

annual report
2010



 **PIA**
Pakistan International

Great People to Fly With



flight to **SUCCESS**

PIA has managed not only to sustain itself but also climb upwards through the current global turbulence. PIA is now moving forward with great passion, achieving this year its highest ever revenue of **Rs. 107 billion**

international network



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vision for success

PIA being Pakistan's first airline is dedicated towards meeting customer expectations, taking them to their destinations and supporting the nation to grow and prosper

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, Affordability)

Service

(Personalized, Courteous, Passionate)

Innovation

(New Ideas, Products, Value Added Services)

Cohesiveness

(Respect for Individuals, Teamwork and Effective Communication)

Integrity

(Business Ethics, Accountability, and Transparency)

Reliability

(Loyalty and Consistency)

Safety

(Passengers, Employees, Environment)

Social Responsibility

(Welfare, Health, Education)

committed to success

By enforcing excellent service, security and comfort PIA takes the time to nurture trust within its flyers. It is this very reason today that PIA is Pakistan's favourite airline

notice of 54th annual general meeting

Notice is hereby given that 54th Annual General Meeting of the Shareholders of Pakistan International Airlines Corporation will be held at 10:00 A.M. on Saturday, April 30, 2011 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, 2010 together with the Auditors' and Directors' Reports.
2. To elect two Directors against vacancies as required under Sections 6 and 7 of PIAC Act 1956 in place of Mr Mubashir Iftikhar and Malik Nazir Ahmed who have completed their term of office of Directors.
3. To transact any other business with the permission of the Chair.

By order of the Board

Karachi
April 08, 2011

Muhammad Shuaib
Secretary-PIA

Notes

1. **Candidature for election as Director:** As per Rule 21 of PIAC Rules 1958, a Shareholder not being a retiring elected Director, shall not be eligible for election as a Director unless he has been recommended by an elected Director for election as a Director, or unless he or some other Shareholder intending to propose his name has, at least **seven clear days before the Meeting i.e. up to 05:30 P.M., Friday, April 22, 2011 left at the office of Secretary-PIA, PIA Head Office, Karachi, a notice in writing duly signed signifying his candidature.**
2. **Participation in Meeting and Appointment of Proxies:** A Shareholder entitled to attend and vote at the Meeting is entitled to appoint another Shareholder as Proxy. **The duly executed instrument of Proxy or the Power of Attorney or a notarized copy of such Power of Attorney must be lodged at the office of Secretary-PIA, PIA Head Office, Karachi, not less than 48 hours before the time fixed for holding the Meeting i.e. up to 10:00 A.M. Thursday, April 28, 2011 unless the Power of Attorney has already been registered in the Corporation books.** Any individual Beneficial Owner of CDC, entitled to attend and vote at the Meeting, must show his original CNIC or Passport to authenticate his identity along with Participant ID and CDC Account / Sub-Account Number.
3. **Book Closure: The Shares Transfer Books of the Corporation will remain closed from Friday, April 15, 2011 to Saturday, April 30, 2011 (both dates inclusive)** in order to update the register for the purpose of determining the voting rights of Shareholders. 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, up to 05:30 P.M. by Thursday, April 14, 2011 will be treated as in time for registration of transfer of Shares.**

geared for success

Encouraging teamwork and implementing employee satisfaction, PIA prides itself on its business ethics and effective communication brought together by the different departments of the company

corporate profile

as at March 26, 2011

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

Prof. Mian Ijaz ul Hassan

Mr Mubashir Iftikhar

Dr Waqar Masood Khan
Federal Secretary Finance

Mr Husain Lawai

Khawaja Jalaluddin Roomi

Corporate Secretary
Mr Muhammad Shuaib

Head of Internal Audit
Mr Waqar A. Siddiqui

Executive Management

Capt. Nadeem Khan Yousufzai
Managing Director

Mr M. Salim Sayani
Deputy Managing Director

Mr Imraan Ahmed Khan
Director - Marketing

Mr Shahnawaz Rehman
Director - Corporate Planning and HRA&C

Mr Dilawar Fareed Beg
Director - Training & Development

Mr Maqsood Ahmed
Director - Engineering & Maintenance

Mr Faisal I. H. Malik
Chief Financial Officer

Mr Khalid Iftikhar
Director - Procurement & Logistics

AVM Aminullah Khan
Director - Precision Engineering Complex

Capt. M. Ilyas Malik
Director - Flight Operations

Mr Mamoon Rashid
Director - Customer Services

Mr Irshad Ghani
Director - Information Technology

Mr S. Kamran Hasan
Director

External Auditors

Messrs A. F. Ferguson & Co.
Messrs M. Yousuf 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



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 a Member of the National Assembly of Pakistan. He is an experienced businessman and had been Member of Board of Directors of Services Industries Ltd. 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.



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 in development planning and multinational corporations, 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 Secretary & Chairman Pakistan Railways, Chairman Sui Northern Gas Pipelines Ltd, Chairman Sui Southern Gas Ltd and PARCO before he retired as Federal Secretary, Petroleum & Natural Resources. He also remained Commissioner Rawalpindi & Islamabad, Provincial Secretary for Health, Agriculture, Forests and Home Departments in Punjab. Syed Ahmad had the distinction of leading a number of delegations and represented the Government of Pakistan on numerous missions to international bodies including UNICEF and WHO. Syed Ahmad is also Chairman of the Board's HR Committee.



Malik Nazir Ahmed
Director

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

board of directors



Lt Gen (R) 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 command of a Corps and 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). He is also on the Board of Directors of National Logistics Board, National University of Science & Technology, National Institute of Modern Languages & Overseas Pakistanis besides holding Chairmanship of Civil Aviation Authority, Pakistan International Airlines Investment Ltd, Fauji Foundation and Defence Housing Authorities (Karachi, Lahore & Islamabad). He is also Chancellor of Foundation University Islamabad.



Prof. Mian Ijaz ul Hassan
Director

Professor 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 Government College Punjab University Lahore. He did his Bachelor in fine Arts from Punjab University and later studied in St. Martin's School of Arts, London. He is Chairman of National Artist Association of Pakistan. 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 Heritage & Culture in 2009. Prof. Hassan also chaired the National Committee that prepared the policy and guidelines for 10th National Five-Year Plan for Culture & Heritage. Prof. Hassan 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 departments. Mr Iftikhar is also Member of Board's Audit Committee, Brand & Advertisement Committee, Finance Committee and HR Committee.



Dr Waqar Masood Khan
Director

Dr Waqar Masood Khan is a nominated Director since December 2010. He is Ph.D in Economics from Boston University Massachusetts, USA; M.A. in Political Economy, M.A. in Economics and LL B. At present Dr Khan is working as Federal Secretary Finance. Prior to this; he held various senior positions during his service with the Government of Pakistan which includes the positions of Secretary, Economic Affairs Division, Special Secretary to the Prime Minister, Secretary Finance, Secretary Textile Industry Division, Additional Secretary, Finance Division and Additional Secretary to the Prime Minister. Dr Khan is also Chairman of Board's Finance Committee.



Mr Husain Lawai
Director

Mr Husain Lawai is a nominated Director since July, 2008. Presently, he is President and CEO of Summit Bank Ltd and is a seasoned banker with vast experience in the banking and financial services industry. He holds a Masters Degree in Business Administration from Institute of Business Administration, Karachi. Mr Lawai held the position of President & Chief Executive Officer at Muslim Commercial Bank and holds the distinction of establishing Faysal Islamic Bank, Pakistan branches; the first Islamic Sharia compliant bank (presently known as Faysal Bank Ltd). He also served as the General Manager, Emirates NBD Bank for Pakistan and Far East, and as Director, Security Investment and Finance Ltd, UK. Currently, Mr Lawai is on the Board of Directors, of GlaxoSmithKline Pakistan Ltd, Sonofi-Aventis Pakistan Ltd, and on the Implementation & Coordination Board of Civil Hospital Karachi. Mr Lawai is also Chairman of Board's Audit Committee and Member of Board's Finance Committee.



Khawaja Jalaluddin Roomi
Director

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

regulatory appointments

Capt. Nadeem Khan Yousufzai Managing Director-PIA

Capt. Nadeem Khan Yousufzai was appointed as Managing Director-PIA in February, 2011. He holds a Bachelors Degree in Avionics from Risalpur (Peshawar University). Capt Yousufzai's entire professional career has been associated with aviation industry. He joined PIA in 1975 as a Cadet Pilot and has since served as First Officer and Captain with Instructor Rating on all types of aircraft operated by PIA. Capt. Yousufzai has also served PIA as Director (General Services) in mid 1990s. Before his appointment as Managing Director-PIA, Capt. Yousufzai served Pakistan Civil Aviation Authority as Director General and Member CAA Board. Capt. Yousufzai is also Chairman of Skyrooms (Pvt) Ltd and Member Boards of PIA Investments Ltd and its subsidiary as well as associated companies.



