	–	1,765,348	1,270,007	61,536 (5,029)	–	1,326,514	438,834	10 – 20
Furniture, fixture and fitting											
	755,954	64,089 (98)	–	–	819,945	581,862	30,503 (98)	–	612,267	207,678	10
Motor transport											
	247,746	21,288 (5,850)	–	–	263,184	179,460	20,569 (3,205)	–	196,824	66,360	25
Office equipment											
	77,470	706	–	–	78,176	71,287	2,791	–	74,078	4,098	15
Computer and office automation											
	1,404,743	160,267 (190)	–	–	1,564,820	1,178,683	80,859 (190)	2,411	1,261,763	303,057	10 – 20
Precision engineering equipment											
	811,032	8,594	–	–	819,626	803,478	1,956	–	805,434	14,192	10
Printing press equipment											
	15,039	–	–	–	15,039	14,006	688	–	14,694	345	20
Reservation equipment											
	12,395	–	–	–	12,395	12,394	–	–	12,394	1	10
Other equipment											
	500,704	6,932	–	–	507,636	385,345	16,798	–	402,143	105,493	10
Capital spares											
	8,545,714	347,821	–	(223,869)	8,669,666	3,328,509	268,193	–	3,596,702	5,072,964	3.85 – 4.55
	63,778,012	1,191,302 (11,439)	–	(3,823,632)	61,134,243	29,663,826	5,310,932 (8,522)	(3,487,926) (2,405,783)*	29,072,527	32,061,716	
Leased											
Aircraft fleet (note 5.1.3)	93,998,086	1,581,767	5,105,665	–	100,685,518	13,626,600	4,155,315	– (17,781,915)*	–	100,685,518	4.55
Vehicles – MT	107,998	– (2,325)	–	–	105,673	100,051	1,042 (2,092)	–	99,001	6,672	25
Vehicles – TGS	84,430	–	–	–	84,430	39,801	7,597	–	47,398	37,032	10 – 20
	94,190,514	1,581,767 (2,325)	5,105,665	–	100,875,821	13,766,452	4,163,954 (2,092)	– (17,781,915)*	146,399	100,729,222	
Total – 2009	157,968,526	2,773,069 (13,764)	5,105,665	(3,823,632)	162,009,864	43,430,278	9,474,886 (10,614)	(3,487,926) (20,187,698)*	29,218,926	132,790,938	

* Represents revaluation adjustments.

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

	COST / REVALUED AMOUNT				DEPRECIATION			NET BOOK VALUE		Annual depreciation rate %	
	As at January 1, 2008	Additions/ Transfers/* (disposals)	Revaluation	Adjustment/** (Write off)	As at December 31, 2008	As at January 1, 2008	For the year/ (on disposals)	Write off	As at December 31, 2008		As at December 31, 2008
(Rupees in thousand)											
Owned											
Land											
Leasehold (5.1.1)	44,280	– (114)	3,360,426	–	3,404,592	–	–	–	–	3,404,592	–
Others (5.1.2)	22,854	–	–	–	22,854	–	–	–	–	22,854	–
Building on											
Leasehold land (5.1.1)	258,580	269	3,026,179	–	3,285,028	–	6,460	–	6,460	3,278,568	–
Others (5.1.2)	817,620	19,724 (8,083)	–	–	829,261	97,058 (269,695)	20,777 (5,548)	–	117,835 (264,147)	711,426 (264,147)	2.5
Workshops and hangars	830,295	18,599	–	–	848,894	706,119	12,088	–	718,207	130,687	5
Renovation and improvements	566,928	54,019 (13,888)*	–	–	634,835	454,552	52,949	–	507,501	127,334	20
Aircraft fleet (note 5.1.3)	35,009,981	115,766	1,727,992	1,820,339**	38,674,078	15,640,256	3,175,869	–	18,816,125	19,857,953	3.85 – 4.55
Operating ground equipment, catering, communication and meteorological equipment	620,591	6,918 (7,210)	–	–	620,299	384,257	33,817 (7,205)	–	410,869	209,430	10
Engineering equipment and tools	1,177,628	146,606	–	–	1,324,234	925,755	71,896	–	997,651	326,583	10 – 20
Traffic equipment	1,773,891	15,413 (26,164)	–	–	1,763,140	1,230,700	62,855 (23,548)	–	1,270,007	493,133	10 – 20
Furniture, fixture and fitting	698,514	58,543 (1,103)	–	–	755,954	554,935	28,030 (1,103)	–	581,862	174,092	10
Motor transport	223,882	36,881 (13,017)	–	–	247,746	174,430	14,762 (9,732)	–	179,460	68,286	25
Office equipment	77,167	1,168 (865)	–	–	77,470	69,010	3,142 (865)	–	71,287	6,183	15
Computer and office automation	1,363,743	42,415 (630)	–	(785)	1,404,743	1,079,472	100,574 (578)	(785)	1,178,683	226,060	10 – 20
Precision engineering equipment	809,933	1,099	–	–	811,032	801,612	1,866	–	803,478	7,554	10
Printing press equipment	15,039	–	–	–	15,039	13,318	688	–	14,006	1,033	20
Reservation equipment	12,395	–	–	–	12,395	12,394	–	–	12,394	1	10
Other equipment	466,498	2,641 (31,565)*	–	–	500,704	369,034	16,311	–	385,345	115,359	10
Capital spares	7,938,602	588,569 (7,122)	–	25,730 (64)	8,545,715	2,821,389	512,852 (5,669)	(64)	3,328,508	5,217,207	3.85 – 4.55
	52,728,421	1,108,630 (45,453)* (64,308)	8,114,597	1,846,069** (849)	63,778,013	25,603,986	4,114,936 (54,248)	(849)	29,663,825	34,114,188	
Leased											
Aircraft fleet (note 5.1.3)	70,624,859	12,391,267	9,946,869	1,035,091**	93,998,086	9,740,833	3,885,767	–	13,626,600	80,371,486	4.55
Vehicles – MT	124,008	1,878 (17,888)	–	–	107,998	108,804	6,808 (15,561)	–	100,051	7,947	25
Vehicles – TGS	84,430	–	–	–	84,430	32,202	7,599	–	39,801	44,629	10 – 20
	70,833,297	12,391,267 (1,878) (17,888)	9,946,869	1,035,091**	94,190,514	9,881,839	3,900,174 (15,561)	–	13,766,452	80,424,062	
Total – 2008	123,561,718	1,110,508 (12,436,720) (82,196)	18,061,466	– (2,881,160)** (849)	157,968,527	35,485,825	8,015,110 (69,809)	(849)	43,430,277	114,538,250	

** Represents adjustments in respect of overhauling of engines.

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

5.1.2 Lands and buildings classified as Others comprise properties in possession of the Corporation, which are not saleable or transferable.

Lands classified as Others are amenity plots or those with restrictions on the transferability of title, as these were allotted at below market prices. Included herein are amenity plots, aggregating to Rs. 21.48 million and non transferable plots, aggregating to Rs. 1.37 million.

Buildings on Other lands are constructed on amenity plots, non transferable plots and licensed plots from Civil Aviation Authority (CAA). Included herein are amenity plots, aggregating to Rs. 21.17 million and buildings on licensed (CAA) lands aggregating to Rs. 558.33 million.

5.1.3 Aircraft fleet

During the year, aircraft fleet of the Corporation was valued by an independent valuer AVMARK Inc. (2008: Air Claims Ltd. - UK) on the basis of professional assessment of current market values as at December 31, 2009. The current market value represents the most likely trading price that may be generated for an aircraft under the market circumstances that are perceived to exist at the period end. The valuer takes into account the underlying economic value of an aircraft in an open, unrestricted, stable market environment with reasonable balance in supply and demand. It also takes into account the recent market activities, highest and best use of the fleet / aircraft, sale transaction on an arm's length basis and the limited open market and financial activity that has occurred to date.

AVMARK 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 utilisation of the aircraft as compared to the type fleet average, as well as the maintenance status of the aircraft and heavy components such as engines, landing gears and auxiliary power units (APUs).

For the purpose of valuation, the valuer has used the data provided by the Corporation which includes maintenance conditions of the aircraft and engines, aircraft shop visit dates, engines inspection, LLP status, landing gear status and APU status.

As a result of revaluation carried out by the above referred valuer, net surplus of Rs. 25,293 (2008: 11,675) million on revaluation of aircraft fleet has arisen over their written down value of Rs. 93,365 (2008: 88,554) million. However, in connection with the analysis, the valuer did not physically inspect any of the aircraft and has relied on the information provided by the Corporation.

AVMARK Inc. reviewed the useful lives of the aircrafts and these have been estimated as follows:

	BOEING						AIRBUS	ATR
	747-200	737-300	747-300	777-300 ER	777-200 ER	777-200 LR	A310-300	
December 31, 2009								
Airframes	31	30	20	30	30	30	30	25
Engines	39	37	19	30	30	29	20	30
	BOEING						AIRBUS	ATR
	737-300	747-300	777-300 ER	777-200 ER	777-200 LR	A310-300		
December 31, 2008								
Airframes	25	22	24	26	25	25	23	
Engines	25	22	24	26	25	25	23	
Other components	25	22	24	26	25	25	23	

- 5.1.4 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, 2009			
Lands - owned	44,166	-	44,166
Buildings - owned	258,848	127,481	131,367
Aircraft fleet	114,043,600	34,371,405	79,672,195
	<u>114,346,614</u>	<u>34,498,886</u>	<u>79,847,728</u>
December 31, 2008			
Lands - owned	44,166	-	44,166
Buildings - owned	258,848	103,518	155,330
Aircraft fleet	120,124,581	31,569,993	88,554,588
	<u>120,427,595</u>	<u>31,673,511</u>	<u>88,754,084</u>

- 5.1.5 Depreciation charge for the year has been allocated as under:

	Note	2009	2008
		Rupees in '000	
Cost of services	30	9,201,856	7,809,239
Distribution costs	31	49,764	72,440
Administrative expenses	32	223,267	133,431
		<u>9,474,887</u>	<u>8,015,110</u>

- 5.1.6 Included in "operating fixed assets" is one Fokker - F27 and other fixed assets costing Rs. 100.30 million and Rs. 5,037 million respectively, which are fully depreciated.

- 5.1.7 Following fixed assets were disposed off during the year:

Description	Sold to	Cost	Accumulated depreciation	Net book value	Sale / Insurance proceeds
		Rupees in '000			
Motor vehicles to employees					
Honda City (AJD-455)	Mr. Sajjad Ahmed, P-26291	835	668	167	320
Honda City (GA-4283)	Mr. Khaqan Hasnain, P-42620	858	80	778	632
Honda City (AQZ-609)	Mr. Shahid Sarwar P-45892	824	15	809	801
Honda City (GA-9886)	Mr. Naiyer Jamal, P-30031	795	715	80	79
Honda City (DA-4815)	Mr. Zafar Iqbal Jami, P-22521	735	662	73	74
Honda City (GA-9540)	Lt. Col. Moin Rauf, P-53944	795	716	79	79
Honda City (AQL-658)	Mr. S. Fazal Ahmed, P-30421	746	112	634	585
		<u>5,588</u>	<u>2,968</u>	<u>2,620</u>	<u>2,570</u>
Aggregate value of items where					
WDV is above Rs. 50,000 - Various*		3,351	3,016	335	540
Aggregate value of items where					
WDV is less than Rs. 50,000 - Various		4,825	4,630	195	98
	Total	<u>13,764</u>	<u>10,614</u>	<u>3,150</u>	<u>3,208</u>
	2009	<u>13,764</u>	<u>10,614</u>	<u>3,150</u>	<u>3,208</u>
	2008	<u>82,196</u>	<u>69,809</u>	<u>12,387</u>	<u>211,746</u>

* This includes various operating fixed assets, having WDV 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 disposal committee in accordance with the prescribed procedures.

5.2 Capital work-in-progress

		December 31, 2009	December 31, 2008
	Note	Rupees in '000	
Buildings		-	2,382
Other equipment		1,478,925	856,559
Renovation and improvements		57,278	89,086
Non-refundable advance against purchase of aircraft and related equipments		-	11,979,863
		<u>1,536,203</u>	<u>12,927,890</u>
Less: transfer to operating fixed assets charged off / adjustment		745,498	12,436,720
		<u>26,083</u>	<u>19,083</u>
		<u>771,581</u>	<u>12,455,803</u>
		<u>764,622</u>	<u>472,087</u>
6. INTANGIBLES			
Computer softwares			
Cost	6.1	274,390	273,046
Accumulated amortisation	6.2	(182,428)	(159,892)
		<u>91,962</u>	<u>113,154</u>
6.1 Cost			
Opening balance		273,046	239,396
Additions during the year		1,344	33,650
Closing balance		<u>274,390</u>	<u>273,046</u>
6.2 Accumulated amortisation			
Opening balance		159,892	135,921
Amortisation for the year	6.2.1	22,536	23,971
Closing balance		<u>182,428</u>	<u>159,892</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	30	2,576	2,461
Distribution costs	31	1,130	1,706
Administrative expenses	32	18,830	19,804
		<u>22,536</u>	<u>23,971</u>
7. LONG-TERM INVESTMENTS			
Investments in related parties - unquoted, at cost			
Subsidiaries	7.1	4,415,712	4,415,712
Associates	7.2	396	396
Joint venture	7.3	2	2
		<u>4,416,110</u>	<u>4,416,110</u>
Other investments	7.4	30,840	81,532
		<u>4,446,950</u>	<u>4,497,642</u>

7.1 Subsidiaries - unquoted

	Note	December 31, 2009	December 31, 2008
		Rupees in '000	
PIA Investment Limited (PIAIL)			
792,000 (2008: 792,000) fully paid Ordinary shares of AED 100 each Equity held 99% (2008: 99%). [Break-up value of each Ordinary share of AED 100: Rs. 11,232 (2008: Rs. 15,421) per Ordinary share based on the latest audited financial statements available for the year ended December 31, 2009]		2,245,155	2,245,155
Advance against shares pending allotment		2,170,557	2,170,557
		4,415,712	4,415,712
Sky Rooms (Private) Limited			
4,000,000 (2008: 4,000,000) fully paid Ordinary shares of Rs. 10 each Equity held 100% (2008: 100%). [Break-up value of each ordinary share of Rs.10: Rs. Nil (2008: Rs. Nil) per Ordinary share based on the latest audited financial statements available for the year ended December 31, 2009]		40,000	40,000
Midway House (Private) Limited (under winding-up)			
2,960,000 (2008: 2,960,000) fully paid Ordinary shares of Rs. 10 each Equity held 100% (2008: 100%). [Break-up value of each Ordinary share of Rs. 10: Rs. Nil (2008: Rs. Nil) per Ordinary share. Financial statements thereof are not available]		28,520	28,520
		68,520	68,520
Provision for diminution in value of investments		(68,520)	(68,520)
		-	-
		4,415,712	4,415,712

7.1.1 All subsidiaries are incorporated in Pakistan except for PIAIL which is incorporated in Sharjah, United Arab Emirates and registered in British Virgin Islands.

7.2 Associate - unquoted

Minhal Incorporated - Sharjah

1,600 fully paid Ordinary shares (2008: 1,600) of AED 100 each. Equity held 40% (2008: 40%). [Break-up value of each Ordinary share of AED.100: Rs. 113.617 (2008:Rs. 113.617) per Ordinary share based on the latest audited financial statements available for the year ended December 31, 2008]

396	396
2	2

7.3 Joint venture - unquoted

Abacus Distribution Systems Pakistan (Private) Limited

254,603 (2008: 200,948) fully paid Ordinary shares of Rs. 100 each Equity held - 55% (2008: 45%)

During the year ended December 31, 2006, the Corporation acquired 20% equity participation at a cost of Re. 0.01 per share. As per the Joint Venture Agreement, shareholding of the Corporation will increase to 75% during the period of 9 years. As at December 31, 2009, the shareholding of Corporation was 55%. The Abacus Distribution Systems Pakistan (Private) Limited is a joint venture between the Corporation and Abacus International (Private) Limited, Singapore.

		December 31, 2009	December 31, 2008
	Note	Rupees in '000	
7.4 Other investments			
Available for sale	7.4.1	30,840	74,829
Held to maturity	7.4.2	-	6,703
		30,840	81,532
7.4.1 Available for sale			
Quoted			
Pakistan Services Limited			
172,913 (2008: 172,913) Ordinary shares of Rs.10 each having market value per Ordinary shares of Rs. 176.23 (2008: Rs. 431) each		30,471	74,460
Unquoted			
Pakistan Tourism Development Corporation Limited			
10,000 (2008: 10,000) Ordinary shares of Rs. 10 each		100	100
Duty Free Shops (Private) Limited - Pakistan			
87,512 (2008: 87,512) Ordinary shares of Rs. 100 each		269	269
		30,840	74,829
7.4.2 Held to maturity			
Promissory notes issued by the Nigerian Government		7,153	32,343
Less: current maturity	15	(7,153)	(25,640)
		-	6,703

This represents two promissory notes, issued by the Nigerian Government on May 8, 1988, amounting to US\$ 1.32 million and US\$ 2.94 million. These were issued in consideration of bank balance of the Corporation in the Central Bank of Nigeria, which was seized by the Nigerian Government at the time of coup and civil war in Nigeria. These notes and interest thereon are redeemable in fixed quarterly installment of US\$ 58,676 and US\$ 26,325 respectively, during the period commencing April 5, 1990 to January 5, 2010.

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	3,257,312	3,052,280
Engine maintenance	77,424	72,551
Rent	58,767	59,096
Utilities	12,884	12,547
Aircraft fuel	8,958	8,276
Guarantee deposit	21,322	4,450
Others	149,350	136,442
	3,586,017	3,345,642

Prepayments

Exposure fee to support financing	9.1	1,676,622	1,893,412
Less: current portion	13.1	(224,491)	(229,602)
		1,452,131	1,663,810
		5,038,148	5,009,452

9.1 This represents payment made by the Corporation to Ex-Im Bank in consideration of 10 to 12 years guarantees issued by the bank. The fee is adjusted against future lease rentals of leased aircraft fleet (note 22).

10. STORES AND SPARE PARTS

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Stores		792,769	938,488
Spares		5,280,298	4,449,512
Inventory held for disposal		2,197,398	2,207,092
Less: adjustment to write down surplus inventory to net realisable value		(1,944,539)	(1,944,539)
Disposal during the year		-	(9,694)
		252,859	252,859
Provision for slow moving and obsolete spares	10.1	(2,662,295)	(2,216,611)
		3,663,631	3,424,248
Stores and spares-in-transit		323,792	302,692
		<u>3,987,423</u>	<u>3,726,940</u>
10.1 Movement in provision is as follows:			
Balance at the beginning of the year		2,216,611	1,930,145
Provision for the year	33	445,684	286,466
Balance at the end of the year		<u>2,662,295</u>	<u>2,216,611</u>

11. TRADE DEBTS

Considered good		7,978,187	5,757,849
Considered doubtful		623,200	740,330
Less: provision for doubtful debts	11.1	(623,200)	(740,330)
		-	-
		<u>7,978,187</u>	<u>5,757,849</u>

The aging analysis of these trade debts are as follows:

	December 31, 2009		December 31, 2008	
	Trade debts Gross	Impaired	Trade debts Gross	Impaired
Rupees in '000				
Within 1 year	7,708,840	162,998	5,779,623	274,827
1 to 2 years	119,323	39,583	161,212	85,912
2 to 3 years	225,654	77,088	49,240	27,031
Over 3 years	547,570	343,531	508,104	352,560
	<u>8,601,387</u>	<u>623,200</u>	<u>6,498,179</u>	<u>740,330</u>

11.1 Movement in provision is as follows:

		December 31, 2009	December 31, 2008
	Note	Rupees in '000	
Balance at the beginning of the year		740,330	721,000
Written off during the year		(3,179)	-
(Reversal) / provision for the year - net	33	(113,951)	19,330
Balance at the end of the year		623,200	740,330

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.

12. ADVANCES

Considered good

Subsidiary

Skyrooms (Private) Limited	12.1	46,402	82,968
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Others

Employees		169,701	224,530
Suppliers		1,823,247	961,815
Civil Aviation Authority		143,835	143,835
Others		5,977	5,462
		2,142,760	1,335,642

Considered doubtful

Subsidiary - Skyrooms (Private) Limited		108,672	31,700
Other		31,915	-
Provision for doubtful advances	12.2	(140,587)	(31,700)
		-	-
		2,189,162	1,418,610

12.1 Maximum aggregate gross amount due from the subsidiary at any month end was Rs. 155 (2008: Rs. 83) million.

12.2 Movement in provision is as follows:

Balance at the beginning of the year		31,700	31,319
Provision for the year	33	108,887	381
Balance at the end of the year		140,587	31,700

13. TRADE DEPOSITS AND PREPAYMENTS

Trade deposits		72,005	47,059
Prepayments	13.1	1,086,492	1,544,524
		1,158,497	1,591,583

13.1 Prepayments

Current portion of exposure fee to support financing	9	224,491	229,602
Commission		598,595	853,244
Interest on leased aircraft		146,693	324,086
Insurance		113,636	129,789
Rent		2,666	7,562
Others		411	241
		1,086,492	1,544,524

14. OTHER RECEIVABLES

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Considered good			
Insurance and other claims		214,993	189,305
Excise duty	28.1 (b)	100,000	100,000
Sales tax receivable		231,927	150,643
Receivables from GoP	14.1	142,302	738,473
Others		109,971	263,143
		799,193	1,441,564
Considered doubtful			
Less: provision for doubtful other receivables	14.2	168,810 (168,810)	30,257 (30,257)
		-	-
		799,193	1,441,564

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

14.2 Movement in provision is as follows:

Balance at the beginning of the year		30,257	30,257
Provision for the year	33	138,553	-
Balance at the end of the year		168,810	30,257

15. SHORT TERM INVESTMENTS

Held to maturity

Current portion of long-term investment	7.4.2	7,153	25,640
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Available for sale

Unquoted

SITA INC N.V.	15.1	19,220	19,220
325,491 (2008: 325,491) Ordinary shares			
Provision for diminution in value of investment	15.2	(1,222)	(2,355)
		17,998	16,865
		25,151	42,505

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

15.2 Movement in provision is as follows:

Balance at the beginning of the year		2,355	6,085
Reversal for the year		(1,133)	(3,730)
Balance at the end of the year		1,222	2,355

16. CASH AND BANK BALANCES

In hand		10,457	6,083
In transit		42,254	178,042
		52,711	184,125
With banks			
In current accounts		545,844	134,825
In short-term deposit accounts	16.1	144,390	470,605
		690,234	605,430
		742,945	789,555

16.1 These carry interest ranging between 5 % to 6% (2008: 12% to 15%) per annum.

17. SHARE CAPITAL

December 31, 2009	December 31, 2008	No. of shares	Note	December 31, 2009	December 31, 2008	Rupees in '000
Authorized 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						
2,092,420,074	1,906,685,874			20,924,201	19,066,859	
931,028	931,028			9,310	9,310	
233,934,482	233,934,482			2,339,345	2,339,345	
<u>2,327,285,584</u>	<u>2,141,551,384</u>		17.1	<u>23,272,856</u>	<u>21,415,514</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>23,280,356</u>	<u>21,423,014</u>	
December 31, 2009						
December 31, 2008						
No. of shares						

17.1 Reconciliation of number of 'A' class Ordinary shares of Rs. 10 each.

Shares at the beginning of the year	2,141,551,384	2,087,057,380
Issued during the year for cash	185,734,200	54,494,004
Shares at the end of the year	<u>2,327,285,584</u>	<u>2,141,551,384</u>

17.2 At December 31, 2009, the GoP held 2,117,132,049 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively (2008: 1,931,397,849 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively).

18. RESERVES

	Note	December 31, 2009	December 31, 2008
		Rupees in '000	
		Restated	
Capital reserves			
Reserve for replacement of fixed assets	18.1	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 investment		29,278	73,265
Accumulated losses		(76,645,091)	(73,174,143)
Other reserves	18.2	-	(125,271)
		(76,615,813)	(73,226,149)
		(72,335,101)	(68,945,437)

18.1 Up to 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 IASs and the excess proceeds over cost of relevant assets are credited to the profit and loss account.

18.2 This represented fair value of cash flow hedge. As at December 31, 2008, the Corporation held fuel price hedge contracts designated as cash flow hedges. As at December 31, 2009 no such hedge contracts are outstanding.