Mr Faisal I.H. Malik
Chief Financial Officer

Mr Faisal Imran Hussain Malik is the Chief Financial Officer of the airline since December 2009. Mr Malik is a member of the Institute of Chartered Accountants in England & Wales as well as the Institute of Chartered Accountants of Pakistan. Additionally, he earned a Master's degree in Economics with first position in the class and a gold medal for his overall performance. Mr Malik possesses over 15 years experience in financial advisory and corporate financial management, gained with reputed local and multinational entities both locally as well as internationally. Mr Malik is currently a member of the Board of Directors of PIA Investments Limited, Roosevelt Hotel Corporation USA (owner of the Roosevelt Hotel, Manhattan, New York), Minhal Finance S.A. (owner of the Scribe - a five star hotel in Paris), Skyrooms (Pvt) Limited, and Al-Shifa - a trust for rehabilitation of special children. Mr. Malik is also Chairman of the Board of Directors of Abacus Distribution Systems Pakistan (Pvt) Limited, which is an affiliate of Abacus International Pte Ltd, Singapore - one of the key players in the market for aviation related Global Distribution Systems (GDS). Mr. Faisal Malik also patronizes and steers sports related activities at PIA.



Mr Muhammad Shuaib
Corporate 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 Deputy General Manager (Corporate Affairs), Asstt Corporate Secretary, and Manager, Managing Director's Secretariat. Mr Shuaib is *ex-officio* Secretary of Board's Audit Committee as well as other three Committees of the Board. 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.



Mr Waqar A. Siddiqui
Head of Internal Audit

Mr Waqar A. Siddiqui is Head of Internal Audit since May 2010. Mr Siddiqui is a Member of Institute of Chartered Accountants of Pakistan. He holds certification from Association of Chartered Certified Accountants (ACCA-UK) and is also Certified Internal Auditor (CIA-USA). Mr Siddiqui remained associated with Pakistani capital market, carrying over eight years experience of working in managerial capacities in Central Depository Company of Pakistan and Securities & Exchange Commission of Pakistan. Mr Siddiqui has also served as visiting faculty at different educational institutions. Formerly, Mr Siddiqui was Secretary of Board's Audit Committee.

passion for success

Conceiving new ideas and pushing modernism, PIA is always working towards finding new ways of providing a safe, comfortable and enjoyable customer experience



board of directors' committees

as of March 26, 2011

Audit Committee

Mr Husain Lawai
Mr Javed Akhtar
Prof. Mian Ijaz ul Hassan
Mr Mubashir Iftikhar
Khawaja Jalaluddin Roomi

Chairman
Member
Member
Member
Member

Brand and Advertisement Committee

Prof. Mian Ijaz ul Hassan
Malik Nazir Ahmed
Mr Mubashir Iftikhar
Khawaja Jalaluddin Roomi

Chairman
Member
Member
Member

Finance Committee

Dr Waqar Masood Khan
Mr Mubashir Iftikhar
Mr Husain Lawai

Chairman
Member
Member

Human Resource Committee

Syed Naseer Ahmad
Malik Nazir Ahmed
Mr Javed Akhtar
Mr Mubashir Iftikhar

Chairman
Member
Member
Member

journey to success

Strong business ethics and principles are the foundation of PIA which make this airline sustainable and successful through good and bad times

directors' report year ended December 31, 2010

Striving towards prosperity in the face of adversity, our faith is unwavering and our commitment to the nation to be the connecting force that brings us together remains strong, giving us the determination to scale new heights and rise above the current gloom.

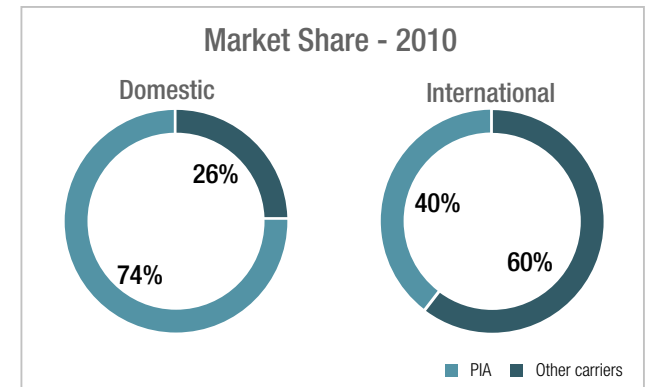
Industry Outlook

As the global economy gradually shifts gears and moves out of recession, the aviation industry has still not been able to fully recover from the crisis that engulfed it in the wake of the oil price hike and financial meltdown. In fact with the recent events in the Middle East unfolding, oil prices have again started to climb which casts doubts on the ability of the aviation industry to return to profitability in the foreseeable future. However, the record high load factors, which in the recent past went as high as 78%, along with yields will be the key to determine the profitability of an airline keeping in view the high oil prices. In the current economic environment, it is expected that demand for business travel and cargo will be more robust than demand for price sensitive leisure travel. Air travel increased by 7% in the year 2010 and it is expected that after the seasonal dip in demand during winters is over the demand for air travel will rise and with the world GDP forecast to increase by 3.1% during 2011, it is expected that demand for air travel (both passenger and cargo segments) would increase by 5.6% and 6.1% in year 2011 respectively.

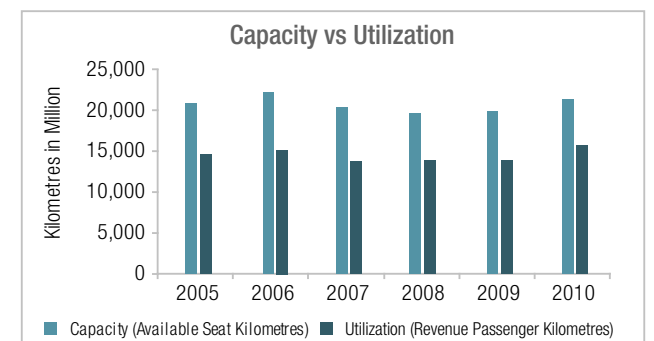
Our Performance

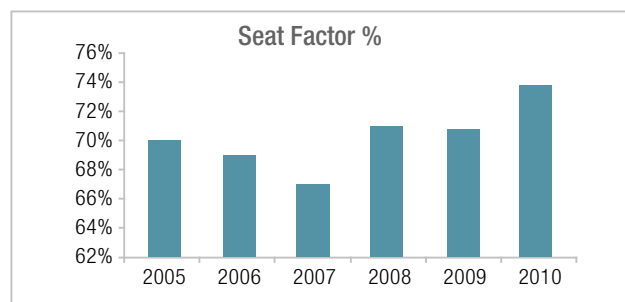
Record Revenues of PKR 107 Billion

Although the Corporation is striving to become the global airline of choice for customers, it is still predominantly catering to the Pakistani diaspora worldwide. In this backdrop, the Corporation is present in all the major markets and covers destinations most frequented by Pakistanis.

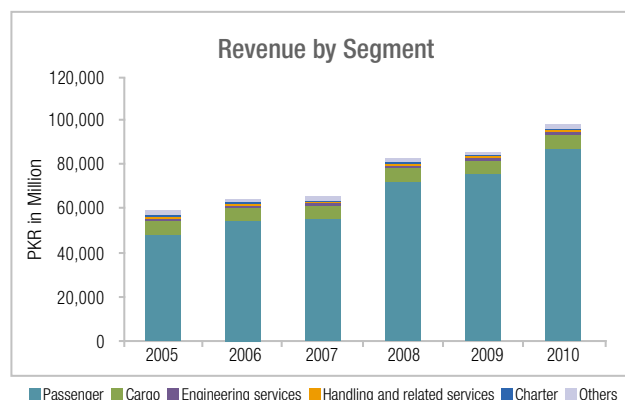


The Corporation prides itself for being a full service carrier, engaged in almost all air transport related activities; from passenger and cargo transportation to aircraft and engine maintenance and in-flight catering. The passenger business with PKR 95,743 million of revenues (2009: PKR 84,510 million) makes the airline the local leader in short-haul passenger transportation and contributes some 89% of total revenues. Available Seat Kilometres (ASKs) increased to 21,219 million from 19,617 million in 2009 demonstrating increased capacity with existing fleet. Revenue per ASK increased by 0.3% to PKR 6.12 mainly due to increased frequencies to various destinations such as Jeddah, New York, Sharjah, etc. and the addition of new destinations of Barcelona and Chicago.