19. SURPLUS ON REVALUATION OF FIXED ASSETS - net

	Note	December 31, 2009	December 31, 2008
		Rupees in '000	
Opening balance		14,192,700	972,040
Surplus arising as a result of revaluation on:			
Aircraft		25,293,363	11,674,861
Land		-	3,360,426
Building		-	3,026,179
		25,293,363	18,061,466
Related deferred tax effect of revaluation on:			
Aircraft		(8,852,677)	(4,086,201)
Building		-	(68,385)
		(8,852,677)	(4,154,586)
Transferred to statement of changes in equity on account of incremental depreciation - net of tax		(2,351,483)	(686,220)
		28,281,903	14,192,700

20. LONG-TERM FINANCING

Financier	Note	Type of facility	Limit (Million)	Repayment period	Number of instalments/ Mode	Mark-up %	December 31, 2009	December 31, 2008
— Rupees in '000 —								
From Banking Companies - secured								
United Bank Limited	20.1	Syndicate Finance	1,650 PKR	2007 - 2010	6 Half-yearly	6 month KIBOR +0.79%	135,092	675,458
Habib Bank Limited	20.2	Demand Finance	530 PKR	2006 - 2009	36 Monthly	1 month KIBOR +1.50%	-	88,333
Citibank, N.A.	20.3	Demand Finance	82 US\$	2006 - 2017	20 Half-yearly	5.28% fixed	4,927,683	5,261,363
Habib Bank Limited	20.2	Demand Finance	200 PKR	2006 - 2009	36 Monthly	1 month KIBOR +1.75%	-	55,556
Royal Bank of Scotland	20.4	Demand Finance	59.5 US\$	2009 - 2013	19 Quarterly	3 month LIBOR +1.60%	4,022,278	4,339,396
National Bank of Pakistan	20.5	Syndicate Finance	120 US\$	2010	Bullet	3 month LIBOR +1.325%	10,104,000	9,468,000
Standard Chartered Bank	20.6	Demand Finance	50 US\$	2007-2010	12 Quarterly	3 month LIBOR +1.325%	350,833	1,643,750
National Bank of Pakistan	20.7	Term Finance	500 PKR	2007-2010	12 Quarterly	3 month KIBOR +1.50%	166,667	333,333
National Bank of Pakistan-Bahrain	20.8	Demand Finance	50 US\$	2008-2010	24 Monthly	6 month LIBOR +2.55%	1,052,500	2,958,750
Standard Chartered Bank (Pakistan) Limited	20.9	Syndicate Finance	3,600 PKR	2009 - 2011	22 Monthly	1 month KIBOR +1.25%	2,122,518	-
Others - unsecured								
Long-term loan - GoP	20.10		7,000 PKR	2011 - 2019	16 Half-yearly	10% fixed	7,000,000	-
Current maturity shown under current liabilities							29,881,571	24,823,939
							(5,328,458)	(5,352,528)
							<u>24,553,113</u>	<u>19,471,411</u>

20.1 Following are the participating banks:

- United Bank Limited (UBL)
- National Bank of Pakistan (NBP)
- Habib Bank Limited (HBL)

The finance is secured by way of hypothecation of capital spares and traffic equipment.

First ranking pari passu charge in favour of the UBL Syndicate on the amount collected and retained during each month in the Collection Accounts maintained with UBL Syndicate and Master Collection Account maintained with UBL. The Amount retained each month shall be the amount payable by the Corporation to UBL Syndicate on the next installment date divided by 6.

20.2 These finances are secured by way of:

1. Lien over:
 - a) Sinking Fund Account which shall contain 100% of succeeding installments by the sixteenth business day of each month through transfer from Collection account;
 - b) Collection account opened and established by the Corporation with HBL for receiving all the receivables with respect to all airline ticket sales from Peshawar, Islamabad and Rawalpindi booking offices.
2. First exclusive charge by way of hypothecation on the receivables in 1 (b) above up to Rs. 706 million for Rs. 530 million finance and Rs. 267 million for Rs. 200 million finance; and
3. Promissory notes issued by the Corporation amounting to Rs. 693.76 million for Rs. 530 million finance and Rs. 284.87 million for Rs. 200 million finance.

20.3 The finance is secured by way of:

1. Mortgage over each of the seven ATR aircrafts purchased; and
2. European Credit Agencies / GoP Guarantee.

20.4 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 against GoP Guarantee.

20.5 The following are the participating banks:

1. National Bank of Pakistan
2. Habib Bank Limited

This finance is secured by way of GoP Guarantee. Subsequent to the balance sheet date, on January 15, 2010, the finance was renegotiated for additional three years at mark-up rate of 3 months LIBOR + 325 basis points with an addition of upfront fee of 50 basis points.

20.6 The following are the participating banks:

- Standard Bank Plc.
- Standard Chartered Bank
- Doha Bank
- Arab Bank Plc.
- Arab Banking Corporation (BSC)
- DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Singapore Branch
- Gulf International Bank (BSC)
- MCB Bank Limited, Bahrain
- The Arab Investment Company SAA
- Union National Bank
- Bank Al-Habib Offshore Banking Unit, Bahrain
- Bank Muscat International BSC (C)
- First Gulf Bank
- Habib Bank AG Zurich

The finance is secured against the receivables in connection with the PIAC ticket sales.

20.7 The finance is secured by way of:

1. Ranking hypothecation charge over receivables and book debts to the extent of Rs. 667 million; and
2. Lien over all present and future receivables to be collected in the Collection Account in connection with ticket sales centrally routed through NBP.

20.8 The finance is secured by way of lien over the initial collection account and all collections received subsequently for ticket sales and cargo services in favour of bank.

20.9 The following are the participating banks:

1. Standard Chartered Bank (Pakistan) Ltd.
2. Askari Bank Ltd.

The finance is secured by way of GoP guarantee.

20.10 During the year, the GoP provided Rs. 7,000 million unsecured loan to the Corporation. The amount received was Rs. 5,994 million whereas Rs. 1,006 million were adjusted against CED (Central Excise Duty).

20.11 All the aforementioned charges have not been registered with the Securities and Exchange Commission of Pakistan (SECP).

21. TERM FINANCE AND SUKUK CERTIFICATES

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Term finance certificates - secured (non participatory)	21.1	12,797,440	12,430,143
Less: current portion		(5,120)	-
		12,792,320	12,430,143
Sukuk certificates	21.2	6,800,000	-
		19,592,320	12,430,143

21.1 During the current year, the Corporation has issued GoP guaranteed Term Finance Certificates (TFCs) aggregating Rs. 12,800 million by replacing its existing TFCs aggregating to the original face value of Rs. 15,140 million. The restructuring was performed in coordination with the Ministry of Finance (MoF), as duly approved by the Ministry in a financial restructuring plan, vide their letter no. F.No. 4 (4) (F-111/2006-336), dated February 22, 2007. The restructuring was executed after obtaining waivers on account of early redemption from the majority of TFC holders. The salient features of the TFCs are as follows:

Installment payable:	Semi - annually in arrears
Repayment period:	2011-2013, 5 years including two years grace period
Rate of profit:	6 months KIBOR plus 85 basis points with no floor and cap

The issue of TFC is secured by a guarantee given by GoP. In order to protect the interest of TFC holders, Standard Chartered Bank has been appointed as Trustee appointed under the trust deed so that in case, the Corporation defaults on any of its obligations, the Trustee may enforce the Corporation's obligations in accordance with the terms of the trust deed. The proceeds of such enforcement will be distributed amongst the TFC holders, on a pari passu basis in proportion to the amounts owed to them.

The Corporation has an option of early purchase exercisable at any time with a 30 day notice period at NIL premium. The TFCs have been issued as part of a financial package of Rs. 26,500 million approved by GoP.

21.2 During the year, the Corporation has issued GoP guaranteed, privately placed Sukuk Certificates amounting to Rs. 6,800 million to re-finance short-term loans amounting to Rs. 6,730 million. The principal amount is payable after two years in six equal half yearly installments. The certificates carry profit of 6 months KIBOR + 175 basis points per annum. Meezan Bank has been appointed as the Trustee under the trust deed. The Corporation has an option of early purchase allowed only on rental payment dates falling due after expiry of one year from the date of issue with 30 days prior notice to the Trustee.

22. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Present value of future rental obligations - aircraft fleet			
A-310-300	22.2	5,504,821	5,845,881
B-777 -200 ER	22.3	15,859,793	17,176,361
B-777 -200 LR	22.4	16,122,513	16,682,976
B-777 -300 ER	22.5	31,907,001	32,555,909
		69,394,128	72,261,127
Present value of future rental obligations - vehicles	22.6	1,551	16,392
		69,395,679	72,277,519
Less: current portion		(8,122,882)	(7,252,859)
		61,272,797	65,024,660

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

	Minimum lease payment	2009 Finance Cost	Present value of minimum lease payments	Minimum Lease Payment	2008 Finance Cost	Present value of minimum lease payments
Rupees in '000						
Not later than one year	10,568,706	2,445,824	8,122,882	9,762,644	2,509,785	7,252,859
Later than one year and not later than five years	41,540,459	6,527,326	35,013,133	45,534,568	6,791,506	38,743,062
Later than five years	27,767,691	1,508,027	26,259,664	27,974,758	1,693,160	26,281,598
	79,876,856	10,481,177	69,395,679	83,271,970	10,994,451	72,277,519

22.2 In 2003, the Corporation entered into aircrafts lease agreements with Airbus Leasing Inc. USA, to acquire six A310-300 aircrafts. The salient features of the lease are as follows:

	December 31, 2009	December 31, 2008
Discount rate	5.2%	5.2%
Lease period	144 months	144 months
Security deposits (Rupees in '000)	272,808	255,636
Contingent rent (Rupees in '000)	(357)	(9)

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

	December 31, 2009	December 31, 2008
Discount rate - two aircrafts	4.65%	4.65%
Discount rate - one aircraft and spare engine	Three months LIBOR	Three months LIBOR
Lease period - aircrafts	144 months	144 months
Lease period - spare engine	96 months	96 months
Security deposits (Rupees in '000)	798,586	748,319
Contingent rent (Rupees in '000)	(272)	1,976

22.4 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 aircrafts 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:

Discount rate - aircraft and propulsor	Three months LIBOR - 0.02%	Three months LIBOR - 0.02%
Lease period - aircrafts	144 months	144 months
Lease period - propulsor	96 months	96 months
Security deposits (Rupees in '000)	644,620	604,044
Contingent rent (Rupees in '000)	(9,360)	(5,570)

22.5 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 aircrafts from White Crescent Limited, a special purpose entity incorporated in Amsterdam, Netherlands. The guaranteed lender is Royal Bank of Scotland. Salient features of the lease are as under:

Discount rate - one aircraft	5.25%	5.25%
Discount rate - two aircrafts	Three months LIBOR - 0.04%	Three months LIBOR - 0.04%
Lease period - aircrafts	144 months	144 months
Lease period - engine	96 months	96 months
Security deposits (Rupees in '000)	1,295,518	1,213,971
Contingent rent (Rupees in '000)	(1,473)	4,574

22.6 The salient features of other lease arrangements are as follows:

Discount rate	14.9 % - 17.1 %	7.71% - 13.32%
Lease period	48 to 60 months	48 to 60 months

22.7 The Corporation has an option to acquire the ownership of the asset at the end of the lease term.

23. LONG-TERM DEPOSITS

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Deposits from agents		157,500	115,500
Retention money		208,317	186,095
Deposits from PIA Employees		30	175
		365,847	301,770

24. DEFERRED LIABILITIES

Deferred custom duties		-	123,205
Obligation for compensated absences	24.1	2,072,000	1,689,000
Post retirement medical benefits	24.2	2,437,282	1,425,000
Pension obligation	24.3	1,675,045	6,000
		6,184,327	3,243,205

24.1 Obligation for compensated absences

Liability recognised in the balance sheet

Balance at beginning of the year		1,689,000	1,445,000
Charge for the year		383,000	244,000
		2,072,000	1,689,000

24.2 Post retirement medical benefits

Liability recognised in the balance sheet

Present value of defined benefit obligation		2,437,282	1,425,000
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Movement in liability during the year

Balance at the beginning of the year		1,425,000	1,425,878
Charge for the year		1,203,037	133,000
Less: payments made during the year		(190,755)	(133,878)
Balance at the end of the year		2,437,282	1,425,000

Expense recognised in profit and loss account

Current service cost		32,415	27,000
Past service cost		-	33,000
Interest cost		213,306	150,000
Net actuarial loss / (gain) recognised		957,316	(77,000)
		1,203,037	133,000

24.3 Pension obligation

	December 31, 2009	December 31, 2008
	Rupees in '000	
Liability recognised in the balance sheet		
Present value of defined benefit obligation	(13,743,585)	(11,294,000)
Less: Fair value of plan assets	12,068,540	11,288,000
	<u>(1,675,045)</u>	<u>(6,000)</u>
Movement in (liability) / asset during the year		
Balance at the beginning of the year	(6,000)	1,283,000
Charge for the year	(1,767,025)	(1,386,864)
Payments made during the year	97,980	97,864
Balance at the end of the year	<u>(1,675,045)</u>	<u>(6,000)</u>
Expense recognised in profit and loss account		
Current service cost	195,890	206,000
Past service cost	-	513,000
Interest cost	1,726,126	1,084,000
Expected return on plan assets	(1,190,638)	(1,118,000)
Actuarial loss recognised - net	1,035,647	702,000
	<u>1,767,025</u>	<u>1,387,000</u>
Actual return on plan assets	<u>1,732,941</u>	<u>460,000</u>
Movement in the defined benefit obligation		
Obligation as at January 1	11,294,000	10,241,000
Service cost	195,890	206,000
Interest cost	1,726,126	1,084,000
Benefits paid	(1,050,381)	(794,000)
Past service cost	-	513,000
Actuarial loss	1,577,950	44,000
Obligation as at December 31	<u>13,743,585</u>	<u>11,294,000</u>
Movement in fair value of plan assets		
Fair value as at January 1	11,288,000	11,524,000
Expected return on plan assets	1,190,638	1,118,000
Employer contributions	97,980	98,000
Benefits paid	(1,050,381)	(794,000)
Actuarial loss / (gain)	542,303	(658,000)
Fair value as at December 31	<u>12,068,540</u>	<u>11,288,000</u>

5 years data for (surplus) / deficit of the plan is as follows;

	2009	2008	2007	2006	2005
	Rupees in '000				
Fair value of plan assets	12,068,540	11,288,000	11,524,000	11,150,000	10,891,000
Present value of benefit obligation	13,743,585	11,294,000	10,241,000	9,466,000	8,930,000
(Deficit) / surplus	<u>(1,675,045)</u>	<u>(6,000)</u>	<u>1,283,000</u>	<u>1,684,000</u>	<u>1,961,000</u>
	2009	2008	2007	2006	2005
Actuarial loss / (gain) on obligation	16%	-	3%	(2)%	-
Actuarial loss / (gain) on plan assets	(4)%	6%	1%	2%	2%

Amounts for the current period and previous four annual periods of the present value of defined benefit obligation are as follows:

	2009	2008	2007	2006	2005
	Rupees in '000				
Present value of defined benefit obligation	<u>2,437,282</u>	<u>1,425,000</u>	<u>1,426,000</u>	<u>1,353,000</u>	<u>1,211,000</u>

Actuarial valuation of pension funds, compensation absences and post retirement medical benefit scheme was carried out at December 31, 2009. The valuation has been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	December 31, 2009	December 31, 2008
Discount rate	12.75%	11.00%
Expected long term rate of increase in salary level	10.60%	8.90%
Expected rate of increase in pension cost	4.40%	2.80%
Expected rate of medical cost trend	7.38%	10.48%
Expected rate of return on plan assets	12.75%	10.00%

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

	Number	
Pension scheme	11,387	11,477
Post retirement medical benefit scheme	16,263	16,353
Compensation absence scheme	16,263	16,353

24.3.2 The fair value of plan assets include investments in the Corporation's shares, amounting to Rs. 1.50 million (2008: Rs. 1.99 million).

25. TRADE AND OTHER PAYABLES INCLUDING PROVISIONS

	Note	December 31, 2009	December 31, 2008
		Rupees in '000	
			Restated
Trade creditors			
Goods		4,662,194	6,147,945
Services		1,754,916	1,894,687
Airport related charges		1,813,469	902,115
		<u>8,230,579</u>	<u>8,944,747</u>
Accrued liabilities		4,068,681	3,712,551
Advance against transportation (unearned revenue)			
Normal		6,980,139	6,895,273
Hajj		-	326,125
		<u>6,980,139</u>	<u>7,221,398</u>
Unredeemed frequent flyer liabilities		1,373,408	1,000,096
Advance from customers		653,884	358,046
Payable to employees' provident fund		1,918,629	1,149,430
Unclaimed dividend - Preference shares		8,504	8,504
Collection on behalf of others		2,126,987	933,136
Custom and central excise duty		496,970	514,645
Capital value tax		1,002,022	953,544
Income tax deducted at source		85,871	89,285
Provision for Civil Aviation Authority's claims	28.1 (a)	1,500,000	1,500,000
Short-term deposits		238,840	168,865
Murabaha financing		-	1,200,524
Fair value of cash flow hedges		-	192,725
		<u>28,684,514</u>	<u>27,947,496</u>

26. ACCRUED INTEREST / MARK-UP / PROFIT

On long-term financing		412,905	113,756
On term finance certificates		614,140	655,848
On sukuk certificates		195,840	-
On short-term borrowings		312,772	705,852
On pension / provident fund		309,935	-
		<u>1,845,592</u>	<u>1,475,456</u>

27. SHORT-TERM BORROWINGS - secured

Short-term loans	27.1	16,796,238	24,031,870
Running finance under mark-up arrangements	27.2	7,185,922	6,468,192
		<u>23,982,160</u>	<u>30,500,062</u>

27.1 Short-term loans - secured

Financier	Security	Facility amount (million)	Repayment period	Mark-up	December 31, December 31,	
					2009	2008
					— Rupees in '000 —	
From Banking Companies						
Habib Bank Limited	GoP Guarantee	2,000 PKR	3 Months	3 month KIBOR +0.90 %	2,000,000	2,000,000
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs. 2,230 million	1,600 PKR	1 Year	3 month KIBOR +0.90 %	1,600,000	1,600,000
Habib Bank Limited	Charge over domestic receivables	600 PKR	1 Year	1 month KIBOR + 2.50 %	-	600,000
United Bank Limited	GoP guarantee, promissory note amounting to USD 11 million.	10 USD	1 Year	6 month LIBOR + 2.00 %	-	789,000
Habib Allied Bank Limited - London	EURO receivables	9 USD	1 Year	1 month LIBOR +3.00 %	757,800	710,100
Habib Allied Bank Limited - London	EURO receivables	10 USD	1 Year	1 month LIBOR + 2.50 %	-	328,750
Habib Bank Limited	Charge over domestic receivables, promissory note amounting to Rs. 348 million	250 PKR	1 Year	1 month KIBOR + 2.50 %	-	250,000
Habib Bank Limited	Charge over domestic receivables, promissory note amounting to Rs. 836 million	600 PKR	1 Year	1 month KIBOR + 2.50 %	-	600,000
National Bank - Bahrain GBP	UK receivables	20 GBP	1 Year	1 month LIBOR + 5.00 %	1,803,191	-
National Bank - Bahrain SAR	Charge over Saudi Arabia, Bangladesh, Dhaka, Oman & Muscat Receivables	75 SAR	6 Months	1 month SIBOR + 5.00 %	1,122,247	-
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs. 2,400 million	2,000 PKR	1 Year	1 month KIBOR + 0.85 %	2,000,000	2,000,000
Standard Chartered Bank - Dubai	GoP guarantee	50 USD	3 months	1 month LIBOR +2.00 %	-	3,578,115
Standard Chartered Bank (Pakistan) Limited	GoP guarantee	3,000 PKR	1 Year	Relevant KIBOR + 0.75 %	-	2,999,905
National Bank of Pakistan	GoP guarantee	1,100 PKR	1 Year	3 month KIBOR +0.90 %	-	1,100,000
National Bank of Pakistan	GoP guarantee	1,500 PKR	1 Year	3 month KIBOR +0.90 %	1,500,000	1,500,000
United Bank Limited	GoP guarantee, promissory note amounting to Rs. 1,150 million	976 PKR	3 months	3 month KIBOR +0.90 %	-	976,000
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs. 1,346 million	1,000 PKR	1 Year	3 month KIBOR +0.90 %	1,000,000	1,000,000
Hong Kong Shanghai Bank Corporation	GoP guarantee, promissory note amounting to Rs. 1,600 million	1,000 PKR	3 months	3 month KIBOR +0.90 %	1,000,000	1,000,000
Askari Bank Limited	GoP guarantee	1,500 PKR	1 Year	3 month KIBOR +0.90 %	1,500,000	1,500,000
KASB Bank Limited	GoP guarantee, promissory note amounting to Rs. 595 million	500 PKR	1 Year	3 month KIBOR +0.90 %	500,000	500,000
Barclays PLC	GoP guarantee	750 PKR	4 months	3 month KIBOR +0.90 %	750,000	1,000,000
Faysal Bank Limited	GoP guarantee and ranking hypothecation charge over all current assets	15 USD	1 Year	3 month LIBOR + 2.00 %	1,263,000	-
					16,796,238	24,031,870

27.2 Running finance under mark-up arrangements - secured

Financier	Security	Facility amount (million)	Unavailed credit (million)	Repayment period	Mark-up	December 31, 2009	December 31, 2008
						— Rupees in '000 —	
From Banking Companies							
United Bank Limited - Karachi	Domestic receivables	2,570 PKR	130 PKR	1 Year	1 month KIBOR + 2.5%	2,439,718	2,505,112
Habib Bank Limited - NYC	EURO receivables	3 USD	0.13 USD	1 Year	3 month LIBOR +4.5%	240,974	384,788
National Bank of Pakistan - Karachi	Domestic receivables and hypothecation charge over all present and future current assets	575 PKR	-	1 Year	1 month KIBOR +2.00 %	575,017	575,000
Habib Allied Bank Limited -London	EURO receivables	3 USD	-	1 Year	1 month LIBOR + 3.00%	251,931	236,700
KASB Bank Limited	Domestic receivables	400 PKR	-	1 Year	3 month KIBOR +2.5%	400,000	-
United Bank Limited - Dubai	First pari passu hypothecation, charge on all present and future current assets	22 USD	-	1 Year	1 month LIBOR +5.00%	1,859,507	1,736,211
Arif Habib Bank	Domestic receivables and mortgage charge over Airbus A-310	300 PKR	176 PKR	1 Year	3 month KIBOR +2.50%	123,936	-
United Bank Limited - Bahrain	First pari passu hypothecation charge on all present and future current assets	13 USD	-	1 Year	1 month LIBOR +5.00%	1,092,752	1,030,381
Habib Bank Limited	Hypothecation charge on all present and future spare parts, accessories of aircrafts assets and on domestic receivables	350 PKR	148 PKR	1 Year	1 month KIBOR +2.00%	202,087	-
						<u>7,185,922</u>	<u>6,468,192</u>

28 CONTINGENCIES AND COMMITMENTS

28.1 Contingencies

- a) Civil Aviation Authority (CAA), Pakistan has claimed additional amounts aggregating Rs. 4,114 million (2008: Rs. 3,381 million) in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest / surcharge etc. The matter has been referred to Ministry of Defence through which a reconciliation and settlement exercise is currently in progress. The management considers that no additional liability of material amount is likely to arise as a result of such exercise. However, as a matter of prudence, the Corporation has made a provision of Rs. 1,500 million there against.
- b) The Collector Central Excise had raised demand of Rs. 690 million (2008: Rs. 568 million) in respect of duties levied on tickets provided by the Corporation to its staff either free of charge or at concessional rates, repair / replacement of re-imported aircraft engines, non-availability of invoices, import related to miscellaneous consignments, printed material sent at its various stations abroad for utilization, late / short payment of sales tax and central excise duty and excess baggage tickets. On protest by the Collector Central Excise, the Corporation has already paid an amount of Rs. 100 million (note 14) which is considered fully recoverable by the management. The Corporation has filed appeals with the Customs, Central Excise & Sales Tax Tribunal which are pending adjudication. Management is confident that the decision would be made in Corporation's favour. Consequently, no provision has been made in these unconsolidated financial statements.
- c) A show cause notice was served to the Corporation by Additional Collector, LTU Karachi, as a result of finding during the audit of PIAC records pertaining to 2004 - 2005 and 2005 - 2006. The Collector has raised demands of Rs. 6.80 million for the federal excise duty and Rs. 277.62 million for sales tax in respect of late filing of monthly returns of excise duty, sales tax of various taxable activities and incorrect rate of duty charged and paid along with input tax paid on various utilities. The Corporation has filed an appeal to the Additional Collector (Adjudication), which is currently pending for adjudication. The Corporation is confident that the decision will be in its favor. Consequently, no provision has been made in these unconsolidated financial statements for the same.
- d) A show cause notice was issued to the Corporation by the Collector of Customs, demanding a sum of Rs. 87.93 million (2008: Rs. 87.93 million) in respect of custom duty on the import of simulator. The Corporation has filed an appeal to the Appellate Tribunal Karachi for adjudication. The Corporation is confident that the decision will be in its favor. Consequently, no provision has been made in these unconsolidated financial statements.
- e) The Corporation is contesting litigations relating to suits filed against it on dispute over throughput charges aggregating to Rs. 125 million (2008: Rs. 125 million) against which it has filed appeals with the Honourable High Court of Sindh, Karachi and District Court which are pending. The management is of the view that ultimate outcome would be in favour of the Corporation. Accordingly, no provision in this respect has been made in these unconsolidated financial statements.
- f) A show cause notice was served to the Corporation by Additional Collectorate LTU for claim of sales tax amounting to Rs. 1,319 million, and federal excise duty amounting to Rs. 2.07 million, on the basis of investigation conducted by Directorate General Intelligence, Federal Board of Revenue (FBR). The amount was claimed against incorrect / inadmissible adjustment on exempt activity and incorrect charging of rates on Federal Excise Duty (FED) and sales tax rate. The Corporation is confident that the appeal, which it intends to file, will be in its favor.

- g) 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. The Corporation's management is of the view that these cases have no sound legal footing and it does not expect these contingencies to materialize. Accordingly, no provision has been made in these unconsolidated financial statements against these claims amounting to Rs. 3,391 million (2008: Rs. 2,864 million).
- h) Various ex-employees of the Corporation have lodged claims against the Corporation for their dues specifically relating to their re-instatements. However, the liability that may arise in these cases cannot be determined and consequently, no provision has been made in these financial statements.
- i) Contingencies relating to income tax matters are disclosed in note 36.1.
- j) Contingencies in respect of the tax matters relating to the Corporation's subsidiaries, PIA Holdings (Private) Limited and PIA Shaver Poultry Breeding Farms (Private) Limited amounted to Rs. 11.2 million (2008: Rs. 11.2 million).
- k) 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 through Corporation during Hajj season 2008. Total amount of refund estimated by the Corporation is Rs. 417 million. The Corporation has filed an appeal simultaneously in Lahore High Court and Supreme Court of Pakistan. The matter is pending for hearing and accordingly stay order has not been granted to the Corporation till date. Management and legal advisor are of view that the decision will be in the favor of the Corporation and no provision has been made in these unconsolidated financial statements.
- l) Claims against Corporation not acknowledged as debt amount to Rs. 1,184 (2008: Rs. 350 million).

28.2 Commitments

- a) Commitments for purchase of Simulator amounted to Rs. 1,128.1 million.
- b) Commitments for capital expenditure amounted to Rs. 103.1 million (2008: Rs. 394.5 million).
- c) Outstanding letters of credit amounted to Rs. 188.0 million (2008: Rs. 65.2 million).
- d) Outstanding letters of guarantee amounted to Rs. 587.0 million (2008: Rs. 203.9 million).

29. REVENUE - net

	December 31, 2009	December 31, 2008
	Rupees in '000	
		Restated
Passenger	84,510,491	79,479,283
Cargo	4,981,666	5,458,688
Excess baggage	1,045,167	875,530
Charter	988,928	183,806
Engineering services	900,795	936,578
Handling and related services	580,857	686,755
Mail	352,339	263,215
Others	1,203,522	979,403
	<u>94,563,765</u>	<u>88,863,258</u>

30. COST OF SERVICES - others

	Note	December 31, 2009	December 31, 2008
———— Rupees in '000 ————			
Salaries, wages and allowances		8,772,691	7,938,243
Welfare and social security costs		112,147	83,531
Retirement benefits		2,162,010	853,456
Compensated absences		244,281	148,218
Legal and professional charges		7,632	6,850
Stores and spares consumed		2,463,387	1,547,138
Maintenance and overhaul		4,494,628	3,829,943
Flight equipment rental		1,149,038	1,032,138
Landing and handling		10,494,356	9,123,722
Passenger services		3,013,146	2,833,399
Crew layover		2,559,818	2,196,650
Staff training		109,578	89,855
Utilities		6,557	5,170
Communication		52,927	66,930
Insurance		1,358,123	1,112,775
Rent, rates and taxes		585,271	362,134
Printing and stationery		171,575	96,597
Depreciation	5.1.5	9,201,856	7,809,239
Amortisation	6.2.1	2,576	2,461
Others		296,077	283,005
		<u>47,257,674</u>	<u>39,421,454</u>

31. DISTRIBUTION COSTS

	Note	December 31, 2009	December 31, 2008
———— Rupees in '000 ————			
Restated			
Salaries, wages and allowances		1,648,369	1,482,987
Welfare and social security costs		168,649	177,376
Retirement benefits		547,359	437,512
Compensated absences		65,345	45,500
Distribution and advertising expenses		2,249,398	2,021,937
Legal and professional charges		27,218	24,498
Repairs and maintenance		98,744	87,046
Insurance		16,671	12,958
Printing and stationery		48,015	36,037
Communication		410,877	384,325
Staff training		66,133	45,521
Rent, rates and taxes		332,712	329,766
Utilities		26,952	35,694
Amortisation	6.2.1	1,130	1,706
Depreciation	5.1.5	49,764	72,440
Others		154,610	114,505
		<u>5,911,946</u>	<u>5,309,808</u>

32. ADMINISTRATIVE EXPENSES

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Restated			
Salaries, wages and allowances		1,983,075	1,774,714
Welfare and social security costs		1,193,627	872,112
Retirement benefits		634,722	551,162
Compensated absences		73,374	50,282
Legal and professional charges		237,664	223,562
Repairs and maintenance		345,941	289,066
Insurance		17,239	14,967
Printing and stationery		100,460	62,175
Staff training		73,624	61,408
Rent, rates and taxes		418,673	371,005
Utilities		534,235	510,906
Auditors' remuneration	32.1 & 32.2	10,632	10,828
Communication		779,127	538,364
Amortisation	6.2.1	18,830	19,804
Depreciation	5.1.5	223,267	133,431
Donation	32.3	5,630	2,899
Others		530,545	331,533
		<u>7,180,665</u>	<u>5,818,218</u>

32.1 Auditors' remuneration

Audit fee	6,726	6,726
Fee for review of interim financial statements	2,016	2,016
Consolidated financial statements	1,000	1,000
Code of Corporate Governance	345	345
Out of pocket expenses	545	741
	<u>10,632</u>	<u>10,828</u>

32.2 Auditors' remuneration is equally shared by the two firms of auditors.

32.3 Directors including Chairman / CEO and their spouse do not have any interest in the donee.

33. OTHER PROVISIONS AND ADJUSTMENTS - net

Loss on disposal of capital spares		57,143	1,453
Provision for slow moving spares	10.1	445,684	286,466
(Reversal) / provision for doubtful debts - net	11.1	(113,951)	19,330
Arrears of mandatory retirement		53,506	-
Provision for doubtful other receivables	14.2	138,553	-
Provision for doubtful advances	12.2	108,887	381
Provision for CAA claim	28.1 (a)	-	1,500,000
Others		27	15
		<u>689,849</u>	<u>1,807,645</u>

34. OTHER OPERATING INCOME

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Income from financial assets			
Profit on bank deposits		32,778	163,540
Income from investment			
Dividend on investments		-	1,077,900
Income from assets other than financial assets			
Gain on disposal of fixed assets		1,452	200,814
Insurance claims		436,429	37,746
Others		23,803	66,804
Reversal of liabilities no longer payable		-	284,116
		<u>494,462</u>	<u>1,830,920</u>

35. FINANCE COSTS

Mark-up on long-term financing		1,563,774	1,502,403
Profit on term finance certificate		1,807,991	1,540,209
Profit on sukuk certificates		195,840	-
Interest on liabilities against assets subject to finance lease		1,854,656	2,283,030
Mark-up on long-term murabaha		-	192,228
Mark-up on short-term borrowings		3,244,074	2,346,199
Interest to pension / provident fund		189,851	132,823
Arrangement, agency and commitment fee		118,534	88,249
Bank charges, guarantee commission and other related charges		269,048	266,507
		<u>9,243,768</u>	<u>8,351,648</u>

36. TAXATION

Current	36.1	472,819	-
Prior		893,525	-
Deferred	36.2	(8,852,677)	(3,849,133)
		<u>(7,486,333)</u>	<u>(3,849,133)</u>

36.1 Current

In view of available tax losses for the year, provision for minimum taxation has been made at 0.5% of turnover under section 113 of the Income Tax Ordinance, 2001. No numeric tax rate reconciliation is given as the Corporation is liable for turnover tax only.

Return for the tax year 2003 to tax year 2009 have been deemed to be finalised under the provisions of Income Tax Ordinance, 2001.

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 orders for the assessment years 1991-92 to 2002-2003. Income Tax Appellate Tribunal (ITAT) has deleted this enhancement vide Orders Nos. ITA No. 1297/KB/2006 to 1301/KB/2006 dated 17-11-2009 for assessment years 1991-92, 1992-93, 1997-98, 1998-99 and 1999-2000 respectively and vide order Nos. ITA No. 1668/KB/2005 and 1669/KB/2005 dated 24-08-2007 for assessment year 2001-02 and 2002-03 respectively, while appeals for assessment years 1993-94 to 1996-97 are pending for adjudication. The Corporation had also made a representation to Secretary - Ministry of Law, GoP and also applied to the Federal Board of Revenue to constitute a committee under Section 134A of the Income Tax Ordinance, 2001 for the resolution of above dispute.

36.2 Deferred taxation

	December 31, 2009	December 31, 2008
	Rupees in '000	
Deferred tax credits:		
Accelerated tax depreciation	23,026,712	29,027,268
Surplus on revaluation of Aircraft	11,908,248	4,086,201
Buildings	-	68,385
	34,934,960	33,181,854
Deferred tax debits:		
Unused tax losses	(32,098,071)	(30,983,276)
Unrealised loss on re-measurement of investments	-	(64,454)
Provisions for liabilities and to write down other assets	(2,836,889)	(2,134,124)
	(34,934,960)	(33,181,854)
	-	-

Deferred tax asset of Rs. 6,404 (2008: Rs. 15,453) million in excess of deferred tax liability of Rs. 34,935 (2008: 33,181) million has not been recognised in these unconsolidated financial statements in accordance with the accounting policy of the Corporation stated in note 4.12.

37. EARNINGS PER SHARE - BASIC AND DILUTED

	December 31, 2009	December 31, 2008 Restated
Loss for the year (Rupees in '000)	5,822,431	36,138,642
Weighted average number of Ordinary shares outstanding	2,142,060,245	2,016,835,227
Loss per share		
'A' class Ordinary share (Rupees)	2.72	17.92
'B' class Ordinary share (Rupees)	1.36	8.96

37.1 Loss per share have no dilution effect.

38. CASH (USED IN) / GENERATED FROM OPERATIONS

	December 31, 2009	December 31, 2008
	Rupees in '000	
		Restated
Loss before tax	(13,308,764)	(39,987,775)
Adjustments for:		
Depreciation	9,474,887	8,015,110
Gain on disposal of property, plant & equipment	(1,452)	(200,814)
Amortisation	22,536	23,971
Provision for slow moving stores and spares	445,684	286,466
(Reversal) / provision for doubtful debts	(117,130)	86,330
Provision for doubtful advances and other receivables	108,887	381
Provision for employees' benefits	3,353,062	989,548
Provision for other receivables	138,553	-
Finance costs	9,243,768	8,351,648
Dividend on investment	-	(1,077,900)
Profit on bank deposits	(32,778)	(163,540)
Reversal of provision against short term investments	(1,133)	-
Provision against CAA liabilities	-	1,500,000
Reversal of liabilities no longer payable	-	284,116
	22,634,884	18,095,316
Working capital changes		
(Increase) in stores and spares	(706,167)	(761,466)
(Increase) in trade debts	(2,103,208)	(831,401)
(Increase) in advances	(879,439)	(814,521)
Decrease / (increase) in trade deposits and prepayments	433,086	(568,271)
Decrease / increase in other receivables	503,818	(397,593)
Increase in trade and other payables	617,372	5,546,206
	(2,134,538)	2,172,954
Cash generated from / (used in) operations	7,191,582	(19,719,505)

39. REMUNERATION OF MANAGING DIRECTOR AND EXECUTIVES

	Managing Director		Executives	
	2009	2008	2009	2008
	Rupees in '000		Rupees in '000	
Managerial remuneration	11,507	7,953	2,806,672	1,427,186
Corporation's contribution to provident fund	241	156	108,940	63,115
Other perquisites	-	-	1,401,414	990,522
	11,748	8,109	4,317,026	2,480,823
Number	1	1	2,221	1,112

Directors other than the Managing Director are non-executive directors. Aggregate amount charged in the financial statements for fee to directors was Rs. Nil (2008: Rs. 0.68 million). Managing Director and certain executives are also provided with the Corporation maintained cars and facilities as per the Corporation's rules.

40. REVENUE BY GEOGRAPHICAL SEGMENTS

	December 31, 2009	December 31, 2008
	Rupees in '000	
Revenue analysis		Restated
USA / Canada	5,080,074	5,657,982
Europe	17,839,862	17,010,061
Middle East / Africa	20,039,639	17,136,714
Asia (excluding Pakistan)	3,370,979	4,720,888
Pakistan	48,233,211	44,337,613
	<u>94,563,765</u>	<u>88,863,258</u>

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

Analysis of net assets

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

41. FINANCIAL RISK MANAGEMENT

The Corporation's activities exposes it to a variety of financial risks: market risk (including foreign currency risk, fair value interest rate risk, cash flow 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. 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, if necessary.

41.1 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 prices 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, deposits, available-for-sale investments, and derivative financial instruments.

a) Fuel price risk

The Corporation's earnings are affected by changes in price of the fuel. The Corporation hedges the fuel prices for Hajj operations only through use of certain derivative contracts. Since the Hajj operations were substantially completed by December 31, 2009, there were no derivative contracts outstanding as of that date, therefore, the Corporation was 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, Saudi Riyal (SAR) 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 reasonably possible change in the foreign currency exchange rates, with all other variables held constant, on (loss) before tax.

	2009	2008	2009	2008
	Rupees in '000		Rupees in '000	
Change in USD rate		+5%		(5%)
Effect on loss before tax	(1,113,300)	(1,166,970)	1,113,300	1,166,970
Change in GBP rate		+5%		(5%)
Effect on loss before tax	(20,220)	(20,120)	20,220	20,120
Change in SAR rate		+5%		(5%)
Effect on loss before tax	(44,660)	(3,450)	44,660	3,450

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 Corporation's long-term debt obligations with floating interest rates and bank balances.

	December 31, 2009	December 31, 2008
	Rupees in '000	
Variable rate instruments at carrying amount:		
Long-term financing	17,953,888	19,562,576
Term finance and sukuk certificates	19,597,440	12,430,143
Liabilities against assets subject to finance lease	69,395,679	72,277,519
Short-term borrowings	23,982,160	30,500,062
	<u>130,929,167</u>	<u>134,770,300</u>
Fixed rate instruments at carrying amount		
Long-term financing	<u>11,927,683</u>	<u>5,261,363</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, a 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 Corporation's loss before tax.

	KIBOR		LIBOR	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	Rupees in '000		Rupees in '000	
Change in interest rate		+1%		+0.25%
Effect on loss before tax	(386,728)	(287,610)	(233,285)	(237,435)
Change in interest rate		(1%)		(0.25%)
Effect on loss before tax	386,728	287,610	233,285	237,435

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 Corporation is not significantly exposed to equity securities price risk as majority of its investments are in subsidiaries, associated companies and joint venture which are stated at cost.

41.2 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:

	Weighted Average effective rate of interest	Less than 1 year	1-5 years	More than 5 years	Total
Rupees in '000					
2009					
Long-term financing	5.91%	7,095,953	25,057,586	11,621,895	43,775,434
Term finance and sukuk certificates	10.22%	6,279	19,599,516	-	19,605,795
Liabilities against assets subject to finance lease	2.62%	10,568,706	41,540,459	27,767,691	79,876,856
Trade and other payables		20,330,967	-	-	20,330,967
Accrued interest / mark-up / profit		1,845,592	-	-	1,845,592
Short-term borrowings	13.50%	28,684,514	-	-	28,684,514
		<u>68,532,011</u>	<u>86,197,561</u>	<u>39,389,586</u>	<u>194,119,158</u>
2008					
Long-term financing	3.68%	11,697,092	13,126,846	-	24,823,938
Term finance and sukuk certificates	12.50%	-	12,430,143	-	12,430,143
Liabilities against assets subject to finance lease	2.51%	9,762,644	45,534,568	27,974,758	83,271,970
Trade and other payables		19,726,002	-	-	19,726,002
Accrued interest / mark-up / profit		1,475,456	-	-	1,475,456
Short-term borrowings	12.34%	30,500,062	-	-	30,500,062
		<u>73,161,256</u>	<u>71,091,557</u>	<u>27,974,758</u>	<u>172,227,571</u>

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, 2009 represents the maximum credit exposure, which is as follows:

	December 31, 2009	December 31, 2008
	Rupees in '000	
Long-term receivables	-	-
Long-term deposits	3,586,017	3,345,642
Trade debts	7,978,187	5,757,849
Advances	2,189,162	1,418,610
Trade deposits	72,005	47,059
Other receivables	493,774	482,705
Bank balances	690,234	605,430
	15,009,379	11,657,295

Trade debts

The Corporation has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Corporation normally grants a credit term of 30 to 60 days to customers with the debt in certain circumstances being 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.

Aging of past due and impaired trade debts is disclosed in note 11 to the 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 high credit rating. The names and credit rating of major banks where the Corporation maintains its bank balances are as follows:

Name of Bank	Rating Agency	Credit Rating	
		Short-term	Long-term
National Bank of Pakistan	JCR-VIS	A-1+	AAA
Habib Bank Limited	JCR-VIS	A-1+	AA+
Allied Bank Limited	PACRA	A-1+	AA
United Bank Limited	JCR-VIS	A-1+	AA+
Faysal Bank Limited	JCR-VIS	A-1+	AA
KASB Bank Limited	PACRA	A1	A
Standard Chartered Bank (Pakistan) Limited	PACRA	A-1+	AAA
Barclays Bank PLC	S&P	A-1+	AA-
Citibank N.A.	S&P	A1	A+
SAMBA KSA	S&P	A1	A
Royal Bank of Canada	S&P	A-1+	AA-
Deutsche Bank AG	S&P	A1	A+
ANZ National Bank Limited	S&P	A-1+	AA

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.

Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair value except for investment held to maturity which is carried at amortized cost.

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 to the unconsolidated financial statements.

42. TRANSACTIONS WITH RELATED PARTY

The related parties of the Corporation comprises subsidiaries, associates, joint ventures, 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. Transactions with related parties are as follows:

	December 31, 2009	December 31, 2008
	————— Rupees in '000 —————	
Skyrooms (Private) Limited – Subsidiary		
Catering services	155,074	-
Retirement funds		
Contribution	865,741	801,825
Subsidiaries		
Dividend income from PIAIL	-	1,077,900

42.1 The transactions with other state owned entities and GoP have not been treated as related party transaction for the purpose of this disclosure.

42.2 Transactions with the directors, chief executives and key management personnel have been disclosed in note 39 to the unconsolidated financial statements.

42.3 The Corporation's sales of transportation services to subsidiaries and associates are not determinable.

43. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. Significant reclassifications made are as follows:

From	To	Nature	Amount re-classified Rupees in '000
Cost of services - others	Other provisions and adjustments - net	Provision for slow moving spares	286,466

44. AUTHORIZATION OF FINANCIAL STATEMENTS

These unconsolidated financial statements were authorized for issue in the Board of Directors meeting held on March 16, 2010.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

We stand for National Values



consolidated financial statements

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

Anjum Asim Shahid Rahman
Chartered Accountants
1st Floor, Modern Motors House,
Beaumont Road,
Karachi.

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, 2009 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of cash flows 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 financial statements of the subsidiary companies were audited by other firms of auditors, except one subsidiary which is audited by one of the joint auditors, whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included for such companies, is based solely on the reports of such other auditors. 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. The consolidated financial statements for the year ended December 31, 2008 were audited by Anjum Asim Shahid Rahman, Chartered Accountants and Fort Rhodes Sidat Hyder & Co, Chartered Accountants whose report dated March 26, 2009 expressed a qualified opinion thereon and also added emphasis of matter paragraphs highlighting matters relating to going concern and claim of Civil Aviation Authority (CAA) of the Holding company and matters relating to going concern and term of lease agreement with the CAA of a subsidiary company.

Except for the matters referred to in paragraph (a) to (b) below, our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

The auditors of the subsidiary company PIA Investment Limited (PIAIL) have qualified their opinions as follows:

- a) as more fully explained in note 8 to the consolidated financial statements, PIAIL's receivable from Centre Hotel comprises of the share of joint venture's net current assets, amounting to Rs. 636.064 million (US\$ 7,554,210), as at April 21, 1997, the date when joint venture period expired. The share has been incorporated based on joint venture's management accounts as at April 21, 1997 as its audited financial statements are not available. The amounts spent on renovation of the hotel and amounts set aside as renovation reserve have been added back as these amounts were spent without authorisation of PIAIL and are subject of a dispute with other joint venture partners. The PIAIL has served a notice of arbitration on the other joint venture partners. Pending outcome of the arbitration proceedings, it is not possible to determine with reasonable accuracy the amount of joint venture assets, which are available for distribution to the joint venture partners.
- b) as more fully explained in note 21.12, the Roosevelt Hotel Corporation (RHC) Operating LLC has entered into certain loan agreements, aggregating to Rs.13,219 million (US\$ 157 million). The loan agreements matured on November 9, 2008 and PIAIL had an option for three separate one year extensions. In May 2008, the Company exercised the option for first of one year extensions, extending the maturity date to November 9, 2009. In May 2009, the PIAIL exercised the second option extending the maturity date to November 9, 2010. The amounts due under these loan agreements have been classified as long term as the PIAIL intends to exercise the third option for one year extension to extend the repayment to November 9, 2011. We consider that loan should be classified as current unless the PIAIL expects and is able to, solely at its own discretion, roll over an obligation for atleast 12 months after the balance sheet date. Accordingly, debt of Rs. 13,219 million (US\$ 157 million) classified as long term should be classified as current.

Had the above debt been classified as current, the non-current liabilities shown in the consolidated balance sheet would have been lower by Rs. 13,189 million (US\$ 157 million) and current liabilities would have been higher by the same amount.

Except for the effect of the matters stated in paragraphs (a) and (b) above, in our opinion, the consolidated financial statements present fairly the financial position of the Holding company and its subsidiary companies as at December 31, 2009 and the results of their operations for the year then ended.

Without qualifying our opinion, we draw attention to the following matters:

- i) note 1.3 (i) to the consolidated financial statements, which states that the Holding company incurred a loss for the year of Rs. 5,822 (2008: Rs. 36,139) million during the year ended December 31, 2009, resulting in accumulated losses of Rs. 76,645 (2008: Rs. 73,174) million at the close of the year, and, as of that date, the Holding company's current liabilities exceeded its current assets by Rs. 51,937 (2008: Rs. 57,489) million. These conditions indicate existence of a material uncertainty which may cast doubt about the Holding company's ability to continue as a going concern; and
- ii) note 29.1 (a) to the consolidated financial statements, which describes the uncertainty relating to the difference between the amount due as per the Holding company's records and amounts claimed by the Civil Aviation Authority (CAA) in respect of which a reconciliation and settlement exercise is currently in progress through the Ministry of Defence.

Further, the auditors of the Skyrooms (Private) Limited - a subsidiary company have modified their report by adding emphasis of matter paragraphs as follows:

- iii) the subsidiary company has accumulated losses of Rs. 85.342 million as at December 31, 2009 (2008: Rs. 90.991 million) as against the paid-up share capital of Rs. 40 million (2008: Rs. 40 million) and, as of that date, the subsidiary company's total liabilities exceeded its total assets by Rs. 45.342 million (2008: Rs. 50.991 million). These conditions indicate existence of a material uncertainty which may cast doubt about the subsidiary company's ability to continue as a going concern; and
- iv) the subsidiary company's lease agreement with the Civil Aviation Authority (CAA) for the land and hotel building expired on June 02, 2001. Last year, terms of lease agreement for renewal of land and hotel's building were finalized. However, the revised agreement has not yet been executed / signed.