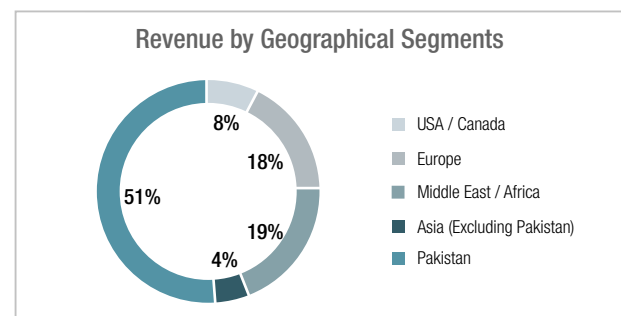
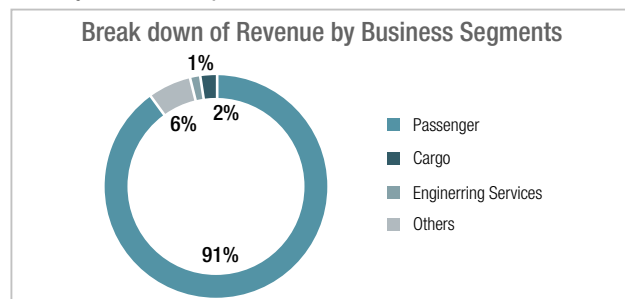




The cargo business generated PKR 6,406 million (2009: PKR 4,982 million) of revenues, constituting 6% of the Corporation's total revenues. Cargo is a key service in a globalised economy where the competitiveness of businesses depends on their ability to manage inventory levels and bring products, particularly perishables and high tech items to market within very tight time frames. The cargo capacity (measured in available freight tonnes kilometers) increased by 8.8%, and cargo yield increased to PKR 19.45 mainly due to the increase in load factor by 9.5% over last year.



With revenues of PKR 1,250 million (2009: PKR 901 million) the maintenance business although at present represents a small proportion (1.16%) of the Corporation's total revenue but remains a promising stream of revenue for the airline in the years to come mainly due to a qualified and skilled work force.



A brief overview of the overall results of operations for the year ended December 31, 2010 is given below:

Particulars	Year ended December 31	
	2010	2009
	(PKR in million)	
Turnover – net	107,531	94,563
Operating Cost & Expenses	(106,989)	(91,897)
Other Income	2,269	644
Exchange Loss	(2,091)	(6,502)
Financial Costs	(9,300)	(9,244)
Loss Before Tax	(8,580)	(12,434)
Taxation	(12,205)	7,486
Loss After Tax	(20,785)	(4,947)

During the year, the Corporation achieved its highest ever revenue in excess of PKR 107.532 billion as compared to PKR 95.564 billion in the year 2009. The airline also registered an increase in the seat factor from 70.7% last year to 73.8% in the current year. However, despite positive year-on-year growth in revenue of 13.71%, the overall financial position did not improve materially as compared to last year due to a host of reasons – most important amongst them being the rising oil prices in global markets. The yearly basket price of crude oil increased to US\$ 77.45 in 2010 from US\$ 61.06 in 2009 (source: OPEC) showing an increase of almost 27%. Fuel cost (which is uncontrollable in nature) is almost 40.98% of overall airline operating costs.

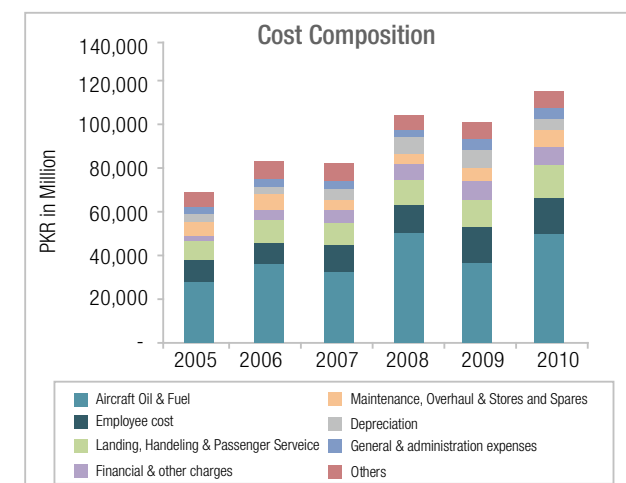
Operating expenses other than fuel cost decreased by 3.74% over last year. This is mainly due to the decrease in exchange loss by PKR 4,409 million over last year due to stable exchange rate in 2010 as compared to the devaluation of 6.71% of Pak Rupee

against US Dollar in 2009. During the current year, the Corporation successfully negotiated with Civil Aviation Authority in respect of various claims which resulted in reversal of provision by PKR 1,500 million. As part of the turnaround strategy, the Corporation applied rigorous cost control measures which resulted in decrease in operating costs under various heads amounting to PKR 234 million. The finance cost showed a marginal increase of 0.6% mainly due to increase in working capital loans which was partially offset by decrease in liabilities relating to fleet loans, decrease in average LIBOR in 2010 to 0.34% from 0.69% during 2009 and decrease in average KIBOR to 12.75% from 12.98% in 2009.

In accordance with IAS 12 – Income Taxes, deferred tax is recognized for all temporary differences between accounting base of an asset/liability and its tax base. The recognition of deferred tax does not involve any cash outflow and is a major judgment area.

During the current year net deferred tax expense of PKR 11,122 million has been recognized as compared to a deferred tax income of PKR 8,853 million recognized last year. This was due to the reversal of deferred tax asset in respect of unused tax losses comprising of unabsorbed tax depreciation. The decrease in deferred tax asset is mainly attributable to the reduction in surplus on revaluation of property, plant and equipment amounting to PKR 32,116 million as a result of the revaluation exercise carried out by an independent valuer as more fully explained under the major judgment areas.

The net unrecognized deferred tax asset available on total unused tax losses amounts to PKR 27,093 million. This amount has not been recognized due to continuing losses and uncertainty as to the availability of taxable profit in future. Based on the financial projections contained in the business plan prepared by the Corporation, the airline is expected to start earning profits in the future provided the business plan is approved by the Government of Pakistan and significant financial support is provided to the Corporation. Accordingly, at that stage the Corporation will be able to recognize deferred tax asset on account of unabsorbed tax depreciation.



Major judgment areas

Revaluation of property, plant and equipment

The Corporation uses the policy of revaluing its assets to market values as provided for in IAS 16 – property, plant and equipment. Land, buildings and aircrafts are revalued through independent professional valuers with sufficient regularity. The last revaluation in respect of land and buildings was carried out on December 31, 2008 and for aircrafts on December 31, 2010.

The latest revaluation of aircrafts on December 31, 2010 was carried out by Ascend Worldwide Limited (UK) on the basis of professional assessment of current market values which resulted in a revaluation deficit of PKR 32,115 million as compared to surplus of PKR 25,293 million on last year's revaluation.

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

Due to significant variation in aircraft carrying values resulting from annual fair valuation of the aircraft that has resulted in abnormal charges/credits in deferred tax, the Board has decided to evaluate whether it will be more appropriate to adopt the cost model compared to the revaluation model.

Frequent Flyer Program – IFRIC 13

IFRIC 13 – ‘Customer loyalty programmes’ addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. IFRIC 13 applies to sales transactions in which the entities grant their customers award credits that, subject to meeting further qualifying conditions, can be redeemed in future for free by the customers.

The Corporation operates a frequent flyer programme that grants travel awards to members of the programme based on accumulated mileage. The fair value of credits awarded is estimated by reference to the fair value of the services for which the award credits may be redeemed. Determination of the fair value of the award credits involves estimations, based on the average of air fares, the value of each award credit assuming a 100% redemption rate, and estimating the expected award credit redemption rate. These estimates are reviewed as and when a significant change in the assumptions used is

observed and the liability is adjusted annually as appropriate. The provision for frequent flyer programme is determined based on the valuation carried out by an independent professional valuer.

Principal Risks & Uncertainties

The aviation industry has always been exposed to various risks both internal and external. These risks are due to the complexities inherent in the business and the high level of regulations prevalent in different countries. We believe that our survival depends on how effectively and efficiently we are able to manage our risks. Our goal is to set in place a robust system of risk management that will ensure continuity of airline operations in the long term.

The Corporation has adopted a pro-active approach towards managing key business, operational, financial and strategic risks. Towards this end, the airline has a dynamic Corporate Safety and Quality Assurance function whose primary responsibility is to continuously assess the environment in which the airline operates and identify and address potential risks by developing controls to mitigate the same. Financial risks are managed by deploying quality human resources in key operational areas to ensure effective monitoring of the airline’s exposure in different areas.