Chartered Accountants
Syed Asad Ali Shah

Chartered Accountants
Shahzada Saleem Chughtai

Karachi: March 16, 2010

Consolidated Balance Sheet *As at December 31, 2009*

	Note	December 31, 2009	December 31, 2008	January 01, 2008	December 31, 2009	December 31, 2008	January 01, 2008
		Rupees in '000			US\$ in '000		
		Restated	Restated	Restated	Restated	Restated	Restated
ASSETS							
NON CURRENT ASSETS							
Fixed assets							
Property, plant and equipment	5	175,531,555	157,811,321	132,470,820	2,084,698	2,000,144	2,155,750
Intangibles	6	2,903,518	2,745,223	2,067,117	34,484	34,794	33,639
		178,435,073	160,556,544	134,537,937	2,119,182	2,034,938	2,189,389
Long-term investments	7	93,021	140,185	188,465	1,105	1,777	3,067
Receivable from Centre Hotel	8	636,064	596,027	464,206	7,554	7,554	7,554
Long-term loans	9	12,051	7,629	1,291,092	143	97	21,010
Long-term deposits and prepayments	10	5,199,986	5,173,580	4,242,703	61,758	65,571	69,043
		184,376,195	166,473,965	140,724,403	2,189,742	2,109,937	2,290,063
CURRENT ASSETS							
Stores and spare parts	11	4,017,865	3,764,276	3,286,170	47,718	47,709	53,477
Trade debts	12	8,335,142	6,190,561	5,395,745	98,992	78,461	87,807
Short-term loans and advances	13	2,187,319	1,379,248	549,900	25,978	17,481	8,949
Trade deposits and prepayments	14	1,672,701	1,688,239	1,257,980	19,866	21,397	20,472
Accrued interest		-	1,325	32,789	-	17	534
Other receivables	15	1,003,640	1,623,644	1,170,866	11,920	20,579	19,054
Short-term investments	16	144,060	97,977	182,771	1,711	1,242	2,974
Taxation - net		70,628	321,855	310,239	839	4,079	5,049
Cash and bank balances	17	4,691,221	4,059,865	4,233,180	55,715	51,456	68,888
		22,122,576	19,126,990	16,419,640	262,739	242,421	267,204
TOTAL ASSETS		206,498,771	185,600,955	157,144,043	2,452,481	2,352,358	2,557,267

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated Balance Sheet As at December 31, 2009

Note	December 31, 2009	December 31, 2008	January 01, 2008	December 31, 2009	December 31, 2008	January 01, 2008	
	Rupees in '000			US\$ in '000			
	Restated	Restated	Restated	Restated	Restated	Restated	
EQUITY AND LIABILITIES							
SHARE CAPITAL AND RESERVES							
Share capital	18	23,280,356	21,423,014	20,878,074	276,489	271,521	339,757
Reserves	19	(70,568,745)	(68,179,968)	(30,097,136)	(838,109)	(864,131)	(489,782)
Attributable to the Holding company's shareholders		(47,288,389)	(46,756,954)	(9,219,062)	(561,620)	(592,610)	(150,025)
Non-controlling interest		760,764	743,935	527,860	9,035	9,429	8,590
Total equity		(46,527,625)	(46,013,019)	(8,691,202)	(552,585)	(583,181)	(141,435)
SURPLUS ON REVALUATION OF FIXED ASSETS	20	42,212,154	28,493,164	10,190,057	501,332	361,130	165,827
NON CURRENT LIABILITIES							
Long-term financing	21	40,300,378	34,426,312	28,994,934	478,627	436,328	471,846
Term finance and sukuk certificates	22	19,592,320	12,430,143	10,723,738	232,688	157,543	174,512
Liabilities against assets subject to finance lease	23	61,321,895	65,088,789	46,524,024	728,289	824,953	757,104
Long-term deposits	24	365,979	301,902	321,679	4,347	3,826	5,235
Advance rent		-	3,486	-	-	44	-
Deferred liabilities	25	18,307,683	16,269,775	14,669,765	217,431	206,208	238,727
		139,888,255	128,520,407	101,234,140	1,661,382	1,628,902	1,647,424
CURRENT LIABILITIES							
Trade and other payables including provisions	26	30,418,267	29,680,579	22,214,383	361,262	376,180	361,503
Accrued interest / mark-up / profit	27	1,845,592	1,475,456	978,317	21,919	18,700	15,921
Tax payable		874,887	23,534	19,388	10,391	298	316
Short-term borrowings	28	23,982,160	30,500,062	18,105,884	284,824	386,566	294,644
Current maturities of:							
Long-term financing	21	5,655,812	5,649,136	5,845,349	67,171	71,599	95,124
Term finance and sukuk certificates	22	5,120	-	2,523,232	61	-	41,062
Advance rent		3,486	3,300	-	42	42	-
Liabilities against assets subject to finance lease	23	8,140,663	7,268,336	4,724,495	96,682	92,122	76,884
		70,925,987	74,600,403	54,411,048	842,352	945,507	885,452
CONTINGENCIES AND COMMITMENTS	29						
TOTAL EQUITY AND LIABILITIES		206,498,771	185,600,955	157,144,043	2,452,481	2,352,358	2,557,267

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated

Profit and Loss Account

For the year ended December 31, 2009

	Note	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
		Rupees in '000		US\$ in '000	
		Restated		Restated	
REVENUE - net	30	103,250,358	98,833,377	1,226,251	1,252,641
COST OF SERVICES					
Aircraft fuel		(31,371,753)	(45,854,357)	(372,586)	(581,171)
Others	31	(54,316,521)	(47,128,415)	(645,089)	(597,318)
		(85,688,274)	(92,982,772)	(1,017,675)	(1,178,489)
GROSS PROFIT		17,562,084	5,850,605	208,576	74,152
Distribution costs	32	(6,124,229)	(5,309,808)	(72,734)	(67,298)
Administrative expenses	33	(7,727,006)	(5,862,577)	(91,770)	(74,304)
Other provisions and adjustments - net	34	(614,088)	(1,807,645)	(7,293)	(22,911)
Exchange loss - net		(6,711,336)	(24,118,824)	(79,707)	(305,688)
Other operating income	35	560,319	757,963	6,655	9,607
		(20,616,340)	(36,340,891)	(244,849)	(460,594)
LOSS FROM OPERATIONS		(3,054,256)	(30,490,286)	(36,273)	(386,442)
Finance costs	36	(9,604,550)	(9,027,003)	(114,068)	(114,411)
Share of loss from associated company		(433)	(397)	(5)	(5)
LOSS BEFORE TAXATION		(12,659,239)	(39,517,686)	(150,346)	(500,858)
Taxation	37	7,438,882	3,282,690	88,348	41,606
LOSS FOR THE YEAR		(5,220,357)	(36,234,996)	(61,998)	(459,252)
Attributable to:					
Attributable to the Holding company's shareholders		(5,233,041)	(36,258,069)	(62,150)	(459,544)
Non-controlling interest		12,684	23,073	152	292
		(5,220,357)	(36,234,996)	(61,998)	(459,252)
			(Rupees)		(US\$)
			Restated		Restated
EARNINGS PER SHARE - BASIC AND DILUTED	38				
'A' class Ordinary shares of Rs.10 each		(2.44)	(17.97)	(0.03)	(0.23)
'B' class Ordinary shares of Rs. 5 each		(1.22)	(8.99)	(0.02)	(0.12)

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated

Statement of Comprehensive Income

For the year ended December 31, 2009

	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	Rupees in '000	Restated	US\$ in '000	Restated
Loss for the year	(5,220,357)	(36,234,996)	(61,999)	(459,252)
OTHER COMPREHENSIVE INCOME				
Unrealised loss on re-measurement of investments	(43,987)	(24,101)	(522)	(305)
Cash flow hedge				
Loss arising during the year	-	(192,725)	-	(2,443)
Tax on fair value of cash flow hedge	-	67,454	-	855
Reclassification adjustment for loss transferred to profit and loss account	125,271	-	1,488	-
	125,271	(125,271)	1,488	(1,588)
Exchange differences on translation of foreign operations	148,631	(2,718,455)	1,765	(34,454)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>(4,990,442)</u>	<u>(39,102,823)</u>	<u>(59,269)</u>	<u>(495,599)</u>
Attributable to:				
Attributable to the Holding company's shareholders	(5,004,612)	(39,098,710)	(59,437)	(495,548)
Non controlling interest	14,170	(4,113)	168	(51)
	<u>(4,990,442)</u>	<u>(39,102,823)</u>	<u>(59,269)</u>	<u>(495,599)</u>

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated

Statement of Cash Flows

For the year ended December 31, 2009

	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Note	Rupees in '000		US\$ in '000	
		Restated		Restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations after working capital changes	39	8,140,299	12,983,094	96,678
Profit on bank deposits received		35,130	197,768	417
Finance costs paid		(9,234,414)	(8,529,864)	(109,672)
Deferred custom duties paid		(123,205)	(55,383)	(1,463)
Taxes paid		(502,921)	(3,275,220)	(5,973)
Staff retirement benefits paid		(288,735)	(137,804)	(3,429)
Long-term deposits and prepayments - net		(26,406)	(930,877)	(314)
Net cash (used in) / generated from operating activities		(2,000,252)	251,714	(23,756)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(2,926,650)	(9,952,440)	(34,758)
Proceeds from sale of property, plant and equipment		3,208	211,746	38
Purchase of intangibles		(1,344)	-	(16)
Proceeds from long-term investments		47,164	(46,965)	561
Payments against long-term financing		(4,422)	-	(53)
Payments to Central Hotel		(40,037)	-	(475)
Long-term advances		-	1,283,463	-
Net cash used in investing activities		(2,922,081)	(8,504,196)	(34,704)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital		1,857,342	-	22,059
Repayment of long-term financing		(5,534,320)	-	(65,728)
Proceeds from long-term financing		11,415,062	5,235,165	135,572
Proceeds from issue of term finance and sukuk certificates		440,000	-	5,226
Redemption of term finance certificates		(2,703)	(816,827)	(32)
Restructuring of sukuk certificates		6,730,000	-	79,929
Proceeds from long-term deposits (Repayment) of / proceeds from obligations under finance lease - net		(2,894,567)	(8,733,349)	(34,377)
Net cash generated from / (used in) financing activities		12,071,591	(4,315,011)	143,368
Increase / (decrease) in cash and cash equivalents		7,149,258	(12,567,493)	84,908
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(26,440,197)	(13,872,704)	(314,017)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		(19,290,939)	(26,440,197)	(229,109)
CASH AND CASH EQUIVALENTS				
Cash and bank balances	17	4,691,221	4,059,865	55,715
Short-term borrowings	28	(23,982,160)	(30,500,062)	(284,824)
		(19,290,939)	(26,440,197)	(229,109)

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated

Statement of Changes in Equity

For the year ended December 31, 2009

	Issued, subscribed, and paid-up capital	Capital reserves	Revenue reserves	Reserves			Other reserves	Total	Non-controlling interest	Total
				Unrealised loss on re-measurement of investments	Foreign currency translation reserves	Accumulated losses				
Rupees in '000										
Balance as at January 01, 2008	20,878,074	2,501,038	1,779,674	97,366	2,116,441	(36,029,644)	-	(8,657,051)	527,860	(8,129,191)
Effect of change in accounting policy for customer loyalty programme (note 4.1.4)	-	-	-	-	-	(562,011)	-	(562,011)	-	(562,011)
Balance as at January 01, 2008 – restated	20,878,074	2,501,038	1,779,674	97,366	2,116,441	(36,591,655)	-	(9,219,062)	527,860	(8,691,202)
Total comprehensive income for the year transferred to equity	-	-	-	(24,101)	(2,718,455)	(36,234,996)	(125,271)	(39,102,823)	23,073	(39,079,750)
Surplus on revaluation of aircraft fleet and Hotel building realised during the year on account of incremental depreciation charged thereon	-	-	-	-	-	1,001,525	-	1,001,525	-	1,001,525
Foreign currency translation	-	-	-	-	-	-	-	-	181,336	181,336
Mandatory statutory reserve	-	-	-	-	-	-	30,132	30,132	-	30,132
Transactions with owners										
Issue of share capital 'A' class ordinary shares	544,940	-	-	-	-	-	-	544,940	-	544,940
Dividend paid	-	-	-	-	-	(11,666)	-	(11,666)	11,666	-
Balance as at December 31, 2008 – restated	21,423,014	2,501,038	1,779,674	73,265	(602,014)	(71,836,792)	(95,139)	(46,756,954)	743,935	(46,013,019)
Total comprehensive income for the year transferred to equity	-	-	-	(43,987)	147,145	(5,233,041)	125,271	(5,004,612)	14,170	(4,990,442)
Surplus on revaluation of fixed assets realized during the year on account of incremental depreciation charged thereon – net of tax	-	-	-	-	-	2,614,705	-	2,614,705	2,659	2,617,364
Mandatory statutory reserve	-	-	-	-	-	-	1,130	1,130	-	1,130
Transactions with owners										
Issue of share capital 'A' class ordinary shares	1,857,342	-	-	-	-	-	-	1,857,342	-	1,857,342
Balance as at December 31, 2009	23,280,356	2,501,038	1,779,674	29,278	(454,869)	(74,455,128)	31,262	(47,288,389)	760,764	(46,527,625)

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Notes to the consolidated

Financial Statements

For the year ended December 31, 2009

1. THE GROUP AND ITS OPERATIONS

1.1 The "Group" consists of:

Pakistan International Airlines Corporation (the Holding company)

Pakistan International Airlines Corporation (the Holding company) was incorporated on January 10, 1955 under PIAC Corporation Ordinance, 1955, which was subsequently repealed and replaced by the Pakistan International Airlines Corporation Act, 1956 (PIAC 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 air transport services. Other activities of the Holding company include provision of engineering and other allied services. The head office of the Holding company is situated at PIA Building, Jinnah International Airport, Karachi.

Subsidiaries

PIA Investment 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 and is currently registered in British Virgin Islands. The principal activities are 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 99%. Following are the details of PIAIL's subsidiaries:

	2009 PIAIL's Holding %	2008 PIAIL's Holding %
Roosevelt Hotel Corporation, N.V.	100	100
Minhal France (Curacao) N.V.	100	100
Minhal France B.V.	100	100
Minhal France S.A.	90	90

Skyrooms (Private) Limited (SRL) was incorporated on May 20, 1975 in Pakistan as a private limited company under the Companies Ordinance, 1984. The principal activity of SRL is to manage Airport Hotel at Karachi. SRL is a wholly owned subsidiary of the Holding company.

Midway House (Private) Limited (MWPL) is a wholly owned subsidiary of the Holding company. MWPL is under winding up and has been fully provided in the books of the Holding company and accordingly not consolidated in these financial statements.

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

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 company is 40%.

Joint venture

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. The registered office of Abacus is situated at Karachi. Abacus operates a computer reservation system which incorporates a software package which performs various functions including real time airline seat reservation, schedules, bookings for a variety of air, car and hotel services, automated ticketing and fare displays. The Holding company's interest in Abacus is 55% which will increase to 75% over a period of nine years.

- 1.2 During the year, the Group has incurred a net loss of Rs. 5,220 (2008: Rs. 36,235) million, resulting in accumulated losses of Rs. 74,455 (2008: Rs. 71,837) million as of the balance sheet date. Further, as of that date the current liabilities of the Group exceeded its current assets by Rs. 48,803 (2008: Rs. 55,473) million.
- 1.3 The management of the Holding company and SRL have reported the following in their audited financial statements to mitigate the aforementioned conditions of the Group:

(i) Holding company

During the current year, the Holding company has incurred a net loss of Rs. 5,822 (2008: Rs. 36,139) million, resulting in accumulated losses of Rs. 79,683 (2008: Rs. 73,860) million as of the balance sheet date. Further, as of that date, the current liabilities of the Holding company exceeded its current assets by Rs. 51,937 (2008: Rs. 57,489) million. As a result of the adverse financial position of the Holding company during the last few years, the Ministry of Finance (MoF), after considering the financial constraints and future funding requirements of the Holding company, agreed in a letter issued to the Holding company that the Government of Pakistan (GoP), as a majority shareholder, would extend support to maintain the going concern status of the Holding company.

The GoP had also agreed to provide equity contribution to cover interest / profit payments on long-term financing and TFCs and an amount of Rs. 10,729 (December 31, 2008: Rs. 8,872) million has been provided to the Holding company up to December 31, 2009 against which shares have been issued to the GoP.

During the current year, the MoF has also provided support with long-term loans of Rs. 7,000 million. Short-term borrowings amounting to Rs. 6,730 million were also restructured under the five years Islamic Financing Syndicated Sukuk facility with financial close on October 20, 2009. The GoP has also agreed to provide further equity contribution during the coming months as well as restructuring of short-term borrowings.

The Holding company, therefore, believes that the going concern assumption is appropriate and has, as such, prepared its financial statements on this basis.

(ii) Skyrooms (Private) Limited (SRL)

SRL has accumulated losses of Rs. 85.342 million (2008: Rs. 90.991 million) as at December 31, 2009 as against the paid-up share capital of Rs. 40 million, which resulted in negative shareholders equity of Rs. 45.342 million (2008: Rs. 50.991 million). However, the Holding company has provided financial assistance of Rs. 37.042 million as an advance against share capital. Management believes that financial and operational support from the Holding company will continue in the foreseeable future as has been done in the past.

SRL has entered into a lease agreement with Civil Aviation Authority (CAA) for acquisition of the right to use plot of land and hotel's building. Initial lease agreement was effective from June 03, 1981 for a period of twenty years which expired on June 02, 2001. Last year, lease renewal of land and hotel's building for further thirty years has been approved between SRL and CAA in their meeting held on January 07, 2008. However, the revised agreement has not yet been executed/signed.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the requirements of PIAC Act, 1956 (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 (IASB) 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 preparation

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 amounts;
- certain financial instruments are carried at fair values; and
- defined benefit obligation is stated at present value.

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 Group operates. The consolidated financial statements are presented in Pakistani Rupees, which is the Group's functional and presentation currency.

The US Dollar amounts reported in the balance sheet, profit and loss account and cash flow statement are stated as additional information, solely for the convenience of the users of these consolidated financial statements. For the purpose of translation to US Dollar, the year end rate of Rs. 84.20 per US Dollar has been used (2008: Rs. 78.90 per US Dollar).

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Holding company and its subsidiaries 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the 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. Where necessary, accounting policies for subsidiary companies have been changed to ensure consistency with the policies adopted by the Holding company.

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 and within equity in the consolidated balance sheet, separately from Holding company shareholders' equity.

2.4.2 Associates and joint venture

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.

Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group companies investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group companies share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group companies, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group companies share of losses exceeds their 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 losses is discontinued except to the extent that the Group companies have an obligation or have made payments on behalf of the investee.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group companies interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The financial statements of the associates are prepared for the same reporting year as the Holding company.

2.5 Standards, Interpretations and Amendments to Published Approved Accounting Standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2010. These standards are either not relevant to the Group's operations or are not expected to have a significant impact on the Group consolidated financial statements other than increase in disclosures in certain cases:

- Revised IFRS 3 - Business Combinations (applicable for annual periods beginning on or after July 1, 2009) broadens, among other things, the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit and loss account and any non-controlling interest to be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.
- Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the profit or loss.
- IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after October 1, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete.

- Amendments to IAS 39 - Financial Instruments: Recognition and Measurement – Eligible hedged Items (effective for annual periods beginning on or after July 1, 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.
- IFRIC 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009) states that when an entity distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non-cash asset is distributed, the difference between the carrying amount and fair value is recognised in the profit and loss account.

The International Accounting Standards Board made certain amendments to existing standards as part of its annual improvements project and also issued certain new interpretations and standards. The effective dates for these amendments, interpretations and standards vary by standard and most will be applicable to the Group's financial statements from financial year 2010 and onwards. These amendments, interpretations and standards are either not relevant to the Group's operations or are not expected to have a significant impact on the Group's consolidated financial statements other than increase in disclosures in certain cases.

- Amendment to IFRS 2 - Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2010). Currently, effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.
- Amendment to IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 1, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
- IFRIC 18, 'Transfer of assets from customers' (effective for periods beginning on or after July 1, 2009). The interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash received and used to acquire or construct specific assets. This interpretation is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This interpretation is not expected to have a material impact on the Group's financial statements.
- Amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.
- Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations – (effective for annual periods beginning on or after July 1, 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation.
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010). This interpretation provides guidance on the accounting for debt for equity swaps.
- IAS 24 - Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 1, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply IAS 1 (amendment) from January 1, 2010. It is not expected to have a material impact on the Group's financial statements.
- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each has similar useful economic life. The amendment will not result in any impact on the Group's financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods affected.

In the process of applying the Group's accounting policies, management has made the following estimates and judgements which are significant to the 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. Further, the Group estimates revalued amounts of aircraft fleet, land and buildings based on the periodic valuations carried out by external professional valuers. The said valuation also includes estimates with respect to residual values and useful lives. Any change in the estimates 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.

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 assets, future salary increases, mortality rates, future increase in medical costs and future pension increases. Any changes in these assumptions in future years might affect unrecognised gains and losses in those years. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 25.4.1 to the consolidated financial statements.

3.3 Stores and spares

The Group reviews the net realisable values of stores and spares to assess any diminution in their respective carrying values. Net realisable value is estimated with reference to the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. Provision against the slow moving stores and spares is made in proportion to estimated average useful 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 assets are recognised for all unused tax losses and credits to the extent that it is probable that taxable profit will be available against which such losses and credits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3.5 Trade debts

The Group reviews its doubtful trade debts at each reporting date to assess whether provision should be recorded in the profit and loss account. In particular, judgment by management 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 provisions.

3.6 Provision for frequent flyer programme

The Holding company operates a frequent flyer programme that provides travel awards to members of the program 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 credit involves estimating, 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.

3.7 Unearned and earned revenue

The value of unutilised passenger tickets and cargo airway bills is determined by the management 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 consolidated financial statements are the same as those applied in the preparation of the consolidated financial statements of the Group for the year ended December 31, 2008 (except for the changes mentioned in note 4.1 below) and are enumerated as follows:

4.1 Changes in accounting policies

The following standards and interpretation are effective from 2009 and are applicable to the Group from the current financial year.

4.1.1 Presentation of financial statements

IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after January 1, 2009) – The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. Further, under revised standard, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. The Group has opted to present the components of profit or loss in a separate statement while a statement of comprehensive income is presented separately as permitted under revised IAS 1. As surplus on revaluation of fixed assets does not form part of the equity under the local laws and is presented below the equity in the balance sheet, accordingly changes in equity arising from surplus on revaluation of fixed assets have not been considered part of comprehensive income and accordingly these are not included in the statement of comprehensive income presented in these consolidated financial statements.

Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on the loss for the year.

4.1.2 Disclosure of financial instruments

IFRS 7 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after July 1, 2008) – IFRS 7 requires extensive disclosures about the significance of financial instruments and the nature and extent of risks arising from those financial instruments. Adoption of this standard has only resulted in additional disclosures given in notes 12 and 42 to the consolidated financial statements.

4.1.3 Operating segments

IFRS 8 'Operating Segments' (effective for annual periods beginning on or after January 1, 2009) – IFRS 8 requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The composition of the Group's business segments has not changed as a result of the adoption of IFRS 8.

4.1.4 Customer loyalty programme

IFRIC 13 'Customer Loyalty Programmes' (effective for periods beginning on or after July 1, 2008) – IFRIC 13 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, the customers can redeem in the future for free. The interpretation requires that the entity recognize credits that it awards to its customers as a separately identifiable component of revenue, which would be deferred at the date of the coupon uplift. The allocation between the value of the coupon uplifted and the value of the points awarded is undertaken at fair value of the consideration in respect of initial sale. The value attributable to the coupon is recognised at the point of uplift, while the value attributable to the awarded points is deferred as a liability until the points are ultimately utilised / expired. Previously, the Holding company created a provision for the incremental direct cost of providing free travel in exchange for redemption of miles.

The Holding company has adopted this interpretation in the current year due to which the results for the year ended December 31, 2008, have been restated in accordance with the requirements of IAS-8 "Accounting Policies, Changes in Accounting Estimate and Errors". The impact of adopting IFRIC 13 on the balance sheet as at January 1, 2008 and December 31, 2008 and the profit and loss account for the year ended December 31, 2008 is shown below:

	Reported previously January 1, 2008	Effect of adoption of IFRIC 13	Revised January 1, 2008	Reported previously December 31, 2008	Effect of adoption of IFRIC 13	Revised December 31, 2008
Rupees in '000						
BALANCE SHEET						
Trade and other payables	21,652,372	562,011	22,214,383	28,860,083	820,496	29,680,579
Accumulated loss	(36,029,644)	(562,011)	(36,591,655)	(71,016,296)	(820,496)	(71,836,792)
PROFIT AND LOSS ACCOUNT						
			Reported previously December 31, 2008	Effect of adoption of IFRIC 13		Revised December 31, 2008
Rupees in '000						
Revenue			99,171,686	(338,309)		98,833,377
Distribution costs			5,389,632	(79,824)		5,309,808
Loss for the year			(35,976,511)	(258,485)		(36,234,996)
EARNINGS PER SHARE						
'A' class Ordinary shares of Rs. 10 each			(17.79)	(0.13)		(17.92)
'B' class Ordinary shares of Rs. 5 each			(8.90)	(0.06)		(8.96)

4.1.5 Borrowing Costs

IAS 23 (Revised) 'Borrowing Costs' (effective for periods beginning on or after January 1, 2009) - The revised standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of cost of that asset. The option of immediately expensing those borrowing costs has been removed. There is no impact on profit or loss and equity of the Group due to the adoption of this standard.

4.2 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 lands, buildings, improvements of hotel properties and aircraft fleet are stated at revalued amounts, which is the fair value 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.

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. The carrying amount of the replaced part is derecognised.

Major renewals, improvements and overhauls are capitalised and depreciated over the period to the next major overhaul. All other repairs and maintenance 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 off over their expected useful lives. Depreciation is separately charged for the airframes and engines based on their respective estimated useful lives. The rates of depreciation are disclosed in note 5.1 to the consolidated financial statements.

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, even if during that period the asset is idle. Proportionate depreciation on aircraft fleet is charged from the date of acquisition till the date of disposal.

Useful lives are determined by the management based on expected usage of asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of assets and other similar factors.

The assets' residual values, useful lives and methods are reviewed, and adjusted, if appropriate, at each financial year end.

Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount at the balance sheet date. 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.

The Group has adopted the following accounting treatment of surplus on revaluation of fixed assets and depreciation thereon, keeping in view the requirements of section 235 of the Companies Ordinance, 1984, and Securities and Exchange Commission of Pakistan (SECP) SRO 45(1)/2003, dated January 13, 2003:

- The surplus arising on revaluation of fixed assets is credited to the 'Surplus on Revaluation of Fixed Assets Account' and is shown in the balance sheet after share capital and reserves.
- An annual transfer from the 'Surplus on Revaluation of Fixed Assets Account' to unappropriated profits / accumulated losses through statement of changes in equity is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the assets' original cost.

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 currently. When revalued assets are sold, the relevant remaining surplus is transferred directly by the Group to retained earnings (unappropriated profits / accumulated losses).

The fair value of aircraft signifies cost less manufacturers' credits, if any.

Leased

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease or incremental borrowing rate of the Group, where appropriate.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit and loss account.

Depreciation is charged to profit and loss account applying the straight-line method on a basis similar to owned assets.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to 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 useful remaining life of the related aircraft. The average rate is stated in note 5.1. Capital spares not repairable 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 fixed assets in the course of their acquisition, erection, construction and installation. The assets are transferred to relevant category of fixed asset when they are available for use.

4.2.1 Change in accounting estimates

During March 2009, PIAL completed a review of the estimated useful life of its building and related improvements pertaining to operating fixed assets of Roosevelt Hotel. Such a review was performed because considerable engineering data and other information indicated that the useful life of the building and improvements was no longer appropriate. As a result of this review, the Company extended the useful life to 50 years.

The extension of the building's depreciable life qualifies as a change in accounting estimate in accordance with requirement of International Accounting Standard 8 - Accounting Policies, Changes in Accounting Estimates and Errors and was made on a prospective basis with effect from April 1, 2009. The effect of these changes on depreciation expense in current and future periods is as follows:

	2009	2010	2011	2012	2013	Later
	Rupees in '000					
Decrease in depreciation expense	119,899	159,865	159,865	159,865	159,865	1,318,885

4.3 Intangibles

4.3.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition 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 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.

4.3.2 Other intangible assets

Intangible assets acquired separately 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 any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment, whenever there is an indication that the intangible asset may be impaired. In respect of additions and deletions of intangible assets during the year, amortisation is charged from the month of acquisition and up to the month preceding the deletion respectively. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with finite lives are amortised on a straight line basis over their estimated useful lives as specified in note 6.1.

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 when the asset is derecognised.

Intangible assets with indefinite useful lives are tested for impairment annually. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

4.4 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 profit and loss account.

Available for sale

All of the Groups's investments other than investments at fair value through profit or loss - held for trading and investments with fixed maturity investments and investments in subsidiaries, associates and joint venture are classified as 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 period 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 equity are included in the profit and loss account.

Held to maturity

Investments with fixed or determinable payments and fixed maturity, for which the Group has ability to hold them till maturity, are classified as held to maturity investments. These instruments 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.

4.5 Stores and spares

These are valued at lower of cost and net realisable value except goods-in-transit, which are valued at cost. Cost is determined as follows:

Fuel and medical inventories	First-in-first-out basis
Other stores and spares	Weighted moving average cost basis
Food and beverage Items	First-in-first-out basis / Weighted Average Price method

Net realisable value signifies the estimated selling price in the ordinary course of business less cost of completion and cost necessary to be incurred in order to make the sale.

4.6 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 using effective interest rate method less provision for impairment. 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. The amount of provision is charged to profit and loss account. Provision for impairment is made against the debts considered doubtful as per the Group's policy. Known bad debts are written-off as and when identified.

4.7 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks and short-term placements readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents also include bank overdrafts / short-term borrowings that are repayable on demand and form an integral part of the Groups's cash management.

4.8 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.

4.9 Interest / Mark-up bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs, if any.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost with any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the profit and loss account over the period of the borrowing using the effective interest method.

4.10 Employee benefits

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

The Holding company operates a funded benefit pension scheme for all its permanent employees. Pension scheme is a final salary pension scheme and is invested through three funds for both cockpit and non-cockpit employees namely Pakistan Airline Pilot Association (PALPA), Flight Engineering Association (FENA) and Employees' Pension Funds. Contributions are made to the scheme on the basis of actuarial valuation that is carried out every year. Actuarial gains and losses are recognised immediately.

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 every year. Actuarial gains and losses are recognised immediately.

Compensated absences

The Holding company accounts for all accumulated compensated absences when the employees render service that increases their entitlement to future compensated absences based on actuarial valuation.

Skyrooms (Private) Limited (SRL)

Defined benefit plan - gratuity

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

Actuarial gain / (loss) in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognized over the average remaining service lives of the employees.

Defined contribution plan

SRL also operates a recognised provident fund (the 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 Investment Limited (PIAIL)

PIAIL operates a funded gratuity scheme for employees who have completed one year of service. It also operates a provident fund scheme for its permanent employees. Equal contributions are made, both by PIAIL and the employees to the fund at the rate of 10% of basic salary.

Other funds

Roosevelt Hotel Corporation, N.V. (Roosevelt) 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. Roosevelt has not received information from plans' administrators to determine its share of unfunded vested benefits, if any. Roosevelt has not undertaken to terminate, withdraw or partially withdraw from the plan. Amounts charged to expense for the contributions to the multi-employer plans for the years 2009 and 2008 amounted to Rs. 0.148 million and Rs. 0.150 million respectively.

Currently, all Roosevelt staff both union and non-union are employees of the management company, Interstate Hotels and Resorts. Roosevelt reimburses the management company for matching contributions it makes on behalf of the Hotel staff to management company's 401 (k) pension plan. Amount charged to expense for the contributions to the multiemployer plans for the years 2009 and 2008 amounted to Rs. 899 million and Rs. 15,982 million respectively.

Minhal France S.A.

On retirement, Minhal France, S.A.'s employees are entitled to an indemnity under the law and in accordance with hotel industry labour agreements. Provision is made for the liability at the balance sheet date in accordance with the agreements.

4.11 Equity instruments

Equity instruments issued by the Group are stated at their face value.

4.12 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss 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 half percent of turnover, whichever is higher, in accordance with the provision of Income Tax Ordinance, 2001. It also includes any adjustment to tax payable in respect of prior years.

Deferred taxation

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases 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 realized 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 relating to items recognised directly in equity is recognised in equity and not in profit and loss account.

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 income taxes related to the same taxable entity and the same taxation authority.

4.13 Revenue recognition

Passenger and cargo revenue

Passenger and cargo sales are recognised as revenue when the transportation service is provided. The value of unutilised passenger tickets and cargo airway bills are recorded as current liabilities as an "advance against transportation" account until recognised as revenue.

In view of the limitation of the Holding company's revenue accounting system, the value of unutilised passenger tickets (other than Hajj operations) and cargo airway bills is not provided by the system and is determined by the management 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. In case of Hajj operation, value of unutilised passenger tickets is determined on the basis of actual unutilised passenger coupons.

Room, food and beverages

Revenue from rooms, food, beverages and other related services, is recognized as and when services are rendered.

Frequent flyer programme revenue

The Holding company operates a customer loyalty programme called "Frequent Flyer Programme" that provides award miles to programme members based on accumulated mileage. Consideration received in respect of miles earning flights is allocated, based on fair value, between the flight and miles earned by members of the "Frequent Flyer Programme". The value attributed to the awarded miles is deferred as a liability until the miles are ultimately utilised or expired.

As members of the programme redeem miles for an award, revenue is brought to account within the profit and loss account. Revenue is recognised at point of redemption where non-flight rewards are awarded. Revenue in relation to flight awards is recognised when the passenger coupons are uplifted.

The value attributed to the available miles is recognised as revenue when the risk expires, based on the number of miles that have been redeemed during the year relative to the total number of miles expected to be redeemed. The miles can be redeemed for a range of benefits, including flights on Pakistan International Airlines, extra baggage tickets, hotel stays etc. The cost of providing redemption services is recognised when the miles are redeemed.

Engineering and other services

Revenue of engineering and other services is recognised when services are rendered and invoices are raised.

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 time proportion basis using the effective interest method.

Dividend income is recognised, when the right to receive dividend is established.

4.14 Borrowing costs

The Group recognises the borrowing costs as an expense in the period in which these costs are incurred, except that borrowing costs which are 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.

4.15 Provision

Provision is recognised in the 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.

4.16 Impairment

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any objective evidence that an asset or group of assets may be impaired. If any such evidence exists, the asset or group of assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account immediately.

4.17 Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies at rates of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are retranslated at the foreign currency spot rate of the balance sheet date. Gains and losses on translation are taken to profit and loss account.

The results and financial position of all the group entities (none of which has the currency of a hyper – inflationary economy) that have a functional currency different from the presentation currency are translated into presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of entity.

4.18 Management fee

Roosevelt Hotel Corporation N.V.

The management of the day-to-day operations of the Roosevelt Hotel is undertaken by Interstate Hotels Corporation under a management agreement, as amended from time to time. The agreement provides for a base management fee, calculated at 1.2% of gross operating revenues per year, and an incentive management fee, calculated at 14.5% of net operating income, as defined in the agreement. This amended agreement will expire in January 2012, unless earlier terminated.

Minhal France S.A.

On March 20, 2002, Minhal France S.A. acquired Scribed Gestion (SG), a company whose principal activity is the holding of 99.99 % of the shares of Canadian National France (CNF), the company which owns the building and the goodwill of the Hotel Scribe (both SG and CNF merged into Minhal France S.A. effective January 1, 2006). During the year ended December 31, 2003, the freehold value of Hotel Scribe was assessed by PKF Hotel Experts, who have determined the value of Hotel Scribe and ground floor shops to be around Rs. 6,681 million (Euro 83,500,000). Accordingly, the hotel has been accounted for at this value.

Scribe Hotel

Scribe Hotel is currently managed by ACCOR with assistance of Parisian Management Company B.V, related parties, under a management agreement. The agreement provides for a base management fee calculated at 2.625% of turnover per year and an incentive management fee calculated at 9% of gross operating profit, as defined in the agreement. However, the agreement further provides that the fee to be paid would be capped at 4.25% of the turnover.

4.19 Financial Instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value and amortised cost respectively. 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 profit and loss account immediately.

4.20 Derivative Financial Instruments

Derivative financial instruments are recognised initially at fair value and subsequently measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit and loss.

4.21 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4.22 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 operating segments, has been identified as the senior management that makes strategic decisions.

5. PROPERTY, PLANT AND EQUIPMENT

		December 31, 2009	December 31, 2008
	Note	————— Rupees in '000 —————	
Operating fixed assets	5.1	174,765,284	157,332,451
Capital work-in-progress	5.2	766,271	478,870
		<u>175,531,555</u>	<u>157,811,321</u>

5.1 Operating fixed assets

	COST / REVALUED AMOUNT				DEPRECIATION				NET BOOK VALUE		Annual depreciation rate %
	As at January 1, 2009	Additions/transfers/(disposals)	Revaluation	Adjustment	As at December 31, 2009	As at January 1, 2009	For the year/ (on disposals)	Adjustment / Revaluation	As at December 31, 2009	As at December 31, 2009	
(Rupees in thousand)											
Owned											
Land											
Leasehold (5.1.1)	3,404,592	-	-	2,057,372	5,461,964	-	-	-	-	5,461,964	-
Others (5.1.1)	22,854	-	-	-	22,854	-	-	-	-	22,854	-
Building on											
Leasehold land (5.1.1)	3,352,959	74,146	-	(2,057,372)	1,369,733	129,623	135,258	-	264,881	1,104,852	2.5
Others (5.1.2)	829,261	-	-	-	829,261	286,586	2,952	-	289,538	539,723	2.5
Hotel property (note 5.1.4)	45,254,085	-	(2,970,002)	3,394,952 ***	45,665,199	5,267,051	848,785	376,863 ***	6,492,699	39,172,500	-
Workshops and hangars	848,894	47,046	-	-	895,940	718,207	14,489	-	732,696	163,244	5
Renovation and improvements	634,835	62,640	-	-	697,475	507,501	56,952	-	564,453	133,022	20
Aircraft fleet (note 5.1.3)	38,674,078	339,901	-	(3,599,763)**	35,414,216	18,816,125	4,516,591	(3,490,337)** (2,405,783)*	17,436,596	17,977,620	3.85 - 4.55
Operating ground equipment, catering, communication and meteorological equipment	631,514	15,081	-	-	646,595	418,664	33,756	-	452,420	194,175	10
Engineering equipment and tools	1,324,323	43,343	-	-	1,367,666	997,671	68,994	-	1,066,665	301,001	10 - 20
Traffic equipment	1,763,140	7,509	-	-	1,765,348	1,270,007	61,536	-	1,326,514	438,834	10 - 20
Furniture, fixture and fitting	5,559,955	190,755	-	442,089 ***	6,178,477	3,098,772	380,599	243,583 ***	3,696,534	2,481,943	10
Motor transport	717,915	24,316	-	418 ***	734,260	183,867	21,993	287 ***	200,403	533,857	25
Office equipment	79,107	706	-	-	79,813	71,725	3,121	-	74,846	4,967	15
Computer and office automation	1,407,251	160,267	-	-	1,567,328	1,180,126	81,198	2,411	1,263,545	303,783	10 - 20
Precision engineering equipment	811,032	8,594	-	-	819,626	803,478	1,956	-	805,434	14,192	10
Printing press equipment	15,039	-	-	-	15,039	14,006	688	-	14,694	345	20
Reservation equipment	12,395	-	-	-	12,395	12,394	-	-	12,394	1	10
Heat ventilation and air conditioning	10,693	-	-	-	10,693	5,237	893	-	6,130	4,563	10
Kitchen and bar equipment	5,897	-	-	-	5,897	3,473	292	-	3,765	2,132	10
Television / dish / stand	2,761	-	-	-	2,761	2,429	96	-	2,525	236	10
Other equipment	505,105	8,922	-	-	514,027	389,561	17,177	-	406,738	107,289	10
Capital spares	8,545,715	347,821	-	(223,869)	8,669,667	3,328,508	268,193	-	3,596,701	5,072,966	3.85 - 4.55
	114,413,400	1,344,883	(2,970,002)	2,057,372	112,746,234	37,505,011	6,515,519	623,144	38,710,171	74,036,063	
		(55,874)		3,837,459 ***			(37,383)	(2,405,783)*			
				(3,599,763)				(3,490,337)			
				(2,281,241)							
Leased											
Aircraft fleet (note 5.1.3)	93,998,086	1,581,767	5,105,665	-	100,685,518	13,626,600	4,155,315	-	-	100,685,518	4.55
		(2,325)						(17,781,915)*			
Vehicles - MT	107,998	-	-	-	105,673	100,051	1,042	-	99,001	6,672	25
		(2,325)					(2,092)				
Vehicles - TGS	84,430	-	-	-	84,430	39,801	7,598	-	47,399	37,031	10 - 20
	94,190,514	1,581,767	5,105,665	-	100,875,621	13,766,452	4,163,955	-	146,400	100,729,221	
		(2,325)					(2,092)	(17,781,915)*			
Total - 2009	208,603,914	2,926,650	2,135,663	(223,869)	213,621,855	51,271,463	10,679,474	623,144	38,856,571	174,765,284	
		(58,199)		(3,599,763)**			(39,475)	(20,187,698)*			
				3,837,459***							

* Represents revaluation adjustments.

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

*** Represents adjustments on translation of foreign currency balances.

	COST / REVALUED AMOUNT				Annual depreciation rate	ACCUMULATED DEPRECIATION				NET BOOK VALUE	
	As at January 1, 2008	Additions / transfers* / (disposals)	Revaluation	Adjustment / (Write-off)		As at December 31, 2008	As at January 1, 2008	For the year / (on disposals)	(Write-off)	As at December 31, 2008	As at December 31, 2008
	(Rupees in thousand)				%	(Rupees in thousand)					
Owned											
Land											
Leasehold (note 5.1.1)	44,280	-	3,360,426	-	3,404,592	-	-	-	-	-	3,404,592
		(114)									
Others (note 5.1.2)	22,854	-	-	-	22,854	-	-	-	-	-	22,854
Buildings on											
Leasehold land (note 5.1.1)	300,963	25,817	3,026,179	-	3,352,959	-	121,501	8,122	-	129,623	3,223,336
Other lands (note 5.1.2)	817,620	19,724	-	-	829,261	2.5	269,695	22,439	-	286,586	542,675
		(8,083)					(5,548)				
Hotel property (note 5.1.3)	37,819,249	101,621	(3,199,792)	11,058,008***	45,254,085	-	2,706,558	2,270,348	(525,001)	5,267,051	39,987,034
				(525,001)				815,146***			
Workshops and hangars	830,295	18,599	-	-	848,894	5	706,119	12,088	-	718,207	130,687
Renovation and improvements	566,928	54,019	-	-	634,835	20	454,552	52,949	-	507,501	127,334
		13,888*									
Aircraft fleet (note 5.1.4)	35,009,981	115,766	1,727,992	1,820,339**	38,674,078	3.85-4.55	15,640,256	3,175,869	-	18,816,125	19,857,953
Operating ground equipment, catering, communication and meteorological equipment											
	628,372	10,352	-	-	631,514	10	391,623	34,246	-	418,664	212,850
		(7,210)						(7,205)			
Engineering equipment and tools	1,177,631	146,692	-	-	1,324,323	10-20	925,758	71,913	-	997,671	326,652
Traffic equipment	1,773,891	15,413	-	-	1,763,140	10-20	1,230,700	62,855	-	1,270,007	493,133
		(26,164)						(23,548)			
Furniture, fixtures and fittings	4,542,603	242,790	-	1,087,181***	5,559,955	10	2,566,513	330,732	-	3,098,772	2,461,183
		-		(208,621)				284,924***			
		(103,998)						(83,397)			
Motor transport	228,843	131,008	-	162,459***	717,915	25	176,943	15,983	-	183,867	534,048
		-		208,622**				673***			
		(13,017)						(9,732)			
Office equipment	78,783	1,189	-	-	79,107	15	69,429	3,161	-	71,725	7,382
		(865)						(865)			
Computer and office automation	1,365,528	43,138	-	-	1,407,251	10-20	1,080,487	101,002	-	1,180,126	227,125
		(630)		(785)				(578)		(785)	
Precision engineering equipment	809,933	1,099	-	-	811,032	10	801,612	1,866	-	803,478	7,554
Printing press equipment	15,039	-	-	-	15,039	20	13,318	688	-	14,006	1,033
Reservation equipment	12,395	-	-	-	12,395	10	12,394	-	-	12,394	1
Heat ventilation and air conditioning	8,412	2,281	-	-	10,693	10	4,344	893	-	5,237	5,456
Kitchen and bar equipment	3,484	2,413	-	-	5,897	10	3,181	292	-	3,473	2,424
Television / dish / stand	2,729	32	-	-	2,761	10	2,000	429	-	2,429	332
Other equipment	470,813	2,727	-	-	505,105	10	372,752	16,809	-	389,561	115,544
		31,565*									
Capital spares	7,938,602	588,569	-	25,730**	8,545,715	3.85-4.55	2,821,389	512,852	(64)	3,328,508	5,217,207
		(7,122)		(64)				(5,669)			
	94,469,228	1,523,249	4,914,805	2,054,691***	114,413,400		30,371,124	6,695,536	(525,850)	37,505,011	76,908,389
		45,453*		12,307,648***				1,100,743***			
		(167,203)		(734,471)				(136,542)			
Leased											
Aircraft fleet (notes 5.1.4)	70,624,859	12,391,267	-	1,035,091**	93,998,086	4.55	9,740,833	3,885,767	-	13,626,600	80,371,486
			9,946,869								
Vehicles - Motor Transport	124,008	1,878	-	-	107,998	25	108,804	6,808	-	100,051	7,947
		(17,888)						(15,561)			
Vehicles - Technical Ground Service	84,430	-	-	-	84,430	10-20	32,202	7,599	-	39,801	44,629
	70,833,297	1,878	9,946,869	1,035,091**	94,190,514		9,881,839	3,900,174	-	13,766,452	80,424,062
		12,391,267						(15,561)			
		(17,888)									
	165,302,525	1,525,127	14,861,674	3,089,782**	208,603,914		40,252,963	10,595,710	(525,850)	51,271,463	157,332,451
		12,436,720		(734,471)				(136,542)			
		(185,091)		12,307,648***				1,100,743***			

** Represents adjustments in respect of overhauling of engines.

*** Represents adjustments on translation of foreign currency balances.

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

5.1.2 Lands and buildings classified as Others comprise properties in possession of the Holding company, which are not saleable or transferable.

Lands classified as Others are amenity plots or those with restrictions on the transferability of title, as these were allotted at below market prices. Included herein are amenity plots, aggregating to Rs. 21.48 million and non transferable plots, aggregating to Rs. 1.37 million.

Buildings on Other lands are constructed on amenity plots, non transferable plots and licensed plots from Civil Aviation Authority (CAA). Included herein are amenity plots, aggregating to Rs. 21.17 million and buildings on licensed (CAA) lands aggregating to Rs. 558.33 million.

5.1.3 Aircraft fleet

During the year, aircraft fleet of the Holding company was valued by an independent valuer AVMARK Inc. (2008: Air Claims Ltd. - UK) on the basis of professional assessment of current market values as at December 31, 2009. The current market value represents the most likely trading price that may be generated for an aircraft under the market circumstances that are perceived to exist at the period end. The valuer takes into account the underlying economic value of an aircraft in an open, unrestricted, stable market environment with reasonable balance in supply and demand. It also takes into account the recent market activities, highest and best use of the fleet / aircraft, sale transaction on an arms length basis and the limited open market and financial activity that has occurred to date.

AVMARK 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 utilisation of the aircraft as compared to the type fleet average, as well as the maintenance status of the aircraft and heavy components such as engines, landing gears and auxiliary power units (APUs).

For the purpose of valuation, the valuer has used the data provided by the the Corporation which includes maintenance conditions of the aircraft and engines, aircraft shop visit dates, engines inspection, LLP status, landing gear status and APU status.

As a result of revaluation carried out by the above referred valuer, net surplus of Rs. 25,293 (2008: 11,675) million on revaluation of aircraft fleet has arisen over their written down value of Rs. 93,365 (2008: 88,554) million. However, in connection with the analysis, the valuer did not physically inspect any of the aircraft and has relied on the information provided by the Corporation.

AVMARK Inc. reviewed the useful lives of the aircrafts and these have been estimated as follows:

December 31, 2009	BOEING						AIRBUS	ATR
	747-200	737-300	747-300	777-300 ER	777-200 ER	777-200 LR	A310-300	
Airframes	31	30	20	30	30	30	30	25
Engines	39	37	19	30	30	29	20	30

December 31, 2008	BOEING					AIRBUS	ATR
	737-300	747-300	777-300 ER	777-200 ER	777-200 LR	A310-300	
Airframes	25	22	24	26	25	25	23
Engines	25	22	24	26	25	25	23
Other components	25	22	24	26	25	25	23

5.1.4 Hotel property

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from the renting out or using such property.

Valuations reflect, where appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their credit worthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property.

Roosevelt Hotel Corporation N.V.

The management of the day-to-day operations of the Roosevelt Hotel is undertaken by Interstate Hotels Corporation under a management agreement, as amended from time to time. The agreement provides for a base management fee calculated at 1.2% of gross operating revenues per year and an incentive management fee calculated at 14.5% of net operating income as defined in the agreement. This amended agreement will expire on December 31, 2012, unless earlier terminated.

The Hotel property is stated at revalued amount. The latest valuation was performed by an independent appraiser, Hospitality Valuation Services (HVS) which determined that the "as is" market value of the fee simple interest in the property including the land, the improvement and the furniture, fixtures and equipment as of December 31, 2009 is Rs. 24.84 billion (US\$ 295,000,000). The carrying value of the land, building, improvements, furniture, fixtures and equipment at December 31, 2009 amounted to Rs. 29.02 billion (US\$ 344,651,618) and accordingly a deficit of Rs. 4.18 billion (US\$ 49,651,618) has been debited to revaluation surplus account.

The revised carrying value of Rs. 10.32 billion (US\$ 122,576,963) for land is not depreciated and the value of building and improvements of Rs. 14.07 billion (US\$ 167,150,867) is being amortised over 49 years and 3 months period beginning January 2010. The carrying value of furniture and equipment of Rs. 0.52 billion (US\$ 6,172,427) is being amortised over 6 years.

Minhal France S.A.

The latest valuation of the Hotel Scribe was carried out on December 31, 2009 by an appraiser Deloitte France. The appraiser determined that the value of fee simple interest in the property as on December 31, 2009 amounted to US\$ 209,031,060 (Rs. 17.6 billion). The carrying value of land, building and improvements and furniture and equipment at December 31, 2009 amounted to Rs. 16.39 billion (US\$ 194,652,622) and accordingly the resulting difference of Rs. 1.21 billion (US\$ 14,378,438) was credited to revaluation reserve. The value assigned to land of Rs. 3.69 billion (US\$ 43,824,228) is not amortised and other building value is being amortised over 25 years beginning January 1, 2010.

- 5.1.5** The carrying amount of the assets as at December 31, 2009, if the assets had been carried at historical cost, would have been as follows:

	Cost	Accumulated Depreciation	Book Value
	Rupees in '000		
December 31, 2009			
Land	44,166	-	44,166
Land, buildings and improvements	21,386,838	6,973,732	14,413,106
Furniture and equipment	5,521,950	3,391,458	2,130,492
Aircraft fleet	114,043,600	34,371,405	79,672,195
	<u>140,996,554</u>	<u>44,736,595</u>	<u>96,259,959</u>
December 31, 2008			
Lands - owned	44,166	-	44,166
Buildings - owned	258,848	103,518	155,330
Aircraft fleet	120,124,581	31,569,993	88,554,588
	<u>120,427,595</u>	<u>31,673,511</u>	<u>88,754,084</u>

- 5.1.6** Depreciation charge for the year has been allocated as under:

	Note	2009	2008
		Rupees in '000	
Cost of services	31	10,406,178	11,490,349
Distribution costs	32	49,764	72,440
Administrative expenses	33	223,532	133,664
		<u>10,679,474</u>	<u>11,696,453</u>

- 5.1.7** Included in "operating fixed assets" is one Fokker - F27 and other fixed assets costing Rs. 100.30 million and Rs. 5,037 million respectively, which are fully depreciated.