What we are

Brand Ambassador for Pakistan

We are proud to be the most prominent and conspicuous brand ambassador for Pakistan. The PIA tail insignia signifies our pride and the values and ideals we as a nation cherish. With our network of 64 destinations both local as well as global, we truly are the Pakistani multinational connecting Pakistan to the world.

Our Customers

With a view to maximizing customer satisfaction we continuously strive to be the best in our class in terms of in-flight catering, entertainment and overall customer service. Maintaining these standards requires great effort and dedication on the part of our team across business segments and we take immense pride in their achievements. We recognize and value the confidence placed in us by our customers, which is reflective in our customer loyalty program ‘Awards +’. We have taken a step further in providing comfort to our international customers by extending travel insurance to them during their stay in Pakistan. All passengers travelling to Pakistan on a return ticket can opt for such insurance for a minimal charge of US\$ 10 per passenger.

Contribution to society

Being the national flag carrier and one of the largest organizations in Pakistan, PIA is committed to supporting society by means of community investment programs and various other development activities. Driven by the highest standards of corporate governance and social responsibility, public interest is embedded in our decision making. Basic components of social responsibility: welfare, health and education are entrenched in the core values and philosophy of PIA. During the year 2010, PIA revived its support to sports by extending contracts to various talented and promising players. Owing to the absolute support and encouragement extended by PIA and the challenging attitude of our players, PIA reached the podium in all national tournaments.

2010 was a year that saw one of the worst national calamities to ever affect Pakistan in the form of floods. Rising water levels in all major rivers of Pakistan caused flooding the sights of which had never been witnessed before in the region’s history. As a result, at one point in time 1/5th of the total land area of Pakistan was inundated.



Considering the severity of this calamity, PIA at once activated its Emergency Response Centre and set up help desks across its network to facilitate flood relief activities. Further, PIA started free transportation of relief goods from all over its network to Pakistan, under which more than 4,000 tonnes of relief goods were transported to flood affected areas. These goods along with life boxes were distributed by PIA management among flood affected people.

Our contribution

Towards the national economy and exchequer

The Corporation is the source of livelihood for more than 21,500 employees all across Pakistan and overseas. During the current year, PIA contributed more than PKR 6.0 billion to the national exchequer in the form of taxes and duties. We are the biggest source of revenue for the national aviation regulator – the Civil Aviation Authority of Pakistan as evidenced from our market share of 74% in the domestic market. By serving socio-economic routes and providing connections to some of the most remote areas in Pakistan, we impact the lives of ordinary citizens like no other national institution does.



Wealth Distributed to employees

PKR 17,340 million

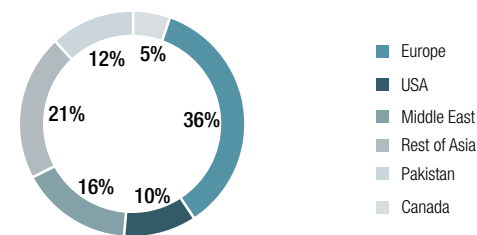
Wealth Distributed to government

PKR 6,414 million

Wealth Distributed to financiers (interest paid)

PKR 8,073 million

Regionwise Breakup of Relief Cargo Uplifted



The core value of cohesiveness is embedded into the beliefs of our employees and this was portrayed by their unconditional support for carrying out relief activities. In addition to participation in various relief activities across flood affected areas PIA employees also contributed one day's salary aggregating to PKR 13 million towards the Prime Minister's Fund for Flood Affected Persons.

An in-house Corporate Social Responsibility (CSR) Committee, duly constituted by the Board provides a platform to evaluate, update and recommend the best practices which the Corporation can use to exemplify its values in a range of initiatives designed to impact positively on the lives of ordinary Pakistanis and our employees. Being a responsible corporate citizen PIA has made social investments in different areas of social development such as Boy Scouts Association, Planetaria, Model School, PIA Cricket Academy, Industrial Training Institute, Al-Shifa Trust and Baby Day Care Centre.

Pattern of Shareholding

A statement showing the pattern of shareholding in the Corporation and additional information as at December 31, 2010 appears on page 29.

The highest and lowest market prices for 'A' class ordinary share of PKR 10 were PKR 4.02 and PKR 1.95 per share, respectively. The highest and lowest market prices for 'B' class ordinary share of PKR 5 were PKR 26.65 and PKR 1.11 per share, respectively.

Government of Pakistan through Ministry of Defence holds 82.85% of the shares. PEET holds 9.00%. Individuals and others hold 7.02% whereas, financial institutions hold 1.13%.

Changes in Board of Directors

Since the publication of Annual Report 2009, Khawaja Jalaluddin Roomi and Dr. Waqar Masood Khan have joined whereas Mr Shaukat Ali Rana, Mr Salman Siddique and Capt. Muhammad Aijaz Haroon, have relinquished PIA Board as Directors. Board extends its warm welcome to the incoming Directors and wishes to record its appreciation for the valuable services rendered by the outgoing 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 seven 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.
- m. The value of investment of recognized provident fund and pension funds as at December 31, 2010 were PKR 20,778 million and PKR 11,933 million respectively.

Compliance with Best Practices of Corporate Governance

A Statement showing the status of compliance with the best practices of the Corporate Governance setout in the Code of Corporate Governance is being published and circulated along with this Report.

Statement of Internal Control

- 1. 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
2. The Board has established an Audit Committee comprising five non-executive Directors. The terms of reference of Audit Committee are in line with the requirements of the Code of Corporate Governance. The Committee is responsible for oversight of internal audit function as well as external financial reporting. It also carries out ongoing reviews of internal controls and has identified certain areas for further improvement which interalia include the following:
- a. Revenue Accounting System
 - b. Stores & Spares
 - c. Anti-fraud programs & controls
3. The Corporation's internal audit function is headed by a qualified Chartered Accountant. The internal audit has been further strengthened by hiring co-sourcing partner Messrs Taseer Hadi Khalid & Co. (KPMG) since 2010.

Our prospects

The aviation industry has always been prone to global geo-political changes. Our efforts and results will always be over shadowed by the global trends in aviation and the varied risks that airlines face. Our focus should always be on how to manage those risks effectively in order to minimize their impact on our operations.

Our recovery in large part depends very much on how fast the national economy steers out of the current economic imbroglio. We remain cautious of the fact that we may be affected by many external factors including and not limited to the rising fuel prices, exchange and interest rate fluctuations, security situation of the country and also our own internal shortcomings.

We expect the climb out of losses to be a relatively slower one but with the challenging attitude and relentless efforts of our employees, we are confident that we would be able to achieve our long term goals. The work we have undertaken over the last couple of years to restructure our cost base is a positive step in

our journey towards returning to profitable operations. Thus we are confident about surviving through the current economic uncertainties to a brighter and prosperous future.

Way forward

As of December 31, 2010, the Corporation had accumulated losses of PKR 92,327 million, with a negative equity of PKR 62,244 million and incurred loss after tax for the current year amounting to PKR 20,785 million. The total outstanding liabilities and obligations of the Corporation were PKR 183,277 million as on December 31, 2010.

Against this backdrop, and considering the critical and strategic nature of its operations, the Corporation's management commenced work on the development of a comprehensive business restructuring and turnaround plan to set in place the right strategies and controls needed to bring the Corporation back on the path of profitable operations. The turnaround plan and five year financial model was approved by the Board of Directors and the Ministry of Defence. The plan has also been endorsed by the Sub-committee of the National Assembly's Standing Committee on Defence which concurs with the recommendations contained in the plan.

Further, presentations have been made in respect of the business plan in meetings with the representatives of the Ministry of Finance (MoF), which were chaired by the Finance Minister. As envisaged in the business plan, the Corporation has devised a turn-around strategy which entails operational restructuring and assumes GoP's support in terms of providing necessary funding for recapitalization which includes, among other measures, extending existing guarantees and issuance of new guarantees to various financial institutions by the GoP. As a result of presentations made in respect of the business plan as set out above, the Economic Coordination Committee (ECC) of the Cabinet has in March 2011 accorded approval for extension in existing guarantees issued to various financial institutions by the GoP for PKR 8,500 million and also allowed issuance of new guarantees of PKR 5,000 million.

Keeping in view the above, management believes that the business plan will be approved and accordingly significant financial support will be provided to the Corporation in the coming years to ensure its long-term sustainability. The Plan also provides for the identification of additional fleet requirement and how it will be financed, measures to be taken for revenue enhancement, route rationalization and human resource cost rationalization in a way that would ensure optimal utilization of resources.