- 5.1.8** Following fixed assets were disposed off during the year:

Description	Sold to	Cost	Accumulated depreciation	Net book value	Sale / Insurance proceeds
		Rupees in '000			
Motor vehicles to employees					
Honda City (AJD-455)	Mr. Sajjad Ahmed, P-26291	835	668	167	320
Honda City (GA-4283)	Mr. Khaqan Hasnain, P-42620	858	80	778	632
Honda City (AQZ-609)	Mr. Shahid Sarwar P-45892	824	15	809	801
Honda City (GA-9886)	Mr. Naiyer Jamal, P-30031	795	715	80	79
Honda City (DA-4815)	Mr. Zafar Iqbal Jami, P-22521	735	662	73	74
Honda City (GA-9540)	Lt. Col. Moin Rauf, P-53944	795	716	79	79
Honda City (AQL-658)	Mr. S. Fazal Ahmed, P-30421	746	112	634	585
		<u>5,588</u>	<u>2,968</u>	<u>2,620</u>	<u>2,570</u>
Aggregate value of items where					
	WDV is above Rs. 50,000 - Various*	3,351	3,016	335	540
Aggregate value of items where					
	WDV is less than Rs. 50,000 - Various	4,825	4,630	195	98
	Total	<u>13,764</u>	<u>10,614</u>	<u>3,150</u>	<u>3,208</u>
		<u>82,196</u>	<u>69,809</u>	<u>12,387</u>	<u>211,746</u>

* This includes various operating fixed assets, having WDV 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 disposal committee in accordance with the prescribed procedures.

5.2 Capital work-in-progress

	December 31, 2009	December 31, 2008
	Rupees in '000	
Buildings	4,413	6,794
Other equipment	1,481,298	858,930
Renovation and improvements	57,278	89,086
Non-refundable advance against purchase of aircraft and related equipments	-	11,979,863
	<u>1,542,989</u>	<u>12,934,673</u>
Less: transfer to operating fixed assets charged off / adjustment	<u>750,635</u>	<u>12,436,720</u>
	<u>26,083</u>	<u>19,083</u>
	<u>776,718</u>	<u>12,455,803</u>
	<u>766,271</u>	<u>478,870</u>

6. INTANGIBLES

	Computer software	Lease land acquisition premium	Goodwill	Total
	Rupees in '000			
December 31, 2009				
Cost				
As at January 1	273,046	50,778	2,697,182	3,021,006
Additions during the year	1,344	-	-	1,344
Translation adjustment	-	-	181,180	181,180
As at December 31	<u>274,390</u>	<u>50,778</u>	<u>2,878,362</u>	<u>3,203,530</u>
Accumulated amortisation				
As at January 1	159,892	13,541	102,350	275,783
For the year	22,536	1,693	-	24,229
As at December 31	<u>182,428</u>	<u>15,234</u>	<u>102,350</u>	<u>300,012</u>
Written down value	<u>91,962</u>	<u>35,544</u>	<u>2,776,012</u>	<u>2,903,518</u>
Annual amortisation	5-10 years	30 years	-	
December 31, 2008				
Cost				
As at January 1	239,396	50,778	2,027,062	2,317,236
Additions during the year	33,650	-	-	33,650
Translation adjustment	-	-	670,120	670,120
As at December 31	<u>273,046</u>	<u>50,778</u>	<u>2,697,182</u>	<u>3,021,006</u>
Accumulated amortisation				
As at January 1	135,921	11,848	102,350	250,119
For the year	23,971	1,693	-	25,664
As at December 31	<u>159,892</u>	<u>13,541</u>	<u>102,350</u>	<u>275,783</u>
Written down value	<u>113,154</u>	<u>37,237</u>	<u>2,594,832</u>	<u>2,745,223</u>
Annual amortisation	5-10 years	30 years	-	

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

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Cost of services - others	31	4,184	4,069
Distribution costs	32	1,130	1,706
Administrative expenses	33	18,915	19,889
		<u>24,229</u>	<u>25,664</u>

7. LONG-TERM INVESTMENTS

Investments in related parties - unquoted, at cost

Associate	7.2	62,178	58,651
Joint venture	7.3	2	2
		<u>62,180</u>	<u>58,653</u>
Other investments	7.4	30,841	81,532
		<u>93,021</u>	<u>140,185</u>

7.1 Associate - unquoted

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

Name of associate	Total assets	Total liabilities	Net assets	Share of net assets	Revenue	Interest held
Rupees in '000						
2009 Minhal Incorporated	158,569	3,124	155,445	62,178	6	40%
2008 Minhal Incorporated	150,081	3,454	146,627	58,651	75	40%

7.2 Movement in investment in Associates - unquoted

	December 31, 2009	December 31, 2008
Rupees in '000		
Opening balance	58,651	64,346
Share in loss during the year	(433)	(397)
	<u>58,218</u>	<u>63,949</u>
Translation adjustment	3,960	(5,298)
	<u>62,178</u>	<u>58,651</u>

7.3 Joint Venture - unquoted

This is an investment in Joint Venture. However, as per the Joint Venture Agreement, the Holding company does not have any control or significant influence on the investee company. Consequently, share of profit/loss have not been recorded.

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
7.4 Other investments			
Available for sale	7.4.1	30,841	74,829
Held to maturity	7.4.2	-	6,703
		<u>30,841</u>	<u>81,532</u>

		December 31, 2009	December 31, 2008
	Note	Rupees in '000	
7.4.1 Available for sale			
Quoted			
Pakistan Services Limited			
172,913 (2008: 172,913) Ordinary shares of Rs.10 each having market value per Ordinary shares of Rs. 176.23 (2008: Rs. 431) each		30,472	74,460
Unquoted			
Pakistan Tourism Development Corporation Limited			
10,000 (2008: 10,000) Ordinary shares of Rs. 10 each		100	100
Duty Free Shops (Private) Limited - Pakistan			
87,512 (2008: 87,512) Ordinary shares of Rs. 100 each		269	269
		<u>30,841</u>	<u>74,829</u>
7.4.2 Held to maturity			
Promissory notes issued by the Nigerian Government		7,153	32,343
Less: current maturity	16	(7,153)	(25,640)
		<u>-</u>	<u>6,703</u>

This represents two promissory notes, issued by the Nigerian Government on May 8, 1988, amounting to US\$ 1.32 million and US\$ 2.94 million. These were issued in consideration of bank balance of the Corporation in the Central Bank of Nigeria, which was seized by the Nigerian Government at the time of coup and civil war in Nigeria. These notes and interest thereon are redeemable in fixed quarterly installment of US\$ 58,676 and US\$ 26,325 respectively, during the period commencing April 5, 1990 to January 5, 2010.

8. RECEIVABLE FROM CENTRE HOTEL

Receivable from Centre Hotel comprises share of net current assets of Centre Hotel, Abu Dhabi, Joint Venture as of April 21, 1997. This joint Venture was in the form of a partnership agreement between a shareholder (PIAC) and H.E. Sheikh Hamdan Bin Mohammed Al Nahyan. The shareholder had issued an assignment in favor of the Company (PIAIL) but the assignment was not registered.

The joint venture was for a period of 17½ years, which has expired on April 21, 1997. According to the agreement, net current assets of the joint venture at end of the term were to be distributed to joint venture partners in the ratio of their investment. The amount for PIAIL's share of net current assets as at April 21, 1997 is based on the management accounts of the joint venture, as its audited accounts are not available. In arriving at the share of net current assets as at April 21, 1997, amounts spent on renovation programme, aggregating to Dh 35,565,345 and reserve for renovation, amounting to Dh 4,434,655, in total amounting to Rs. 898.133 million (US\$ 10,666,666) [PIAIL's share Rs. 440.085 (US\$ 5,226,666)] have not been considered as these amounts have been spent without authorization from the PIAIL.

A notice of arbitration was served on Sheikh Hamdan's estate by PIAIL on February 23, 1997. The dispute relates to the correct legal interpretation of joint venture agreement and partnership deed regarding the construction and subsequent operation of the hotel. The term of the joint venture and partnership expired on April 21, 1997, when the land and buildings comprising the hotel reverted to the estate of the late Sheikh Hamdan without payment or compensation to the partnership in joint venture. The partners are in dispute as to the partnership liability to reinstate the building prior to completion of joint venture period and expenses incurred on renovation and creation of reserve for renovation referred to above. In respect of suit filed against Sheikh Khalifa bin Hamdan Al Nahyan, the Abu Dhabi Federal Court (the Court) on January 26, 2004 decreed referring the case to arbitration and informing the Supreme Judicial Board to delegate one of the judges to act as an arbitrator for deciding the dispute. However, on July 12, 2004 Honourable Supreme Court had decided to stay the execution proceedings, pending the outcome of the cassation appeal lodged by the Sheikh Khalifa bin Hamdan Al Nahyan. The Honourable Supreme Court, at the hearing on November 17, 2007, in a short order remanded the case back to the Court of Appeals to be heard by a different panel. On January 29, 2008, Abu Dhabi Court of Appeal decided the matter in favour of the Company by dismissing the subject appeal and upheld the judgement of the first instance Court. On March 24, 2008, Sheikh Hamdan appealed against the aforesaid judgement of the Abu Dhabi Court of Appeals. The matter is pending before Supreme Federal Court of Abu Dhabi. No date of hearing has been fixed.

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
9. LONG-TERM LOANS			
Unsecured, considered good			
Employees	9.1	17,910	11,849
Current maturity shown under short-term loans and advances	13	(5,859)	(4,220)
		12,051	7,629
9.1 The loans carry interest at the rate of 8% to 20% (2008: 12% to 20%) per annum. The loans are receivable within four years from the date of disbursement and are secured against gratuity fund balance of respective employees. The maximum aggregate balance due from employees at the end of any month during the year was Rs. 17.910 million (2008: Rs. 12.28 million). There are no loans to directors and chief executive.			
10. LONG-TERM DEPOSITS AND PREPAYMENTS			
Deposits			
Aircraft fleet lease deposits		3,257,312	3,052,280
Engine maintenance		77,424	72,551
Rent		58,767	59,096
Utilities		15,270	14,508
Aircraft fuel		8,958	8,276
Guarantee deposit		21,322	4,450
Occupancy coefficient		12,818	12,502
Others		169,254	143,476
		3,621,125	3,367,139
Prepayments			
Finance fee	10.1	42,438	58,999
Rental commission		26,994	29,940
Rental income	10.2	57,298	53,692
Exposure fee to support financing	10.3	1,676,622	1,893,412
Others		-	-
		1,803,352	2,036,043
Current portion shown under short-term prepayments	14.1	(224,491)	(229,602)
		5,199,986	5,173,580

- 10.1** The finance fee incurred in connection with the refinancing of the mortgage loans payable are being amortized over the term of the respective mortgage.
- 10.2** Many of the Roosevelt Hotel commercial leases provide for scheduled rent increases and free rent periods. The rental income receivable represents pro-rata future receipts.
- 10.3** This represents payment made by the Corporation to Ex-Im Bank in consideration of 10 to 12 years guarantees issued by the bank. The fee is adjusted against future lease rentals of leased aircraft fleet (note 23).

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
11. STORES AND SPARE PARTS			
Stores		822,709	974,157
Spares		5,280,298	4,451,179
Inventory held for disposal		2,197,398	2,207,092
Less: adjustment to write down surplus inventory to net realisable value		(1,944,539)	(1,944,539)
Disposal during the year		-	(9,694)
		252,859	252,859
Provision for slow moving and obsolete spares	11.1	(2,662,295)	(2,216,611)
		3,693,571	3,461,584
Stores and spares-in-transit		324,294	302,692
		4,017,865	3,764,276
11.1 Movement in provision is as follows:			
Balance at the beginning of the year		2,216,611	1,930,145
Provision for the year	34	445,684	286,466
Balance at the end of the year		2,662,295	2,216,611

12. TRADE DEBTS

Considered good		8,335,142	6,190,561
Considered doubtful		624,411	740,655
Less: provision for doubtful debts	12.1	(624,411)	(740,655)
		-	-
		8,335,142	6,190,561

The aging analysis of these trade debts are as follows:

	December 31, 2009		December 31, 2008	
	Trade debts Gross	Impaired	Trade debts Gross	Impaired
Rupees in '000				
Within 1 year	8,066,382	163,563	6,213,827	274,914
1 to 2 years	118,697	39,904	161,997	86,087
2 to 3 years	226,904	77,413	47,288	27,094
Over 3 years	547,570	343,531	508,104	352,560
	8,959,553	624,411	6,931,216	740,655

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
12.1 Movement in provision is as follows:			
Balance at the beginning of the year		740,655	721,325
Written off during the year		(3,504)	-
(Reversal) / provision for the year - net	34	(112,740)	19,330
Balance at the end of the year		<u>624,411</u>	<u>740,655</u>
12.2 Certain portion of trade debt 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.			
13. SHORT-TERM LOANS AND ADVANCES			
Loans - unsecured			
Current maturity of long-term loans - employees	9	5,859	4,220
Advances - secured			
Due from related party		38,537	37,881
		<u>44,396</u>	<u>42,101</u>
Others			
Employees		169,776	224,781
Suppliers		1,823,247	961,815
Civil Aviation Authority		143,835	143,835
Others		6,065	6,716
		<u>2,142,923</u>	<u>1,337,147</u>
Considered doubtful			
Provision for advances considered doubtful	13.1	62,895	31,700
		<u>(62,895)</u>	<u>(31,700)</u>
		<u>2,187,319</u>	<u>1,379,248</u>
13.1 Movement in provision is as follows:			
Balance at the beginning of the year		31,700	31,319
Provision for the year	34	31,195	381
Balance at the end of the year		<u>62,895</u>	<u>31,700</u>
14. TRADE DEPOSITS AND PREPAYMENTS			
Trade deposits		72,005	47,059
Prepayments	14.1	1,600,696	1,641,180
		<u>1,672,701</u>	<u>1,688,239</u>
14.1 Prepayments			
Current portion of long-term prepayments	10	224,491	229,602
Commission		598,595	853,244
Interest on leased aircraft		146,693	324,086
Insurance		113,636	129,789
Rent		2,666	7,562
Others		514,615	96,897
		<u>1,600,696</u>	<u>1,641,180</u>

		December 31, 2009	December 31, 2008
	Note	Rupees in '000	
15. OTHER RECEIVABLES			
Considered good			
Insurance and other claims		214,993	189,305
Excise duty	29.1 (b)	100,000	100,000
Sales tax receivable		231,927	150,643
Receivables against commercial development of land	15.1	204,399	180,465
Receivables from GoP	15.2	142,302	738,473
Others		110,019	264,758
		1,003,640	1,623,644
Considered doubtful			
Provision for doubtful other receivables	15.3	168,810 (168,810)	30,257 (30,257)
		-	-
		1,003,640	1,623,644

15.1 This includes Rs. 61.833 million (US\$ 734,357) [2008: Rs. 57.891 million (US\$ 733,732)] receivable from Pakistan Cricket Board (PCB) formerly Board of Cricket Control in Pakistan (BCCP) on account of various payments made during 1980 to 1981 and 2008 in terms of an agreement dated October 7, 1980 and October 11, 2007 between PIAIL and PCB for commercial development of land owned by the PCB. The project according to 1980 agreement could not go through and on September 13, 1987, the PCB transferred a piece of land, measuring 5 acres, through a sub-lease agreement in full and final settlement of the debt. Due to certain legal reasons, the land was registered in the name of one of the shareholders of the company, Pakistan International Airlines Corporation. The lease is for a period of 92 years 6 months and thirteen days. However, in 1990, PCB demolished the boundary wall on the land and instituted legal proceedings against PIAC. On May 13, 2004, the above legal proceedings were dismissed by the High Court of Sindh, Pakistan.

On October 11, 2007 PIAIL signed a Joint Venture Agreement with the PCB to form a limited liability company (NEWCO) with the objective of establishing a new five star hotel / mixed use building in Karachi. PCB would provide a 5.8 acres plot, adjacent to National Stadium Karachi, through a sub-lease to NEWCO in settlement of above receivable and the NEWCO would issue shares to PIAIL and PCB in the ratio of 62.5% and 37.5% against the value of land so transferred. Accordingly, a NEWCO, Avant Hotels (Private) Limited (Avant) was incorporated as a private limited company on February 11, 2008 and a sub-lease for the transfer of land to Avant was to be registered. However, to date the sub-lease for the land has not been registered and shares have not been issued by Avant. The negotiations with PCB to agree on the transfer of land and other modalities of the project are being held. Although there was no significant progress in the negotiation during the year, based on the earlier negotiations and signed agreements, the Management considers that the project would materialise and therefore, the receivable would be converted into investment.

15.2 This represents maintenance and other charges incurred during the year, in respect of aircraft owned by the GoP.

		December 31, 2009	December 31, 2008
	Note	Rupees in '000	
15.3 Movement in provision is as follows:			
Balance at the beginning of the year		30,257	30,257
Provision for the year	34	138,553	-
Balance at the end of the year		168,810	30,257

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
16. SHORT TERM INVESTMENTS			
Held for trading			
Bred Institution			
25 (2008: 13) Ordinary shares		118,909	55,472
Available for sale			
Unquoted			
SITA INC N.V.	16.1	19,220	19,220
325,491 (2008: 325,491) Ordinary shares			
Provision for diminution in value of investment	16.2	(1,222)	(2,355)
		17,998	16,865
Held to maturity			
Current portion of long-term investment	7.4.2	7,153	25,640
		144,060	97,977

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

16.2 Movement in provision is as follows:

Balance at the beginning of the year	2,355	6,085
Reversal for the year	(1,133)	(3,730)
Balance at the end of the year	1,222	2,355

17. CASH AND BANK BALANCES

In hand		14,299	9,642
In transit		51,403	186,181
		65,702	195,823
With banks			
In current accounts		3,607,391	2,921,859
In short-term deposit accounts	17.1	1,018,128	942,183
		4,625,519	3,864,042
		4,691,221	4,059,865

17.1 These carry interest ranging between 5 % to 11% (2008: 11% to 15%) per annum.

	December 31, 2009	December 31, 2008
	No. of shares	
18.1 Reconciliation of number of 'A' class Ordinary shares of Rs. 10 each.		
Shares at the beginning of the year	2,141,551,384	2,087,057,380
Issued during the year for cash	185,734,200	54,494,004
Shares at the end of the year	<u>2,327,285,584</u>	<u>2,141,551,384</u>

18.2 At December 31, 2009, the GoP held 2,117,132,049 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively (2008: 1,931,397,849 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively).

		December 31, 2009	December 31, 2008
	Note	Rupees in '000	
19. RESERVES			Restated
Capital reserves			
Reserve for replacement of fixed assets	19.1	1,966,779	1,966,779
Capital redemption reserve fund		250,000	250,000
Others		284,259	284,259
		<u>2,501,038</u>	<u>2,501,038</u>
Revenue reserve		1,779,674	1,779,674
		<u>4,280,712</u>	<u>4,280,712</u>
Unrealised gain on remeasurement of investment		29,278	73,265
Accumulated losses		(74,455,128)	(71,836,791)
Foreign exchange translation reserve		(454,869)	(602,014)
Other reserves	19.2	31,262	(95,139)
		<u>(74,849,457)</u>	<u>(72,460,679)</u>
		<u>(70,568,745)</u>	<u>(68,179,967)</u>

19.1 Up to 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 IASs and the excess proceeds over cost of relevant assets are credited to the profit and loss account.

19.2 The prior year amount included fair value of cash flow hedge. As at December 31, 2008, the Corporation held fuel price hedge contracts designated as cash flow hedges. As at December 31, 2009 no such hedge contracts are outstanding.

	December 31, 2009	December 31, 2008
	Rupees in '000	
20. SURPLUS ON REVALUATION OF FIXED ASSETS - net of tax		
Surplus on revaluation of fixed assets - Group	42,072,851	28,208,232
Surplus on revaluation of fixed assets - Minority	139,303	284,932
	<u>42,212,154</u>	<u>28,493,164</u>

21. LONG-TERM FINANCING

Financier	Note	Type of facility	Limit (Million)	Repayment period	Number of instalments/ Mode	Mark-up %	December 31, 2009	December 31, 2008
							————Rupees in '000————	
From Banking Companies - secured								
Holding Company								
United Bank Limited	21.1	Syndicate Finance	1,650 PKR	2007 - 2010	6 Half-yearly	6 month KIBOR +0.79%	135,092	675,458
Habib Bank Limited	21.2	Demand Finance	530 PKR	2006 - 2009	36 Monthly	1 month KIBOR +1.50%	-	88,333
Citibank, N.A.	21.3	Demand Finance	82 US\$	2006 - 2017	20 Half-yearly	5.28% fixed	4,927,683	5,261,363
Habib Bank Limited	21.2	Demand Finance	200 PKR	2006 - 2009	36 Monthly	1 month KIBOR +1.75%	-	55,556
Royal Bank of Scotland	21.4	Demand Finance	59.5 US\$	2009 - 2013	19 Quarterly	3 month LIBOR +1.60%	4,022,278	4,339,396
National Bank of Pakistan	21.5	Syndicate Finance	120 US\$	2010	Bullet	3 month LIBOR +1.325%	10,104,000	9,468,000
Standard Chartered Bank	21.6	Demand Finance	50 US\$	2007-2010	12 Quarterly	3 month LIBOR +1.325%	350,833	1,643,750
National Bank of Pakistan	21.7	Term Finance	500 PKR	2007-2010	12 Quarterly	3 month KIBOR +1.50%	166,667	333,333
National Bank of Pakistan-Bahrain	21.8	Demand Finance	50 US\$	2008-2010	24 Monthly	6 month LIBOR +2.55%	1,052,500	2,958,750
Standard Chartered Bank (Pakistan) Limited	21.9	Syndicate Finance	3,600 PKR	2009 - 2011	22 Monthly	1 month KIBOR +1.25%	2,122,518	-
Others - unsecured								
Long-term loan - GoP	21.10		7,000 PKR	2011 - 2019	16 Half-yearly	10% fixed	7,000,000	-
Subsidiary - PIAIL								
JP Morgan Chase	21.12 & 21.13	Loan		2006-2009	Variable	6.025%	8,137,142	7,624,947
JP Morgan Chase	21.12 & 21.1.3	Mezzanine Finance		2006-2009	Variable	6.025%	5,052,000	4,734,000
Hong Kong Shanghai Banking Corporation	21.14 & 21.1.5	Loan		2004-2012	Variable	3 months EURIBOR+1.15%	2,885,477	2,892,562
Current maturity shown under current liabilities							45,956,190	40,075,448
							(5,655,812)	(5,649,136)
							<u>40,300,378</u>	<u>34,426,312</u>

21.1 Following are the participating banks:

United Bank Limited (UBL)
National Bank of Pakistan (NBP)
Habib Bank Limited (HBL)

The finance is secured by way of hypothecation of capital spares and traffic equipment.

First ranking pari passu charge in favour of the UBL Syndicate on the amount collected and retained during each month in the Collection Accounts maintained with UBL Syndicate and Master Collection Account maintained with UBL. The Amount retained each month shall be the amount payable by the Corporation to UBL Syndicate on the next installment date divided by 6.

21.2 These finances are secured by way of:

1. Lien over:
 - a) Sinking Fund Account which shall contain 100% of succeeding installments by the sixteenth business day of each month through transfer from Collection account;
 - b) Collection account opened and established by the Corporation with HBL for receiving all the receivables with respect to all airline ticket sale from Peshawar, Islamabad and Rawalpindi booking offices.
2. First exclusive charge by way of hypothecation on the receivables in 1 (b) above up to Rs. 706 million for Rs. 530 million finance and Rs. 267 million for Rs. 200 million finance; and
3. Promissory notes issued by the Corporation amounting to Rs. 693.76 million for Rs. 530 million finance and Rs. 284.87 million for Rs. 200 million finance.

21.3 The finance is secured by way of:

1. Mortgage over each of the seven ATR aircrafts purchased; and
2. European Credit Agencies / GoP Guarantee.

21.4 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 against GoP Guarantee.

21.5 The following are the participating banks:

1. National Bank of Pakistan
2. Habib Bank Limited

This finance is secured by way of GoP Guarantee. Subsequent to the balance sheet date, on January 15, 2010, the finance was renegotiated for additional three years at mark-up rate of 3 months LIBOR + 325 basis points with an addition of upfront fee of 50 basis points.

21.6 The following are the participating banks:

- Standard Bank Plc.
- Standard Chartered Bank
- Doha Bank
- Arab Bank Plc.
- Arab Banking Corporation (BSC)
- DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Singapore Branch
- Gulf International Bank (BSC)
- MCB Bank Limited, Bahrain
- The Arab Investment Company SAA
- Union National Bank
- Bank Al-Habib Offshore Banking Unit, Bahrain
- Bank Muscat International BSC (C)
- First Gulf Bank
- Habib Bank AG Zurich

The finance is secured against the receivables in connection with the PIAC ticket sales.

21.7 The finance is secured by way of:

1. Ranking hypothecation charge over receivables and book debts to the extent of Rs. 667 million; and
2. Lien over all present and future receivables to be collected in the Collection Account in connection with ticket sales centrally routed through NBP.

21.8 The finance is secured by way of lien over the initial collection account and all collections received subsequently for ticket sales and cargo services in favour of bank.

21.9 The following are the participating banks:

1. Standard Chartered Bank (Pakistan) Ltd.
2. Askari Bank Ltd.

The finance is secured by way of GoP guarantee.

21.10 During the year, the GoP provided Rs. 7,000 million unsecured loan to the Corporation. The amount received was Rs. 5,994 million whereas Rs. 1,006 million were adjusted against CED (Central Excise Duty).

21.11 All the aforementioned charges have not been registered with the Securities and Exchange Commission of Pakistan (SECP).

21.12 On September 8, 2006, the Roosevelt Hotel Corporation (RHC) Operating LLC entered into loan agreement and three mezzanine loan agreements in the amounts of US\$ 96,640,641 and US\$ 60,000,000 respectively. The loan agreement matures on November 9, 2010 with an option for one year extension. These loans are secured, by amongst other things the company's property and equipment and require annual interest at LIBOR plus a spread as defined in the agreement (1.65% for 2009 and 2008). The carrying value of the loans payable to banks approximates the fair value of these instruments.

21.13 RHC Operating LLC has entered into an interest cap agreement with the intent of managing its exposure to interest rate risk. This interest rate cap agreement, with a notional amount of approximately US \$ 157 million (Rs. 13,219 million) expires on November 9, 2010 and effectively caps the variable rate debt at a maximum rate of 7% per annum. The cost of interest rate cap was US\$ 60,000. The company entered into this contract with a large financial institution and considers the risk of non-performance to be remote. Management has derivative at December 31, 2009 approximates the carry value.

21.14 The loan from HSBC CCF includes a loan of Euro 16,267,353 refinanced on March 22, 2008 and an additional loan of Euro 600,000 obtained at that time by Minhal France S.A. The loan was initially obtained to partially finance the acquisition of Scribe Gestion and Canadian National France. The refinanced loan matures on May 13, 2017. The loan bears interest at a variable rate indexed on the EURIBOR plus 1.15%. Further during 2006 PIAIL obtained a loan of Euro 12,000,000 for renovation works. The loan matures on May 13, 2017. The loan bears interest at a variable rate indexed on the EURIBOR three month plus 1.15%. The loans 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 million plus 10% for associated costs. There is a first ranking pledge of MFSA's goodwill 'Fond de Commerce' for a total amount of Euro 12 million plus 10% related to associated costs and a third ranking pledge of MFSA's goodwill 'Fond de Commerce' for a total amount of Euro 16,867,353 plus 10% related to associated costs. The Banks also hold a pledge on the MFSA's cash account.

21.15 Minhal France S.A. has entered into an interest rate cap agreement with the intent of managing its exposure to interest rate risk. This interest rate cap agreement, with a notional amount of Euro 11.8 million expires 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 160,000. The Company entered into this contract with a large financial institution and considers the risk of non-performance to be remote.

Further, during 2008 the Company entered into another interest rate cap agreement with the intent of managing its exposure to interest rate risk. This interest rate cap agreement, with a notional amount of Euro 16.8 million expires 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 151,000. The Company entered into this contract with a large financial institution and considers the risk of non-performance to be remote.

22. TERM FINANCE AND SUKUK CERTIFICATES

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Term finance certificates - secured (non participatory)	22.1	12,797,440	12,430,143
Less: current portion		(5,120)	-
		12,792,320	12,430,143
Sukuk certificates	22.2	6,800,000	-
		19,592,320	12,430,143

22.1 During the current year, the Holding Company has issued GoP guaranteed Term Finance Certificates (TFCs) aggregating Rs. 12,800 million by replacing its existing TFCs aggregating to the original face value of Rs. 15,140 million. The restructuring was performed in coordination with the Ministry of Finance (MoF), as duly approved by the Ministry in a financial restructuring plan, vide their letter no. F. No. 4 (4) (F-111/2006-336), dated February 22, 2007. The restructuring was executed after obtaining waivers on account of early redemption from the majority of TFC holders. The salient features of the TFCs are as follows:

Installment payable:	Semi - annually in arrears
Repayment period:	2011-2013, 5 years including two years grace period
Rate of profit:	6 months KIBOR plus 85 basis points with no floor and cap

The issue of TFC is secured by a guarantee given by GoP. In order to protect the interest of TFC holders, Standard Chartered Bank has been appointed as Trustee appointed under the trust deed so that in case, the Corporation defaults of any of its obligation, the Trustee may enforce the Holding Company's obligations in accordance with the terms of the trust deed. The proceeds of such enforcement will be distributed amongst the TFC holders, on a pari passu basis in proportion to the amounts owed to them.

The Corporation has an option of early purchase exercisable at any time with a 30 day notice period at NIL premium. The TFCs have been issued as part of a financial package of Rs. 26,500 million approved by GoP.

22.2 During the year, the Holding Company has issued GoP guaranteed, privately placed Sukuk Certificates amounting to Rs. 6,800 million to re-finance short-term loans amounting to Rs. 6,730 million. The principal amount is payable after two years in six equal half yearly installments. The certificates carry profit of 6 months Kibor + 175 basis points per annum. Meezan bank has been appointed as the Trustee under the trust deed. The Holding Company has an option of early purchase allowed only on rental payment dates falling due after expiry of one year from the date of issue with 30 days prior notice to the Trustee.

23. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Present value of future rental obligations - aircraft fleet			
A-310-300	23.2	5,504,821	5,845,881
B-777 -200 ER	23.3	15,859,793	17,176,361
B-777 -200 LR	23.4	16,122,513	16,682,976
B-777 -300 ER	23.5	31,907,001	32,555,909
		69,394,128	72,261,127
Present value of future rental obligations - vehicles	23.6	1,551	16,392
- equipments		66,879	79,606
		69,462,558	72,357,125
Less: current portion		(8,140,663)	(7,268,336)
		61,321,895	65,088,789

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

	2009			2008		
	Minimum lease payment	Finance Cost	Present value of minimum lease payments	Minimum Lease Payment	Finance Cost	Present value of minimum lease payments
Rupees in '000						
Not later than one year	10,592,462	2,451,799	8,140,663	9,784,905	2,516,569	7,268,336
Later than one year and not later than five years	41,593,909	6,531,678	35,062,231	45,606,914	6,799,723	38,807,191
Later than five years	27,767,691	1,508,027	26,259,664	27,974,758	1,693,160	26,281,598
	79,954,062	10,491,504	69,462,558	83,366,577	11,009,452	72,357,125

23.2 In 2003, the Holding Company entered into aircrafts lease agreements with Airbus Leasing Inc. USA, to acquire six A310-300 aircrafts. The salient features of the lease are as follows:

	December 31, 2009	December 31, 2008
Discount rate	5.2%	5.2%
Lease period	144 months	144 months
Security deposits (Rupees in '000)	272,808	255,636
Contingent rent (Rupees in '000)	(357)	(9)

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

	December 31, 2009	December 31, 2008
Discount rate - two aircrafts	4.65%	4.65%
Discount rate - one aircraft and spare engine	Three months LIBOR	Three months LIBOR
Lease period - aircrafts	144 months	144 months
Lease period - spare engine	96 months	96 months
Security deposits (Rupees in '000)	798,586	748,319
Contingent rent (Rupees in '000)	(272)	1,976

23.4 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 aircrafts 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:

Discount rate - aircraft and propulsor	Three months LIBOR - 0.02%	Three months LIBOR - 0.02%
Lease period - aircrafts	144 months	144 months
Lease period - propulsor	96 months	96 months
Security deposits (Rupees in '000)	644,620	604,044
Contingent rent (Rupees in '000)	(9,360)	(5,570)

23.5 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 aircrafts from White Crescent Limited, a special purpose entity incorporated in Amsterdam, Netherlands. The guaranteed lender is Royal Bank of Scotland. Salient features of the lease are as under:

Discount rate - one aircraft	5.25%	5.25%
Discount rate - two aircrafts	Three months LIBOR - 0.04%	Three months LIBOR - 0.04%
Lease period - aircrafts	144 months	144 months
Lease period - engine	96 months	96 months
Security deposits (Rupees in '000)	1,295,518	1,213,971
Contingent rent (Rupees in '000)	(1,473)	4,574

23.6 The salient features of other lease arrangements are as follows:

Discount rate	14.9 % - 17.1 %	7.71% - 13.32%
Lease period	48 to 60 months	48 to 60 months

23.7 The Group has an option to acquire the ownership of the asset at the end of the lease term.

24. LONG-TERM DEPOSITS

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Deposits from agents		157,500	115,500
Retention money		208,317	186,095
Deposits from PIA Employees		162	307
		<u>365,979</u>	<u>301,902</u>

25. DEFERRED LIABILITIES

Deferred custom duties		-	123,205
Deferred gratuity - SRL		40,643	33,052
Deferred taxation	25.1	12,082,713	12,993,518
Obligation for compensated absences	25.2	2,072,000	1,689,000
Post retirement medical benefits	25.3	2,437,282	1,425,000
Pension obligation	25.4	1,675,045	6,000
		<u>18,307,683</u>	<u>16,269,775</u>

25.1 Deferred taxation

Roosevelt Hotel Corporation, N.V.	25.1.1	6,914,861	8,462,762
Minhal France, S.A.	25.1.2	5,159,971	4,524,165
Skyroom (Private) Limited	25.1.3	7,881	6,591
Holding Company	25.1.4	-	-
		<u>12,082,713</u>	<u>12,993,518</u>

25.1.1 Roosevelt Hotel Corporation, N.V.

The components of the net deferred tax liability are as follows:			
Excess of book value over tax depreciation		(330,802)	(364,831)
Allowance for doubtful accounts		(6,057)	(3,939)
Accrued vacation		(82,506)	(73,572)
Deferred tax asset excluding effect of revaluation surplus		(419,365)	(442,342)
Deferred tax liability relating to revaluation of land and building		7,334,226	8,905,104
Net deferred tax liability		<u>6,914,861</u>	<u>8,462,762</u>

25.1.2 Minhal France, S.A.

The components of the net deferred tax liability are as follows:			
Excess of fair value at acquisition over cost		2,465,256	2,329,610
Revaluation of land and building		2,520,178	2,045,111
Fiscal depreciation provisions		163,116	136,378
Provision for major repairs		20,413	18,337
Employees pension plan		(8,992)	(5,271)
Net deferred tax liability		<u>5,159,971</u>	<u>4,524,165</u>

25.1.3 Skyrooms (Private) Limited

	December 31, 2009	December 31, 2008
	Rupees in '000	
Deferred tax credits		
Accelerated tax depreciation	11,867	9,122
Lease land acquisition premium	10,663	9,479
	22,530	18,601
Deferred tax debits:		
Provision against trade debts	(424)	(114)
Provision against other receivable	-	(328)
Provision for gratuity	(14,225)	(11,568)
	(14,649)	(12,010)
	7,881	6,591

25.1.4 Holding company

Deferred tax credits:		
Accelerated tax depreciation	23,026,712	29,027,268
Surplus on revaluation of:		
Aircraft	11,908,248	4,086,201
Buildings	-	68,385
	34,934,960	33,181,854
Deferred tax debits:		
Unused tax losses	(32,098,071)	(30,983,276)
Unrealised loss on re-measurement of investments	-	(64,454)
Provisions for liabilities and to write down other assets	(2,836,889)	(2,134,124)
	(34,934,960)	(33,181,854)
	-	-

Deferred tax asset of Rs. 6,404 (2008: Rs. 15,453) million in excess of deferred tax liability of Rs. 34,935 (2008: 33,181) million has not been recognised in these consolidated financial statements in accordance with the accounting policy of the Holding company stated in note 4.12.

25.2 Obligation for compensated absences - Holding company

Liability recognised in the balance sheet		
Balance at beginning of the year	1,689,000	1,445,000
Charge for the year	383,000	244,000
	2,072,000	1,689,000

25.3 Post retirement medical benefits - Holding company

	December 31, 2009	December 31, 2008
	————— Rupees in '000 —————	
Liability recognised in the balance sheet		
Present value of defined benefit obligation	2,437,282	1,425,000
Movement in liability during the year		
Balance at the beginning of the year	1,425,000	1,425,878
Charge for the year	1,203,037	133,000
Less: payments made during the year	(190,755)	(133,878)
Balance at the end of the year	2,437,282	1,425,000
Expense recognised in profit and loss account		
Current service cost	32,415	27,000
Past service cost	-	33,000
Interest cost	213,306	150,000
Net actuarial loss / (gain) recognised	957,316	(77,000)
	1,203,037	133,000

25.4 Pension obligation - Holding company

Liability recognised in the balance sheet		
Present value of defined benefit obligation	(13,743,585)	(11,294,000)
Less: Fair value of plan assets	12,068,540	11,288,000
	(1,675,045)	(6,000)
Movement in (liability) / asset during the year		
Balance at the beginning of the year	(6,000)	1,283,000
Charge for the year	(1,767,025)	(1,386,864)
Payments made during the year	97,980	97,864
Balance at the end of the year	(1,675,045)	(6,000)
Expense recognised in profit and loss account		
Current service cost	195,890	206,000
Past service cost	-	513,000
Interest cost	1,726,126	1,084,000
Expected return on plan assets	(1,190,638)	(1,118,000)
Actuarial loss recognised - net	1,035,647	702,000
	1,767,025	1,387,000
Actual return on plan assets	1,732,941	460,000

	December 31, 2009	December 31, 2008
	Rupees in '000	
Movement in the defined benefit obligation		
Obligation as at January 1	11,294,000	10,241,000
Service cost	195,890	206,000
Interest cost	1,726,126	1,084,000
Benefits paid	(1,050,381)	(794,000)
Past service cost	-	513,000
Actuarial loss	1,577,950	44,000
Obligation as at December 31	<u>13,743,585</u>	<u>11,294,000</u>
Movement in fair value of plan assets		
Fair value as at January 1	11,288,000	11,524,000
Expected return on plan assets	1,190,638	1,118,000
Employer contributions	97,980	98,000
Benefits paid	(1,050,381)	(794,000)
Actuarial loss / (gain)	542,303	(658,000)
Fair value as at December 31	<u>12,068,540</u>	<u>11,288,000</u>

5 years data for (surplus) / deficit of the plan is as follows:

	2009	2008	2007	2006	2005
	Rupees in '000				
Fair value of plan assets	12,068,540	11,288,000	11,524,000	11,150,000	10,891,000
Present value of benefit obligation	13,743,585	11,294,000	10,241,000	9,466,000	8,930,000
(Deficit) / surplus	<u>(1,675,045)</u>	<u>(6,000)</u>	<u>1,283,000</u>	<u>1,684,000</u>	<u>1,961,000</u>
	2009	2008	2007	2006	2005
Actuarial loss / (gain) on obligation	16%	-	3%	(2)%	-
Actuarial loss / (gain) on plan assets	(4)%	6%	1%	2%	2%

Amounts for the current period and previous four annual periods of the present value of defined benefit obligation are as follows:

	2009	2008	2007	2006	2005
	Rupees in '000				
Present value of defined benefit obligation	<u>2,437,282</u>	<u>1,425,000</u>	<u>1,426,000</u>	<u>1,353,000</u>	<u>1,211,000</u>

25.4.1 Actuarial valuation of pension funds, compensation absences and post retirement medical benefit scheme was carried out at December 31, 2009. The valuation has been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	December 31, 2009	December 31, 2008
Discount rate	12.75%	11.00%
Expected long term rate of increase in salary level	10.60%	8.90%
Expected rate of increase in pension cost	4.40%	2.80%
Expected rate of medical cost trend	7.38%	10.48%
Expected rate of return on plan assets	12.75%	10.00%

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

	————— Number —————	
Pension scheme	11,387	11,477
Post retirement medical benefit scheme	16,263	16,353
Compensation absence scheme	16,263	16,353

25.4.3 The fair value of plan assets include investments in the Corporation's shares, amounting to Rs. 1.50 million (2008: Rs. 1.99 million).

26. TRADE AND OTHER PAYABLES INCLUDING PROVISIONS

	Note	December 31, 2009	December 31, 2008
		Rupees in '000	
			Restated
Trade creditors			
Goods		4,662,194	6,147,945
Services		1,722,690	1,894,687
Airport related charges		1,813,469	902,115
Others		335,215	317,239
		8,533,568	9,261,986
Accrued liabilities		5,047,960	4,561,026
Advance against transportation (unearned revenue)			
Normal		6,980,139	6,895,273
Hajj		-	326,125
		6,980,139	7,221,398
Unredeemed frequent flyer liabilities		1,373,408	1,000,096
Advance from customers		653,884	358,046
Amount due to related party		156,691	146,635
Advances and deposits		167,259	189,284
Earnest money		3,073	2,237
Payable to employees' provident fund		1,918,629	1,149,430
Unclaimed dividend - Preference shares		8,504	8,504
Collection on behalf of others		2,126,987	933,136
Custom and central excise duty		496,970	514,645
Capital value tax		1,002,022	953,544
Income tax deducted at source		86,052	89,674
Sales tax payable		4,416	3,758
Provision for Civil Aviation Authority's claims	29.1 (a)	1,500,000	1,500,000
Bed tax		1,724	13,987
Payable to EOBI/SESSI		238	6,230
Short-term deposits		238,840	168,865
Murabaha financing		-	1,200,524
Fair value of cash flow hedges		-	192,725
Others		117,903	204,849
		30,418,267	29,680,579
27. ACCRUED INTEREST / MARK-UP / PROFIT			
On long-term financing		412,905	113,756
On term finance certificates		614,140	655,848
On sukuk certificates		195,840	-
On short-term borrowings		312,772	705,852
On pension / provident fund		309,935	-
		1,845,592	1,475,456
28. SHORT-TERM BORROWINGS - secured			
Short-term loans	28.1	16,796,238	24,031,870
Running finance under mark-up arrangements	28.2	7,185,922	6,468,192
		23,982,160	30,500,062

28.1 Short-term loans - secured

Financier	Security	Facility amount (million)	Repayment period	Mark-up	December 31, 2009	December 31, 2008
					Rupees in '000	
From Banking Companies						
Habib Bank Limited	GoP Guarantee	2,000 PKR	3 Months	3 month KIBOR +0.90 %	2,000,000	2,000,000
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs. 2,230 million	1,600 PKR	1 Year	3 month KIBOR +0.90 %	1,600,000	1,600,000
Habib Bank Limited	Charge over domestic receivables	600 PKR	1 Year	1 month KIBOR + 2.50 %	-	600,000
United Bank Limited	GoP guarantee, promissory note amounting to USD 11 million.	10 USD	1 Year	6 month LIBOR + 2.00 %	-	789,000
Habib Allied Bank Limited - London	EURO receivables	9 USD	1 Year	1 month LIBOR +3.00 %	757,800	710,100
Habib Allied Bank Limited - London	EURO receivables	10 USD	1 Year	1 month LIBOR + 2.50 %	-	328,750
Habib Bank Limited	Charge over domestic receivables, promissory note amounting to Rs. 348 million	250 PKR	1 Year	1 month KIBOR + 2.50 %	-	250,000
Habib Bank Limited	Charge over domestic receivables, promissory note amounting to Rs. 836 million	600 PKR	1 Year	1 month KIBOR + 2.50 %	-	600,000
National Bank - Bahrain GBP	UK receivables	20 GBP	1 Year	1 month LIBOR + 5.00 %	1,803,191	-
National Bank - Bahrain SAR	Charge over Saudi Arabia, Bangladesh, Dhaka, Oman & Muscat Receivables	75 SAR	6 Months	1 month SIBOR + 5.00 %	1,122,247	-
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs. 2,400 million	2,000 PKR	1 Year	1 month KIBOR + 0.85 %	2,000,000	2,000,000
Standard Chartered Bank - Dubai	GoP guarantee	50 USD	3 months	1 month LIBOR +2.00 %	-	3,578,115
Standard Chartered Bank - (Pakistan) Limited	GoP guarantee	3,000 PKR	1 Year	Relevant KIBOR + 0.75 %	-	2,999,905
National Bank of Pakistan	GoP guarantee	1,100 PKR	1 Year	3 month KIBOR +0.90 %	-	1,100,000
National Bank of Pakistan	GoP guarantee	1,500 PKR	1 Year	3 month KIBOR +0.90 %	1,500,000	1,500,000
United Bank Limited	GoP guarantee, promissory note amounting to Rs. 1,150 million	976 PKR	3 months	3 month KIBOR +0.90 %	-	976,000
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs. 1,346 million	1,000 PKR	1 Year	3 month KIBOR +0.90 %	1,000,000	1,000,000
Hong Kong Shanghai Bank Corporation	GoP guarantee, promissory note amounting to Rs. 1,600 million	1,000 PKR	3 months	3 month KIBOR +0.90 %	1,000,000	1,000,000
Askari Bank Limited	GoP guarantee	1,500 PKR	1 Year	3 month KIBOR +0.90 %	1,500,000	1,500,000
KASB Bank Limited	GoP guarantee, promissory note amounting to Rs. 595 million	500 PKR	1 Year	3 month KIBOR +0.90 %	500,000	500,000
Barclays PLC	GoP guarantee	750 PKR	4 months	3 month KIBOR +0.90 %	750,000	1,000,000
Faysal Bank Limited	GoP guarantee and ranking hypothecation charge over all current assets	15 USD	1 Year	3 month LIBOR + 2.00 %	1,263,000	-
					<u>16,796,238</u>	<u>24,031,870</u>

28.2 Running finance under mark-up arrangements - secured

Financier	Security	Facility amount	Unavailed credit (million)	Repayment period	Mark-up	December 31, 2009	December 31, 2008
						Rupees in '000	
From Banking Companies							
United Bank Limited - Karachi	Domestic receivables	2,570 PKR	130 PKR	1 Year	1 month KIBOR + 2.5%	2,439,718	2,505,112
Habib Bank Limited - NYC	EURO receivables	3 USD	0.13 USD	1 Year	3 month LIBOR +4.5%	240,974	384,788
National Bank of Pakistan - Karachi	Domestic receivables and hypothecation charge over all present and future current assets	575 PKR	-	1 Year	1 month KIBOR +2.00 %	575,017	575,000
Habib Allied Bank Limited - London	EURO receivables	3 USD	-	1 Year	1 month LIBOR + 3.00%	251,931	236,700
KASB Bank Limited	Domestic receivables	400 PKR	-	1 Year	3 month KIBOR +2.5%	400,000	-
United Bank Limited - Dubai	First pari passu hypothecation, charge on all present and future current assets	22 USD	-	1 Year	1 month LIBOR +5.00%	1,859,507	1,736,211
Arif Habib Bank	Domestic receivables and mortgage charge over Airbus A-310	300 PKR	176 PKR	1 Year	3 month KIBOR +2.50%	123,936	-
United Bank Limited - Bahrain	First pari passu hypothecation charge on all present and future current assets	13 USD	-	1 Year	1 month LIBOR +5.00%	1,092,752	1,030,381
Habib Bank Limited	Hypothecation charge on all present and future spare parts, accessories of aircrafts assets and on domestic receivables	350 PKR	148 PKR	1 Year	1 month KIBOR +2.00%	202,087	-
						<u>7,185,922</u>	<u>6,468,192</u>

29. CONTINGENCIES AND COMMITMENTS

29.1 Contingencies

- a) Civil Aviation Authority (CAA), Pakistan has claimed additional amounts aggregating Rs. 4,114 million (2008: Rs. 3,381 million) in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest / surcharge etc. The matter has been referred to Ministry of Defence through which a reconciliation and settlement exercise is currently in progress. The management considers that no additional liability of material amount is likely to arise as a result of such exercise. However, as a matter of prudence, the Holding company has made a provision of Rs. 1,500 million there against.
- b) The Collector Central Excise had raised demand of Rs. 690 million (2008: Rs. 568 million) in respect of duties levied on tickets provided by the Holding company to its staff either free of charge or at concessional rates, repair / replacement of re-imported aircraft engines, non-availability of invoices, import related to miscellaneous consignments, printed material sent at its various stations abroad for utilization, late / short payment of sales tax and central excise duty and excess baggage tickets. On protest by the Collector Central Excise, the Holding company has already paid an amount of Rs. 100 million (note 15) which is considered fully recoverable by the management. The Holding company has filed appeals with the Customs, Central Excise & Sales Tax Tribunal which are pending adjudication. Management is confident that the decision would be made in Holding company's favour. Consequently, no provision has been made in these consolidated financial statements.
- c) A show cause notice was served to the Holding company by Additional Collector, LTU Karachi, as a result of finding during the audit of PIAC records pertaining to 2004 - 2005 and 2005 - 2006. The Collector has raised demands of Rs. 6.80 million for the federal excise duty and Rs. 277.62 million for sales tax in respect of late filing of monthly returns of excise duty, sales tax of various taxable activities and incorrect rate of duty charged and paid along with input tax paid on various utilities. The Holding company has filed an appeal to the Additional Collector (Adjudication), which is currently pending for adjudication. The Holding company is confident that the decision will be in its favor. Consequently, no provision has been made in these consolidated financial statements for the same.
- d) A show cause notice was issued to the Holding company by the Collector of Customs, demanding a sum of Rs. 87.93 million (2008: Rs. 87.93 million) in respect of custom duty on the import of simulator. The Holding company has filed an appeal to the Appellate Tribunal Karachi for adjudication. The Holding company is confident that the decision will be in its favor. Consequently, no provision has been made in these consolidated financial statements.
- e) The Holding company is contesting litigations relating to suits filed against it on dispute over throughput charges aggregating to Rs. 125 million (2008: Rs. 125 million) against which it has filed appeals with the Honourable High Court of Sindh, Karachi and District Court which are pending. The management is of the view that ultimate outcome would be in favour of the Holding company. Accordingly, no provision in this respect has been made in these consolidated financial statements.
- f) A show cause notice was served to the Holding Company by Additional Collectorate LTU for claim of sales tax amounting to Rs. 1,319 million, and federal excise duty amounting to Rs. 2.07 million, on the basis of investigation conducted by Directorate General Intelligence, Federal Board of Revenue (FBR). The amount was claimed against incorrect / inadmissible adjustment on exempt activity and incorrect charging of rates on Federal Excise Duty (FED) and sales tax rate. The Holding company is confident that the appeal, which it intends to file, will be in its favor.