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

For and on behalf of the board

Ch. Ahmed Mukhtar
Chairman
March 26, 2011

attendance of directors at board meetings

During the Financial Year 2010, seven Meetings of the Board of Directors were held and the number of Meetings attended by each Director is given hereunder:-

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

* Relinquished on December 20, 2010
** Relinquished on May 24, 2010
*** Nominated on May 24, 2010
**** Nominated in December, 2010

attendance of directors at audit committee meetings

During the Financial Year 2010, six Meetings of the Audit Committee were held and the number of Meetings attended by each Director is given hereunder:-

S. No.	Name	Meetings Held during the tenure	Meetings Attended
1	Mr Husain Lawai	6	6
2	Malik Nazir Ahmed *	4	4
3	Prof. Mian Ijaz ul Hassan	6	4
4	Mr Mubashir Iftikhar	6	2
5	Khawaja Jalaluddin Roomi**	2	2
6	Mr Javed Akhtar	2	2

* Relinquished on July 26, 2010
**Nominated on July 26, 2010

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

A. F. Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C
I. I. Chundrigar Road
Karachi

M. Yousuf Adil Saleem & Co.
Chartered Accountants
Cavish Court, A-35, Block 7&8
KCHSU, Sharah-e-Faisal
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 Regulation No. 35 (Chapter XI) 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal controls covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the Corporation's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Corporation for the year ended December 31, 2010.

A. F. Ferguson & Co.
Chartered Accountants

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Karachi: April 01, 2011

statement of compliance

with code of corporate governance for the year 2010

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 Company is managed in compliance with the best practices of corporate governance.

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

1. 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. During 2010, all the Directors were non-executive except for Managing Director.
2. The Directors have confirmed that none of them is serving on the Boards of more than ten listed companies, including this Corporation.
3. All the Directors are registered tax payers and none of them have defaulted in payment of any loan to a banking company, DFI or NBFIs or being a member of a Stock Exchange, have been declared as defaulter by that Stock Exchange.
4. Casual vacancies occurred in the Board during the year were filled in by appointments made by the Federal Government.
5. The Corporation has developed "Statement of Ethics and Business Practices". This Statement has been signed by Directors whereas signatures of employees are being obtained.
6. The Board has developed and 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 the PIAC Act 1956, PIAC Rules & Regulations 1958, and the Code.
8. The Meetings of the Board held during the year were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the board meetings along with the agenda and working papers were circulated to the members. 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. Copies of 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 2009, there was no change in the position of Corporate Secretary and Chief Financial Officer whose appointments had earlier been approved by the Board. During the year, the position of Head of Internal Audit was filled in as per the requirements of the Code.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Corporation have been duly endorsed by the CEO and CFO before approval of the Board.
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 five 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 functions at the head office / stations.
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. The Corporation is committed to good corporate governance and appropriate steps are taken to comply with the best practices.

For and on behalf of the Board

Karachi
March 26, 2011

Ch. Ahmed Mukhtar
Chairman-PIA

Pakistan International Airline Corporation

Pattern of Shareholding As at December 31, 2010

Shareholdings		No. of Shareholders	Ordinary 'A' Class	Ordinary 'B' Class
From	To		Rs.10/- each Total Shares Held	Rs. 5/- each Total Shares Held
1	100	13,789	268,531	13,303
101	500	30,976	8,735,120	10,356
501	1,000	4,860	4,153,761	1,339
1,001	5,000	4,962	11,903,883	12,486
5,001	10,000	831	6,363,771	-
10,001	15,000	227	2,847,354	-
15,001	20,000	155	2,829,389	-
20,001	25,000	109	2,581,521	-
25,001	30,000	61	1,720,574	-
30,001	35,000	39	1,287,423	-
35,001	40,000	31	1,209,146	-
40,001	45,000	26	1,121,758	-
45,001	50,000	48	2,384,568	-
50,001	55,000	21	1,096,725	-
55,001	60,000	12	708,422	-
60,001	65,000	5	312,566	-
65,001	70,000	14	962,908	-
70,001	75,000	8	591,949	-
75,001	80,000	7	542,050	-
80,001	85,000	6	496,157	-
85,001	90,000	4	356,101	-
90,001	95,000	2	188,500	-
95,001	100,000	32	3,191,438	-
100,001	105,000	4	414,038	-
105,001	110,000	4	438,594	-
110,001	115,000	1	115,000	-
115,001	120,000	6	711,659	-
120,001	125,000	3	369,000	-
125,001	130,000	3	383,621	-
130,001	135,000	2	265,000	-
135,001	140,000	4	557,500	-
145,001	150,000	4	599,000	-
150,001	155,000	3	455,563	-
160,001	165,000	2	325,499	-
165,001	170,000	1	168,500	-
175,001	180,000	3	536,000	-
180,001	185,000	3	551,432	-
185,001	190,000	1	190,000	-
195,001	200,000	3	596,500	-
200,001	205,000	1	205,000	-
205,001	210,000	1	210,000	-
210,001	215,000	3	635,950	-
225,001	230,000	1	229,000	-
240,001	245,000	1	240,600	-
245,001	250,000	1	250,000	-
255,001	260,000	1	258,500	-
285,001	290,000	1	285,500	-
290,001	295,000	1	291,500	-
295,001	300,000	2	600,000	-
300,001	305,000	1	302,501	-
325,001	330,000	1	329,500	-

Pakistan International Airline Corporation

Pattern of Shareholding As at December 31, 2010

Shareholdings		No. of Shareholders	Ordinary 'A' Class Rs.10/- each Total Shares Held	Ordinary 'B' Class Rs. 5/- each Total Shares Held
From	To			
330,001	335,000	1	331,170	-
355,001	360,000	1	356,728	-
365,001	370,000	2	735,546	-
370,001	375,000	1	372,500	-
375,001	380,000	1	380,000	-
395,001	400,000	2	800,000	-
400,001	405,000	1	401,000	-
420,001	425,000	1	425,000	-
460,001	465,000	1	460,490	-
465,001	470,000	1	470,000	-
490,001	495,000	1	490,500	-
495,001	500,000	2	996,678	-
500,001	505,000	2	1,002,871	-
515,001	520,000	1	515,721	-
565,001	570,000	1	567,504	-
605,001	610,000	1	608,000	-
630,001	635,000	1	630,067	-
645,001	650,000	1	647,100	-
695,001	700,000	1	700,000	-
865,001	870,000	1	867,500	-
955,001	960,000	1	957,629	-
1,020,001	1,025,000	1	1,020,740	-
1,155,001	1,160,000	1	1,157,500	-
1,255,001	1,260,000	1	1,259,565	-
1,465,001	1,470,000	1	1,470,000	-
1,760,001	1,765,000	1	1,765,000	-
1,795,001	1,800,000	1	1,800,000	-
1,995,001	2,000,000	1	2,000,000	-
2,295,001	2,300,000	1	2,300,000	-
2,410,001	2,415,000	1	2,410,150	-
2,495,001	2,500,000	1	2,497,778	-
2,550,001	2,555,000	1	2,550,449	-
2,560,001	2,565,000	1	2,562,748	-
2,995,001	3,000,000	1	3,000,000	-
3,240,001	3,245,000	1	3,241,466	-
3,915,001	3,920,000	1	3,916,884	-
4,025,001	4,030,000	1	4,029,000	-
5,995,001	6,000,000	1	6,000,000	-
8,840,001	8,845,000	1	8,844,200	-
9,210,001	9,215,000	1	9,212,000	-
13,370,001	13,375,000	1	13,374,500	-
15,745,001	15,750,000	1	15,750,000	-
16,875,001	16,880,000	1	16,876,347	-
24,030,001	24,035,000	1	24,030,632	-
231,855,001	231,860,000	1	231,855,493	-
2,134,735,001	2,134,740,000	1	2,134,735,800	1,462,515
		56,337	2,576,744,828	1,499,999

Pakistan International Airline Corporation

Categories of Shareholders As at December 31, 2010

Categories of Shareholders	Number of Shareholders	Number of Shares Held		Percentage
		Ordinary 'A' Class	Ordinary 'B' Class	
Associated Companies, undertakings related parties	-	-	-	-
NIT & ICP				
National Investment Trust	1	62,166	-	0.00
Investment Corporation of Pakistan	1	7,825	100	0.00
NBP Trustee Department	1	2,421,698	-	0.09
Directors, CEO and their spouses and minor children				
MALIK NAZIR AHMAD	1	1,800,000	-	0.07
MUBBASHIR IFTIKHAR SHAFFI	1	50,000	-	0.00
Executives	296	41,545	-	0.00
Public Sector Companies and Corporations	-	-	-	-
Banks, DFIs, NBFIs Insurance Companies, Modarbas and Mutual Funds	45	29,078,821	3	1.13
Shareholders holding 10% or more voting interest (Secretary - Ministry of Defence, Govt. of Pakistan)	1	2,134,735,800	1,462,515	82.85
PIA Employees Empowerment Trust (PEET)	1	231,855,493	-	9.00
Individuals	55715	78,821,411	34,416	3.06
Others	274	97,870,069	2,965	3.80
Total	56337	2,576,744,828	1,499,999	100.00

The above two statements include 7,616 Shareholders holding 184,556,301 Ordinary 'A' Class Shares and 2,416 Ordinary 'B' Class Shares through the Central Depository Company of Pakistan Limited.