- g) 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. The Holding company's management is of the view that these cases have no sound legal footing and it does not expect these contingencies to materialize. Accordingly, no provision has been made in these consolidated financial statements against these claims amounting to Rs. 3,391 million (2008: Rs. 2,864 million).
- h) Various ex-employees of the Holding company have lodged claims against the Holding company for their dues specifically relating to their re-instatements. 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) Contingencies relating to income tax matters are disclosed in note 37.1.
- j) Contingencies in respect of the tax matters relating to the Holding company's subsidiaries, PIA Holdings (Private) Limited and PIA Shaver Poultry Breeding Farms (Private) Limited amounted to Rs. 11.2 million (2008: Rs. 11.2 million).
- k) Competition Commission of Pakistan (CCP) vide its order dated November 20, 2009 has imposed a token penalty on the Holding company 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 through Holding company during Hajj season 2008. The total amount of refund estimated by the Holding company is Rs. 417 million. The Holding company has filed an appeal simultaneously in Lahore High Court and Supreme Court of Pakistan. The matter is pending for hearing and accordingly stay order has not been granted to the Holding company till date. Management and legal advisor are of view that the decision will be in the favor of the Holding company and no provision has been made in these consolidated financial statements.
- l) Claims against Holding company not acknowledged as debt amount to Rs. 1,184 (2008: Rs. 350) million.
- m) A number of lawsuits which arose in the normal course of business are pending against the Roosevelt Hotel Corporation, N.V. The eventual disposition of these legal actions, in the opinion of management based upon available insurance coverage and assessment of the merits of such actions by counsel, will not have a material adverse effect on the financial position of the Group.
- n) During the year, Income Tax Authorities imposed penalties on non-compliance of various section of Income Tax Ordinance, 2001, amounting to Rs. 0.252 million. The management has counter filed the petition before Income Tax Appellate Tribunal (ITAT) and is of the view that case would be decided in favour of SRL. Accordingly, the charge against penalties imposed and corresponding liability has not been recognised in these consolidated financial statements.
- o) During the year, the suit filed against shop's tenants was settled in favour of SRL, with the leverage of appeal against the decision in higher court. One of the tenants has preferred to appeal in Honorable High Court of Sindh against the decision. The case is pending before the said Honorable Court. However, SRL is of the view that the case would be settled in favour of the company.

29.2 Commitments

- a) Commitments for purchase of Simulator amounted to Rs. 1,128.1 million.
- b) Commitments for capital expenditure amounted to Rs. 1,749 million (2008: Rs. 394.5 million).
- c) Outstanding letters of credit amounted to Rs. 189.6 million (2008: Rs. 65.2 million).
- d) Outstanding letters of guarantee amounted to Rs. 587.3 million (2008: Rs. 203.9 million).
- e) The Roosevelt Hotel, as lessor under the various net leases at the Hotel, will receive rental income over next five years, and thereafter as follows:

	December 31, 2009	December 31, 2008
	————— Rupees in '000 —————	
2009	-	224,549
2010	266,438	189,833
2011	247,563	167,663
2012	257,127	171,923
2013	243,817	158,194
2014	203,521	-
Thereafter	402,265	337,995
	<u>1,620,731</u>	<u>1,250,157</u>

30. REVENUE - net

	December 31, 2009	December 31, 2008
	————— Rupees in '000 —————	
		Restated
Passenger	84,510,491	79,479,283
Cargo	4,981,666	5,458,688
Excess baggage	1,045,167	875,530
Charter	988,928	183,806
Engineering services	900,795	936,578
Handling and related services	580,857	686,755
Mail	352,339	263,215
Room, food and beverages sales	8,073,761	9,205,365
Others	1,816,354	1,744,157
	<u>103,250,358</u>	<u>98,833,377</u>

31. COST OF SERVICES - others

	Note	December 31, 2009	December 31, 2008
Rupees in '000			
Salaries, wages and allowances		12,558,142	7,992,134
Welfare and social security costs		145,743	112,469
Retirement benefits		2,162,010	853,456
Compensated absences		244,281	148,218
Legal and professional charges		7,632	6,850
Stores and spares consumed		2,463,387	1,547,138
Maintenance and overhaul		4,911,238	3,829,943
Flight equipment rental		1,149,038	1,032,138
Landing and handling		10,494,356	9,123,722
Passenger services		2,794,081	2,833,399
Crew layover		2,559,818	2,196,650
Hotel running expenses		499,421	3,874,477
Staff training		109,578	89,855
Food cost		35,309	33,522
Utilities		33,076	30,640
Communication		53,138	67,302
Insurance		1,437,372	1,112,858
Rent, rates and taxes		591,524	368,619
Printing and stationery		172,425	97,602
Depreciation	5.1.6	10,406,178	11,490,349
Amortisation	6.1	4,184	4,069
Others		1,484,590	283,005
		<u>54,316,521</u>	<u>47,128,415</u>

32. DISTRIBUTION COSTS

Salaries, wages and allowances		1,648,369	1,482,987
Welfare and social security costs		168,649	177,376
Retirement benefits		547,359	437,512
Compensated absences		65,345	45,500
Distribution and advertising expenses		2,249,398	2,021,937
Legal and professional charges		27,218	24,498
Repairs and maintenance		98,744	87,046
Insurance		16,671	12,958
Printing and stationery		48,015	36,037
Communication		410,877	384,325
Staff training		66,133	45,521
Rent, rates and taxes		332,712	329,766
Utilities		26,952	35,694
Amortisation	6.1	1,130	1,706
Depreciation	5.1.6	49,764	72,440
Others		366,893	114,505
		<u>6,124,229</u>	<u>5,309,808</u>

33. ADMINISTRATIVE EXPENSES

		December 31, 2009	December 31, 2008
	Note	Rupees in '000	
Salaries, wages and allowances		1,994,046	1,782,063
Welfare and social security costs		1,198,344	876,058
Retirement benefits		634,722	551,162
Compensated absences		73,374	50,282
Legal and professional charges		238,753	224,532
Repairs and maintenance		345,941	289,066
Insurance		17,243	15,398
Printing and stationery		100,824	62,598
Staff training		73,624	61,408
Rent, rates and taxes		419,002	371,346
Utilities		535,631	512,247
Auditors' remuneration	33.1 & 33.2	24,397	21,132
Communication		779,338	538,736
Amortisation	6.1	18,915	19,889
Depreciation	5.1.6	223,532	133,664
Donation	33.3	5,630	2,899
Others		1,043,690	350,097
		<u>7,727,006</u>	<u>5,862,577</u>

33.1 Auditors' remuneration

Audit fee - Holding company	6,726	6,726
Fee for review of interim financial statements	2,016	2,361
Remuneration of subsidiaries' auditors	13,765	10,292
Consolidated financial statements	1,000	1,000
Code of Corporate Governance	345	-
Out of pocket expenses	545	753
	<u>24,397</u>	<u>21,132</u>

33.2 Auditors' remuneration is equally shared by the two firms of auditors.

33.3 Directors including Chairman / CEO and their spouse do not have any interest in the donee.

34. OTHER PROVISIONS AND ADJUSTMENTS - net

Loss on disposal of capital spares		57,143	1,453
Provision for slow moving spares	11.1	445,684	286,466
(Reversal) / provision for doubtful debts - net	12.1	(112,740)	19,330
Arrears of mandatory retirement		53,506	-
Provision for doubtful other receivables	15.3	138,553	-
Provision for doubtful advances	13.1	31,195	381
Provision for CAA claim	29.1 (a)	-	1,500,000
Others		747	15
		<u>614,088</u>	<u>1,807,645</u>

35. OTHER OPERATING INCOME

	Note	December 31, 2009	December 31, 2008
		Rupees in '000	
Income from financial assets			
Profit on bank deposits		33,805	166,304
Others		965	-
Income from assets other than financial assets			
Gain on disposal of fixed assets		1,452	200,814
Insurance claims		436,429	37,746
Others		87,668	68,983
Reversal of liabilities no longer payable		-	284,116
		<u>560,319</u>	<u>757,963</u>

36. FINANCE COSTS

Mark-up on long-term financing		1,924,530	2,177,733
Profit on term finance certificate		1,807,991	1,540,209
Profit on sukuk certificates		195,840	-
Interest on liabilities against assets subject to finance lease		1,854,656	2,506,124
Mark-up on long-term murabaha		-	192,228
Mark-up on short-term borrowings		3,244,074	2,346,199
Interest to pension / provident fund		189,851	132,823
Arrangement, agency and commitment fee		118,534	88,249
Bank charges, guarantee commission and other related charges		269,074	43,438
		<u>9,604,550</u>	<u>9,027,003</u>

37. TAXATION

Current	37.1	711,974	801,473
Prior		893,525	-
Deferred	25.1.4	(9,044,381)	(4,084,163)
		<u>(7,438,882)</u>	<u>(3,282,690)</u>

37.1 Current

In view of available tax losses for the year, provision for minimum taxation for the Holding company has been made at 0.5% of turnover under 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.

The Holding company's return for the tax year 2003 to tax year 2009 have been deemed to be finalised under the provisions of Income Tax Ordinance, 2001.

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 orders for the assessment years 1991-92 to 2002-2003. Income Tax Appellate Tribunal (ITAT) has deleted this enhancement vide Orders Nos. ITA No. 1297/KB/2006 to 1301/KB/2006 dated 17-11-2009 for assessment years 1991-92, 1992-93, 1997-98, 1998-99 and 1999-2000 respectively and vide order Nos. ITA No. 1668/KB/2005 and 1669/KB/2005 dated 24-08-2007 for assessment year 2001-02 and 2002-03 respectively, while appeals for assessment years 1993-94 to 1996-97 are pending for adjudication. The Holding company had also made a representation to Secretary - Ministry of Law, GoP and also applied to the Federal Board of Revenue to constitute a committee under Section 134A of the Income Tax Ordinance, 2001 for the resolution of above dispute.

38. EARNINGS PER SHARE - BASIC AND DILUTED

	December 31, 2009	December 31, 2008 Restated
Loss for the year (Rupees in '000)	5,220,357	36,234,996
Weighted average number of Ordinary shares outstanding	2,142,060,245	2,016,835,227
Loss per share		
'A' class Ordinary share (Rupees)	2.44	17.97
'B' class Ordinary share (Rupees)	1.22	8.99

38.1 There is no dilution effect on loss per share.

39. CASH (USED IN) / GENERATED FROM OPERATIONS

	December 31, 2009	December 31, 2008
	Rupees in '000	
		Restated
Loss before tax	(12,659,240)	(39,517,686)
Adjustments for:		
Depreciation	10,679,474	11,696,453
Gain on disposal of property, plant and equipment	(1,452)	(200,814)
Loss on disposal of capital spares	57,143	-
Amortisation	24,229	25,664
Provision for slow moving stores and spares	445,684	286,466
(Reversal) / provision for doubtful debts	(116,244)	19,330
Provision for doubtful advances and other receivables	31,195	381
Provision for the construction of University Road, Karachi	-	(215,000)
Provision for scrapage capital spares	-	1,453
Provision for employees' benefits	3,360,653	2,074,006
Other provisions	-	(68,968)
Provision for other receivables	138,553	-
Finance costs	9,604,550	9,027,003
Profit on bank deposits	(33,805)	(166,304)
Exchange loss and scrapage	-	24,239,543
Reversal of provision against short-term investments	(1,133)	-
Provision against CAA liabilities	-	1,500,000
Reversal of liabilities no longer payable	-	(284,116)
	24,188,847	47,935,097
Working capital changes		
(Increase) in stores and spares	(699,273)	(478,106)
(Increase) in trade debts	(2,028,337)	(794,816)
(Increase) in advances	(839,266)	(829,348)
Decrease / (increase) in trade deposits and prepayments	15,538	(430,259)
(Increase) / decrease in short-term investments	(44,950)	84,794
Decrease / increase in other receivables	481,451	(452,778)
Increase in trade and other payables	(274,471)	7,466,195
	(3,389,308)	4,565,682
Cash generated from operations	8,140,299	12,983,094

40. REMUNERATION OF MANAGING DIRECTOR AND EXECUTIVES

	Managing Director		Executives	
	2009	2008	2009	2008
	Rupees in '000		Rupees in '000	
Managerial remuneration	11,507	7,953	2,825,131	1,430,507
Corporation's contribution to provident fund	241	156	108,940	63,115
Other perquisites	-	-	1,406,721	990,522
	11,748	8,109	4,340,792	2,484,144
Number	1	1	2,227	1,113

Directors other than the Managing Director are non-executive directors. Aggregate amount charged in the financial statements for fee to directors was Rs. Nil (2008: Rs. 0.68 million). Managing Director and certain executives are also provided with the Holding company maintained cars and facilities as per the Holding company's rules.

41. 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 accordingly 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, other than services provided by Skyrooms (Private) Limited to the Holding company's transit passengers, 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. Those transactions are eliminated in consolidation, except for the Holding company's sales of transportation services to subsidiaries and associates, which are not determinable.

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.

41.1 Revenue analysis

	Airlines Operations		Hotel Operations		Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
	Rupees in '000							
	Restated						Restated	
Revenue								
External sales	94,563,765	89,201,567	8,441,379	9,661,502	-	-	103,005,144	98,863,069
Inter segment sales	-	-	237,456	206,260	(237,456)	(206,260)	-	-
Total revenue	<u>94,563,765</u>	<u>89,201,567</u>	<u>8,678,835</u>	<u>9,867,762</u>	<u>(237,456)</u>	<u>(206,260)</u>	<u>103,005,144</u>	<u>98,863,069</u>
Results								
Segment results	<u>(4,097,774)</u>	<u>(31,541,182)</u>	<u>965,773</u>	<u>1,646,075</u>	<u>(314,428)</u>	<u>(501,028)</u>	<u>(3,446,429)</u>	<u>(30,396,135)</u>
Interest expense							(9,604,550)	(9,027,003)
Interest income							33,805	163,540
Share of associate's (loss) / profit							433	397
Income taxes							(7,438,882)	(3,282,690)
Loss after taxation							<u>(20,455,623)</u>	<u>(42,541,891)</u>

	Airlines Operations		Hotel Operations		Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
	Rupees in '000							
Assets and liabilities								
Segment assets	160,013,178	139,669,867	48,142,583	47,775,514	(1,656,990)	(3,113,002)	206,498,771	184,332,379
Investment in associates	-	-	433	398	-	-	433	398
							<u>206,499,204</u>	<u>184,332,777</u>
Segment liabilities	180,786,020	172,179,094	30,215,968	30,204,198	(187,744)	(82,968)	210,814,244	202,300,324
Capital expenditure	2,773,069	13,547,228	153,581	508,746				
Depreciation	9,474,887	8,015,110	1,204,587	3,661,343				
Amortisation	22,536	23,971	1,693	1,693				

41.2 Geographical segments - by area of original sale

	Pakistan	United States	2009		Total
			Europe	Others	
Rupees in '000					
Segment revenue	48,478,425	11,451,395	20,146,438	23,411,556	103,487,814
Carrying amount of assets	156,741,131	31,134,822	17,704,613	918,205	206,498,771

	Pakistan	United States	2008 - Restated		Total
			Europe	Others	
Rupees in '000					
Segment revenue	44,743,921	14,103,117	19,586,894	20,737,754	99,171,686
Carrying amount of assets	136,702,524	31,126,359	15,694,099	809,397	184,332,379

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

42. FINANCIAL RISK MANAGEMENT

The Group activities exposes it to a variety of financial risks: market risk (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk, fuel price risk and other price risk), credit risk and liquidity risk. The Group overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group financial performance. Group senior management carries out financial risk management under governance approved by the Board of Directors. Senior management identifies, evaluates and hedges financial risks, if 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 prices 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, deposits, available-for-sale investments, and derivative financial instruments.

a) Fuel price risk

The Group earnings are affected by changes in rate of the fuel. The Group hedges the fuel prices for Hajj operations only through use of certain derivative contracts. Since the Hajj operations were substantially completed by December 31, 2009, there were no derivative contracts outstanding as of that date, therefore, the Group was 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 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, Saudi Riyal (SR) 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.

	2009	2008	2009	2008
	Rupees in '000		Rupees in '000	
Change in USD rate		+5%		(5%)
Effect on loss before tax	<u>(3,593,954)</u>	<u>(3,823,665)</u>	<u>3,593,954</u>	<u>3,823,665</u>
Change in GBP rate		+5%		(5%)
Effect on loss before tax	<u>(20,220)</u>	<u>(20,120)</u>	<u>20,220</u>	<u>20,120</u>
Change in SR rate		+5%		(5%)
Effect on loss before tax	<u>(44,660)</u>	<u>(3,450)</u>	<u>44,660</u>	<u>3,450</u>

The Group has investment in foreign operation (PIAIL), whose net asset are exposed to foreign currency translation risk. As at December 31, 2009, if PKR had weakened / strengthened by 5% against the US Dollar, with all other variables held constant, loss before tax for the year would have been higher / lower by Rs. 3,593,954.

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 exposure to the risk of changes in market interest rates relates primarily to the Group long-term debt obligations with floating interest rates and bank balances.

	December 31, 2009	December 31, 2008
	Rupees in '000	
Variable rate instruments at carrying amount:		
Long-term financing	34,028,507	34,814,085
Term finance and sukuk certificates	19,597,440	12,430,143
Liabilities against assets subject to finance lease	69,395,679	72,357,125
Short-term borrowings	23,982,160	30,500,062
	<u>147,003,786</u>	<u>150,101,415</u>
Fixed rate instruments at carrying amount		
Financial Assets		
Bank balances	3,686,161	3,029,734
Short-term investments	248,087	228,302
Long-term loans	17,910	11,850
	<u>3,952,158</u>	<u>3,269,886</u>
Financial Liabilities		
Long-term financing	11,927,683	5,261,363
Liabilities against assets subject to finance lease	66,880	79,606
	<u>11,994,563</u>	<u>5,340,969</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, a 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	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	Rupees in '000		Rupees in '000	
Change in interest rate	+1%		+0.25%	
Effect on loss before tax	<u>(386,728)</u>	<u>(287,610)</u>	<u>(273,723)</u>	<u>(237,435)</u>
Change in interest rate	(1%)		(0.25%)	
Effect on loss before tax	<u>386,728</u>	<u>287,610</u>	<u>273,723</u>	<u>237,435</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.

42.2 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 remaining contractual maturities of financial liabilities, including estimated interest payments:

	Weighted Average effective rate of interest	Less than 1 year	1-5 years	More than 5 years	Total
Rupees in '000					
2009					
Long-term financing	5.91%	7,756,699	40,156,873	12,841,308	60,754,880
Term finance and sukuk certificates	10.22%	6,279	19,599,516	-	19,605,795
Liabilities against assets subject to finance lease	2.62%	10,592,462	41,593,909	27,767,691	79,954,062
Trade and other payables		30,418,267	-	-	30,418,267
Accrued interest / mark-up / profit		1,845,592	-	-	1,845,592
Short-term borrowings	13.50%	23,982,160	-	-	23,982,160
		<u>74,601,459</u>	<u>101,350,298</u>	<u>40,608,999</u>	<u>216,560,756</u>
2008					
Long-term financing	3.68%	12,673,357	28,597,748	1,213,804	42,484,909
Term finance and sukuk certificates	12.50%	-	12,430,143	-	12,430,143
Liabilities against assets subject to finance lease	2.51%	9,784,905	45,606,914	27,974,758	83,366,577
Trade and other payables		29,680,579	-	-	29,680,579
Accrued interest / mark-up / profit		1,475,456	-	-	1,475,456
Short-term borrowings	12.34%	30,500,062	-	-	30,500,062
		<u>84,114,359</u>	<u>86,634,805</u>	<u>29,188,562</u>	<u>199,937,726</u>

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, 2009 represents the maximum credit exposure, which is as follows:

	December 31, 2009	December 31, 2008
Rupees in '000		
Long-term advances	12,051	7,629
Long-term deposits	3,621,125	3,367,139
Short-term loans and advances	364,072	417,433
Trade deposits	72,005	47,059
Other receivables	629,411	734,528
Trade debts	8,335,142	6,190,561
Receivable from Centre Hotel	636,064	596,027
Long-term investments	93,021	140,185
Bank balances	4,625,519	3,864,042
	<u>18,388,410</u>	<u>15,364,603</u>

Trade debts

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group normally grants a credit term of 30 to 60 days to customers with the debt in certain circumstances being 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.

Aging of past due and impaired trade debts is disclosed in note 11 to the 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 high credit rating. The names and credit rating of major banks where the Corporation maintains its bank balances are as follows:

Name of Bank	Rating Agency	Credit Rating	
		Short-term	Long-term
National Bank of Pakistan	JCR-VIS	A-1+	AAA
Habib Bank Limited	JCR-VIS	A-1+	AA+
Allied Bank Limited	PACRA	A-1+	AA
United Bank Limited	JCR-VIS	A-1+	AA+
Faysal Bank Limited	JCR-VIS	A-1+	AA
KASB Bank Limited	PACRA	A1	A
Standard Chartered Bank (Pakistan) Limited	PACRA	A-1+	AAA
Barclays Bank PLC	S&P	A-1+	AA-
Citibank N.A.	S&P	A1	A+
SAMBA , KSA	S&P	A1	A
Royal Bank of Canada	S&P	A-1+	AA-
Deutsche Bank AG	S&P	A1	A+
ANZ National Bank Limited	S&P	A-1+	AA

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.

Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair value except for investment held to maturity which is carried at amortized cost.

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 to the Consolidated financial statements.

43. TRANSACTIONS WITH RELATED PARTY

The related parties comprise of directors, key management personnel and employees' benefits funds. The Group in the normal course of business carries out transactions with various related parties. 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:

	December 31, 2009	December 31, 2008
	———— Rupees in '000 ————	
Retirement funds		
Contribution	865,741	801,825

43.1 The transactions with other state owned entities and GoP have not been treated as related party transaction for the purpose of this disclosure.

43.2 Transactions with the directors, chief executives and key management personnel have been disclosed in note 40 to the Consolidated Financial Statements.

44. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. Significant reclassifications made are as follows:

From	To	Nature	Amount re-classified Rupees '000
Cost of services - others	Other provisions and adjustments - net	Provision for slow moving spares	286,466

45. AUTHORIZATION OF FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue in the Board of Directors meeting held on March 16, 2010.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Form of Proxy

I / We _____ of _____ being Shareholder(s) of PAKISTAN INTERNATIONAL AIRLINES CORPORATION, and holder of _____ Ordinary 'A' Class Shares and _____ Ordinary 'B' Class Shares as per Registered Folio No _____ Participant ID No _____ Account No. _____ hereby appoint Mr / Mrs / Miss _____ of _____ or failing him / her _____ of _____ who is / are also Shareholder(s) of PAKISTAN INTERNATIONAL AIRLINES CORPORATION vide Registered Folio No. _____ 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 53rd Annual General Meeting of the Corporation to be held on Saturday, April 24, 2010 and at any adjournment thereof.

As witness my/our hand/seal this _____ day of April 2010.

Signed by the said _____ in the presence of

Witnesses

1. Name: _____

CNIC No. _____

2. Name: _____

CNIC No. _____

Signature
(Affix Revenue
Stamp of
Appropriate
Value)

NOTES

- (1) This Proxy Form, duly executed, must be lodged alongwith copy of CNIC 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 not less than 48 hours before the time fixed for holding the Meeting i.e. upto 10.00 A.M. Thursday, April 22, 2010.
- (2) No person shall act as Proxy unless he/she himself/herself is a Shareholder of the Corporation except that a corporate entity may appoint a person who is not a Shareholder.
- (3) Proxies without CNIC photocopy / Folio / Participant ID Number and Account / Sub-Account number will not be entertained.
- (4) The authorized representative of corporate Shareholders shall bring the documents detailed in (7)(iii) below.
- (5) Signature of the appointer Shareholder should agree with his specimen signature registered with the Corporation.
- (6) 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.
- (7) In addition to the above the following requirements have to be met by CDC Account Holders / Corporate Entities:
 - (i) Attested photocopies 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 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.
 - (iii) Authorized representatives of corporate Shareholders shall produce at the Meeting, the Board of Directors' Resolution or Power of Attorney with specimen signature of the Nominee / Attorney unless these documents have already been provided.



Salute:

To our Customers for their loyalty

To our Shareholders for their trust

To our Employees for their dedication

“TOGETHER WE SHALL PREVAIL”



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