Six-year Summary

	2010	2009	2008	2007	2006	2005
OPERATION						
Route Kilometers	424,570	380,917	311,131	383,574	446,570	343,525
Revenue Kilometers Flown (000)	81,588	80,108	79,580	80,759	88,302	82,550
Revenue Hours Flown	142,940	132,155	132,378	132,416	141,479	134,039
Available Tonne Kilometers (000)	3,091,344	2,933,253	2,934,626	3,125,558	3,369,288	3,102,805
Available Seat Kilometers (000)	21,218,879	19,859,050	19,528,207	20,313,265	22,092,475	20,816,469
TRAFFIC						
Revenue Passengers Carried (000)	5,538	5,535	5,617	5,415	5,732	5,499
Revenue Passengers Kilometers (000)	15,656,596	13,891,225	13,925,297	13,680,916	15,124,413	14,506,683
Passenger Load Factor (%)	74	70	71	67	69	70
Revenue Freight Tonne Kilometers (000)	329,285	270,310	319,835	350,758	427,006	410,991
Kgs. of Excess Baggage & Cargo (000)	104,116	95,393	111,088	115,229	121,174	124,852
Kgs. of Mail (000)	1,454	702	778	1,127	1,410	1,433
Revenue Tonne Kilometers (000)	1,745,746	1,525,293	1,580,507	1,593,349	1,801,026	1,729,220
Revenue Load Factor (%)	56	52	54	51	54	56
Avg. Pax Stage Distance (Statute Kilometers)	2,827	2,510	2,479	2,527	2,639	2,638
FINANCIAL						
Operating Revenue (Rs. in million)	107,531.59	94,563.77	88,863.26	70,480.73	70,587.15	64,074.47
Operating Expenses (Rs. in million)	106,811.51	98,628.76	120,499.38	76,415.81	79,164.37	67,075.58
Operating Profit/(loss) (Rs. in million)	720.08	(4,064.99)	(31,636.12)	(5,935.08)	(8,577.22)	(3,001.11)
Profit/(loss) after tax (Rs. in million)	(20,785.12)	(5,822.43)	(36,138.64)	(13,398.71)	(12,763.42)	(4,411.66)
Fixed Assets (Rs. in million)	96,714.94	133,647.52	115,123.49	95,600.63	79,062.44	51,376.33
Current Assets (Rs. in million)	16,410.13	16,880.56	15,039.28	13,251.33	18,353.43	12,756.55
Current Liabilities (Rs. in million)	75,507.09	68,817.62	72,528.40	52,049.54	41,025.29	21,237.10
Long-Term Debts (Rs. in million)	98,533.01	105,418.23	96,926.21	74,284.84	62,650.89	38,099.18
Net Worth (Rs. in million)	(62,244.18)	(49,054.75)	(47,522.42)	(11,903.56)	(788.03)	10,446.30
Jet Fuel Prices (Rs. per US Gallon)	194.57	149.39	216.04	132.93	123.55	102.05
Cost per A. T. K. (Rs.)	34.55	33.62	41.06	24.29	23.49	21.62
RATIOS						
Earnings per share (Rs.)	(8.39)	(2.72)	(17.79)	(6.61)	(6.80)	(2.55)
Net assets per share (Rs.)	51.21	42.57	33.29	32.91	35.08	29.85
Debt equity ratio	NA	NA	NA	NA	NA	4.15
Current ratio	0.22	0.25	0.21	0.25	0.45	0.60
SHARE PRICES (Rs. 10 Share)						
High	4.02	5.10	7.65	11.30	16.30	14.65
Low	1.95	2.31	1.70	6.10	7.05	6.50
Closing	2.26	2.61	3.51	6.30	7.05	12.30
PERSONNEL						
Average No. of Employees	18,019	17,944	18,036	18,149	18,282	19,263
Revenue per Employee (Rs.)	5,967,678	5,269,938	4,926,994	3,883,450	3,861,019	3,326,298
A. T. K. per Employee	171,560	163,467	162,709	172,217	184,295	161,076

Vertical & Horizontal Analysis

Line Items	Vertical Analysis					
	2005	2006	2007	2008	2009	2010
REVENUE - net	100%	100%	100%	100%	100%	100%
COST OF SERVICES						
Aircraft fuel	41%	47%	43%	52%	33%	42%
Others	51%	52%	51%	44%	49%	45%
GROSS PROFIT	8%	1%	6%	4%	17%	14%
Distribution costs	6%	6%	6%	6%	6%	5%
Administrative expenses	7%	7%	7%	7%	8%	7%
Other provisions and adjustments - net	0%	0%	1%	2%	1%	1%
Exchange loss - net	0%	1%	1%	27%	7%	2%
Other operating income	2%	1%	1%	2%	1%	2%
LOSS FROM OPERATIONS	3%	12%	8%	36%	3%	1%
Finance costs	4%	7%	10%	9%	10%	9%
LOSS BEFORE TAXATION	7%	19%	19%	45%	13%	8%
Taxation	0%	1%	0%	4%	8%	11%
LOSS FOR THE YEAR	7%	18%	19%	41%	5%	19%

Line Items	Horizontal Analysis					
	2005	2006	2007	2008	2009	2010
REVENUE - net	100%	110%	110%	139%	148%	168%
COST OF SERVICES						
Aircraft fuel	100%	126%	115%	173%	119%	169%
Others	100%	112%	111%	121%	143%	147%
GROSS PROFIT	100%	14%	83%	70%	320%	292%
Distribution costs	100%	115%	117%	139%	155%	155%
Administrative expenses	100%	113%	122%	135%	166%	181%
Other provisions and adjustments - net	100%	-205%	-534%	-1258%	-480%	-505%
Exchange loss - net	100%	458%	654%	21912%	5907%	1900%
Other operating income	100%	75%	80%	147%	52%	183%
LOSS FROM OPERATIONS	100%	489%	344%	1833%	185%	-42%
Finance costs	100%	171%	256%	300%	332%	334%
LOSS BEFORE TAXATION	100%	293%	290%	886%	276%	190%
Taxation	100%	445%	-323%	3789%	7370%	-12016%
LOSS FOR THE YEAR	100%	289%	304%	819%	112%	471%



unconsolidated
financial statements

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Chartered Accountants
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Karachi - 74000

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Chartered Accountants
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Auditors' Report to the members

We have audited the annexed unconsolidated balance sheet of Pakistan International Airlines Corporation (the Corporation) as at December 31, 2010 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Corporation's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Pakistan International Airlines Act, 1956 and the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

- a) in our opinion, proper books of accounts have been kept by the Corporation as required by the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984;
- b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied, except for the change, as stated in note 2.5 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 cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Pakistan International 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, 2010 and of the loss, total comprehensive income, cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

We draw attention to note 1.2 to the unconsolidated financial statements, which states that the Corporation incurred a loss of Rs. 20,785.123 million during the year ended December 31, 2010 resulting in accumulated loss of Rs. 92,327.743 million as of December 31, 2010, and, as of that date, the Corporation's current liabilities exceeded its current assets by Rs. 59,096.960 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. Our opinion is not qualified in this respect.

The financial statements of the Corporation for the year ended December 31, 2009 were audited by M. Yousuf Adil Saleem & Co., Chartered Accountants and Anjum Asim Shahid Rahman, Chartered Accountants whose report dated March 16, 2010 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.

Chartered Accountants
Audit Engagement Partner: Khurshid Hasan

Chartered Accountants
Audit Engagement Partner: Syed Asad Ali Shah

Karachi: April 1, 2011

Unconsolidated Balance Sheet

as at December 31, 2010

	Note	2010	2009	2008	2010	2009	2008
		Rupees in '000			US\$ in '000		
		Restated	Restated	Restated	Restated	Restated	Restated
ASSETS							
NON CURRENT ASSETS							
Fixed assets							
- Property, plant and equipment	5	96,645,494	133,555,560	115,010,337	1,126,404	1,586,171	1,457,672
- Intangibles	6	69,444	91,962	113,154	809	1,092	1,434
		96,714,938	133,647,522	115,123,491	1,127,213	1,587,263	1,459,106
Long-term investments	7	4,445,572	4,446,950	4,497,642	51,813	52,814	57,004
Long-term advances	8	-	-	-	-	-	-
Long-term deposits and prepayments	9	9,289,712	8,680,133	7,776,989	108,272	103,089	98,568
		110,450,222	146,774,605	127,398,122	1,287,298	1,743,166	1,614,678
CURRENT ASSETS							
Stores and spares	10	3,842,539	3,987,423	3,726,940	44,785	47,357	47,236
Trade debts	11	8,283,109	7,978,187	5,757,849	96,540	94,753	72,977
Advances	12	465,382	1,285,864	1,418,610	5,424	15,272	17,980
Trade deposits and prepayments	13	1,127,425	1,158,497	1,591,583	13,140	13,759	20,172
Accrued interest		-	-	1,325	-	-	17
Other receivables	14	1,272,297	799,193	1,441,564	14,829	9,492	18,271
Short-term investments	15	25,629	25,151	42,505	299	299	539
Taxation - net		-	-	269,351	-	-	3,414
Cash and bank balances	16	1,393,754	742,945	789,555	16,244	8,824	10,007
		16,410,135	15,977,260	15,039,282	191,261	189,756	190,613
TOTAL ASSETS		126,860,357	162,751,865	142,437,404	1,478,559	1,932,922	1,805,291

Unconsolidated Balance Sheet

as at December 31, 2010

Note	2010	2009	2008	2010	2009	2008
	Rupees in '000			US\$ in '000		
		Restated	Restated		Restated	Restated
EQUITY AND LIABILITIES						
SHARE CAPITAL AND RESERVES						
Share capital	17	25,774,948	23,280,356	21,423,014	300,407	271,521
Reserves	18	(88,019,131)	(68,693,116)	(66,177,900)	(1,025,864)	(838,757)
TOTAL EQUITY		(62,244,183)	(45,412,760)	(44,754,886)	(725,457)	(567,236)
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT- NET						
	19	5,827,329	28,281,903	14,192,700	67,918	179,882
NON CURRENT LIABILITIES						
Long-term financing	20	27,346,957	24,553,113	19,471,411	318,729	246,786
Term finance and sukuk certificates	21	17,457,280	19,592,320	12,430,143	203,465	157,543
Liabilities against assets subject to finance lease	22	53,728,778	61,272,797	65,024,660	626,210	824,140
Long-term deposits	23	384,161	365,847	301,770	4,477	3,825
Deferred liabilities	24	8,852,940	6,184,327	3,243,205	103,181	41,105
		107,770,116	111,968,404	100,471,189	1,256,062	1,273,399
CURRENT LIABILITIES						
Trade and other payables	25	30,133,416	26,281,216	26,447,496	351,205	335,204
Provision for Civil Aviation Authority's claims	26	-	1,500,000	1,500,000	-	19,011
Accrued interest	27	3,072,545	1,845,592	1,475,456	35,811	18,700
Provision for taxation		1,540,980	848,890	-	17,960	-
Short-term borrowings	28	22,665,109	23,982,160	30,500,062	264,162	386,567
Current maturities of:						
- Long-term financing	20	7,363,198	5,328,458	5,352,528	85,818	67,839
- Term finance and sukuk certificates	21	2,135,040	5,120	-	24,884	-
- Liabilities against assets subject to finance lease	22	8,596,807	8,122,882	7,252,859	100,196	91,925
		75,507,095	67,914,318	72,528,401	880,036	919,246
TOTAL EQUITY AND LIABILITIES		126,860,357	162,751,865	142,437,404	1,478,559	1,805,291
CONTINGENCIES AND COMMITMENTS						
	29					

The annexed notes 1 to 45 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, 2010

	Note	2010 Rupees in '000	2009 Restated	2010 US\$ in '000	2009 Restated
REVENUE - net	30	107,531,590	94,563,765	1,253,282	1,123,085
COST OF SERVICES					
Aircraft fuel		(44,707,004)	(31,521,520)	(521,061)	(374,365)
Others	31	(47,852,170)	(46,593,010)	(557,718)	(553,361)
		(92,559,174)	(78,114,530)	(1,078,779)	(927,726)
GROSS PROFIT		14,972,416	16,449,235	174,503	195,359
Distribution costs	32	(5,888,031)	(5,911,946)	(68,625)	(70,213)
Administrative expenses	33	(7,816,408)	(7,180,665)	(91,100)	(85,281)
Other provisions and adjustments - net	34	(726,147)	(689,849)	(8,463)	(8,193)
Exchange loss - net		(2,091,706)	(6,501,552)	(24,379)	(77,216)
Other operating income	35	2,269,952	644,229	26,456	7,651
		(14,252,340)	(19,639,783)	(166,111)	(233,252)
PROFIT / (LOSS) FROM OPERATIONS		720,076	(3,190,548)	8,392	(37,893)
Finance costs	36	(9,299,818)	(9,243,768)	(108,389)	(109,783)
LOSS BEFORE TAXATION		(8,579,742)	(12,434,316)	(99,997)	(147,676)
Taxation	37				
Current - for the year		(1,077,778)	(572,819)	(12,560)	(5,615)
- for prior years		(5,872)	(893,525)	(68)	(10,612)
		(1,083,550)	(1,366,344)	(12,628)	(16,227)
Deferred tax (charge)/credit due to (deficit)/surplus in revaluation of aircraft		(11,121,831)*	8,852,677	(129,626)*	105,138
		(12,205,381)	7,486,333	(142,254)	88,911
LOSS FOR THE YEAR		(20,785,123)	(4,947,983)	(242,251)	(58,765)
		(Rupees)		(US\$)	
EARNINGS PER SHARE - BASIC AND DILUTED			Restated		Restated
Loss attributable to:					
'A' class ordinary shares of Rs. 10 each	38	(8.39)	(2.31)	(0.10)	(0.03)
'B' class ordinary shares of Rs. 5 each	38	(4.20)	(1.16)	(0.05)	(0.02)

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

* This deferred tax charge has resulted from significant decline in the fair value of aircraft as of December 31, 2010. It has no impact on the cash flows of the Corporation. Deferred tax asset of Rs. 27,093 million has not been recognised due to continuing loss situation (note 37.2.1).

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated Statement of Comprehensive Income

for the year ended December 31, 2010

	2010 Rupees in '000	2009 Restated	2010 US\$ in '000	2009 Restated
Loss for the year	(20,785,123)	(4,947,983)	(242,251)	(58,765)
Other comprehensive income				
Unrealised loss on re-measurement of available for sale investments	(1,378)	(43,987)	(16)	(522)
Reclassification adjustment for loss transferred to profit and loss account on account of cash flow hedge	-	125,271	-	1,488
Total comprehensive income	<u>(20,786,501)</u>	<u>(4,866,699)</u>	<u>(242,267)</u>	<u>(57,799)</u>

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

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated Cash Flow Statement

for the year ended December 31, 2010

	Note	2010 Rupees in '000	2009 Rupees in '000	2010 US\$ in '000	2009 US\$ in '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations after working capital changes	39	12,509,338	8,066,030	145,796	95,796
Profit on bank deposits received		20,457	34,103	238	405
Finance costs paid		(8,072,865)	(8,873,632)	(94,089)	(105,388)
Deferred custom duties paid		-	123,205	-	1,463
Taxes paid		(391,460)	(248,103)	(4,562)	(2,947)
Staff retirement benefits paid		(334,648)	(288,735)	(3,900)	(3,429)
Long-term deposits and prepayments - net		(609,579)	(903,144)	(7,105)	(10,726)
Net cash generated from / (used in) operating activities		3,121,243	(2,090,276)	36,378	(24,826)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(1,429,852)	(2,729,994)	(16,665)	(32,423)
Proceeds from sale of property, plant and equipment		10,193	3,208	119	38
Purchase of intangibles		-	(1,344)	-	(16)
Proceeds from held to maturity investments		-	25,190	-	299
Net cash used in investing activities		(1,419,659)	(2,702,940)	(16,546)	(32,102)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		2,494,592	1,857,342	29,074	22,059
Repayment of long-term financing		(6,854,666)	(5,534,320)	(79,891)	(65,728)
Proceeds from long-term financing		11,683,250	10,591,952	136,168	125,795
Proceeds from issue of term finance and sukuk certificates		-	440,000	-	5,226
Redemption of term finance certificates		(5,120)	(2,703)	(60)	(32)
Restructuring of sukuk certificates		-	6,730,000	-	79,929
Proceeds from long-term deposits		18,314	64,077	213	761
Repayment of obligations under finance lease - net		(7,070,094)	(2,881,840)	(82,401)	(34,226)
Net cash generated from financing activities		266,276	11,264,508	3,102	133,784
Increase in cash and cash equivalents		1,967,860	6,471,292	22,934	76,856
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(23,239,215)	(29,710,507)	(270,853)	(352,856)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		(21,271,355)	(23,239,215)	(247,918)	(276,000)
CASH AND CASH EQUIVALENTS					
Cash and bank balances	16	1,393,754	742,945	16,244	8,824
Short-term borrowings	28	(22,665,109)	(23,982,160)	(264,162)	(284,824)
		(21,271,355)	(23,239,215)	(247,918)	(276,000)

The annexed notes 1 to 45 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, 2010

	Issued, subscribed, and paid-up share capital	Capital reserves	Revenue reserves	Reserves			Total
				Unrealised gain on remeasur- ement of investments	Accumulated losses	Other reserves	
Rupees in '000							
Balance as at January 01, 2009 – previously reported	21,423,014	2,501,038	1,779,674	73,265	(73,174,143)	(125,271)	(47,522,423)
Effect of rectification of prior year adjustment (note 9.1)	-	-	-	-	2,767,537	-	2,767,537
Balance as at January 01, 2009 – restated	21,423,014	2,501,038	1,779,674	73,265	(70,406,606)	(125,271)	(44,754,886)
Comprehensive income							
Loss for the year – restated	-	-	-	-	(4,947,983)	-	(4,947,983)
Other comprehensive income for the year	-	-	-	(43,987)	-	125,271	81,284
Total comprehensive income – restated	-	-	-	(43,987)	(4,947,983)	125,271	(4,866,699)
Surplus on revaluation of property, plant and equipment realised 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 – restated	23,280,356	2,501,038	1,779,674	29,278	(73,003,106)	-	(45,412,760)
Comprehensive income							
Loss for the year	-	-	-	-	(20,785,123)	-	(20,785,123)
Other comprehensive income for the year	-	-	-	(1,378)	-	-	(1,378)
Total comprehensive income	-	-	-	(1,378)	(20,785,123)	-	(20,786,501)
Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon – net of tax	-	-	-	-	1,460,486	-	1,460,486
Transactions with owners							
Issue of share capital 'A' class ordinary shares	2,494,592	-	-	-	-	-	2,494,592
Balance as at December 31, 2010	25,774,948	2,501,038	1,779,674	27,900	(92,327,743)	-	(62,244,183)

The annexed notes 1 to 45 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, 2010

1. THE CORPORATION AND ITS OPERATIONS

- 1.1** 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 commercial air transportation, which includes passenger, cargo and postal carriage services. Other activities of the Corporation include provision of engineering and allied services. The head office of the Corporation is situated at PIA Building, Jinnah International Airport, Karachi.
- 1.2** During the current year, the Corporation incurred a net loss of Rs. 20,785.123 million, (2009: Rs. 4,947.983 million - restated) resulting in accumulated losses of Rs. 92,327.743 million as of December 31, 2010 (2009: Rs. 73,003.106 million - restated). Further, as of December 31, 2010 current liabilities of the Corporation exceeded its current assets by Rs. 59,096.96 million (2009: Rs. 51,937.058 million).

Historically, the Government of Pakistan (GoP) has been extending significant support to the Corporation to ensure that it continues and sustains in the long-term as a viable business entity. The GoP, which is also the majority shareholder of the Corporation, has been supporting the Corporation through following measures:

- Reimbursement of financial charges on TFCs and Sukuk certificates payable by the Corporation. In this respect, amounts aggregating to Rs. 13,224 million have been provided to the Corporation towards equity against which shares have been issued to the GoP upto December 31, 2010;
- Provision of long-term financing to meet working capital requirements. During the current year, the GoP has provided an additional fixed rate loan of Rs. 1,000 million, and the total loans received from the GoP upto December 31, 2010 aggregated to Rs. 8,000 million; and
- Issuance of guarantees to financial institutions both local and foreign so as to enable the Corporation to raise funds at lower interest rates.

During the current year, the Corporation has prepared its five year business plan which has been approved by the Board of Directors of the Corporation and the Ministry of Defence. The business plan has also been endorsed by the sub-committee of the National Assembly's Standing Committee on Defence which concurs with the recommendations contained in the plan. Further, presentations have been made in respect of the business plan in meetings with the representatives of the Ministry of Finance (MoF), which were chaired by the Finance Minister. As envisaged in the business plan, the Corporation has devised a turn-around strategy which entails operational restructuring and assumes GoP's support in terms of providing necessary funding for recapitalisation which includes, among other measures, extending existing guarantees and issuance of new guarantees to various financial institutions by the GoP. As a result of presentations made in respect of the business plan as set out above the Economic Coordination Committee (ECC) of the Cabinet has in March 2011 accorded approval for extension in existing guarantees issued to various financial institutions by the GoP for Rs. 8,500 million and also allowed issuance of new guarantees of Rs. 5,000 million. Keeping in view the above, management believes that the business plan will be approved and accordingly significant financial support will be provided to the Corporation in the coming years to ensure its long-term sustainability.

In view of the situation set out above, although material uncertainty exists which may cast doubt on the Corporation's ability to continue as a going concern, the management of the Corporation believes that considering the mitigating factors set out in the preceding paragraphs the going concern assumption is appropriate and has, as such prepared these unconsolidated financial statements on going concern basis.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These unconsolidated financial statements are the separate financial statements of the Corporation and have been prepared in accordance with the requirements of 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 measurement

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

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

2.3 Functional and presentation currency

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

The US Dollar amounts reported in the balance sheet, profit and loss account, statement of comprehensive income and cash flow statement are stated as additional information, solely for the convenience of the users of these unconsolidated financial statements. The US Dollar amounts in the unconsolidated balance sheet, profit and loss account, statement of comprehensive income and cash flow statement have been translated into US Dollar at the rate of Rs. 85.80 = US \$ 1 (2009: Rs. 84.20 = US \$ 1).

2.4 Amendments to approved accounting standard effective during the year and relevant to the Corporation

Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions became effective from January 1, 2010 and requires an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements.

On August 14, 2009, the GoP launched a scheme called Benazir Employees' Stock Option Scheme ('BESOS') for the employees of state owned entities including the Corporation. Under the scheme, Pakistan Employees Empowerment Trust (the Trust) was formed and 12% of the shares held by the Ministry of Defence were transferred to the Trust during that year. The eligible employees have been allotted units of the Trust, based on the length of their service till August 14, 2009. On cessation of the employment each employee will be required to surrender the units for cash payment from Central Revolving Fund (CRF) of the Privatisation Commission equivalent to the then prevailing market value of the shares. Under the scheme eligible employees will not be entitled to get the benefit unless they have served for five more years from the date of enforcement of BESOS except for certain exceptional reasons for early separation from the Corporation as mentioned in the Trust deed. The eligible employees will be entitled to 50% of the dividend and the remaining 50% dividend will be transferred to CRF which would settle the surrendered units of the Trust on behalf of GoP.

Management contends that in view of the peculiar nature of the Scheme, the requirements of Amended IFRS-2 are not applicable to the Scheme and accordingly, the management has sought an opinion in respect of the subject matter from the Technical Committee of the Institute of Chartered Accountants of Pakistan (ICAP),

being a recognised professional body, the reply to which is still awaited. At present the matter is pending before ICAP and management believes that applicability of IFRS-2 will eventually be exempted by SECP. Accordingly, the financial effects of the above mentioned scheme have not been accounted for under the requirements of Amended IFRS-2 in these unconsolidated financial statements. Nevertheless, if the effects of BESOS were to be accounted for in these financial statements, the management is of the view that there would not have been any material impact on these unconsolidated financial statements.

2.5 New standard early adopted by the Corporation during the year

IAS 24 (Revised), 'Related party disclosures' (effective for annual periods beginning on or after January 1, 2011) - The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. Further, the revised standard also excludes the qualification of an entity as a related party by virtue of common directorship. The Corporation has used the early adoption option available in IAS 24 (Revised) 'Related party disclosures' and therefore the disclosures made in note 43 are based on the revised standard.

2.6 New / revised standards and interpretations, amendments to the approved accounting standards that became effective during the year ended December 31, 2010 but are not relevant to the Corporation or do not have any material effect

The following standards (revised or amended) and interpretations and amendments to the approved accounting standards became effective for the current year, but are either not relevant or do not have any material effect on the unconsolidated financial statements of the Corporation:

- IFRS 3 (Revised) 'Business Combinations'
- IFRS 5 (Amendment) 'Non-current Assets Held for Sale and Discontinued Operations'
- IFRS 8 (Amendment) 'Operating Segments'
- IAS 1 (Amendment) 'Presentation of financial statements'
- IAS 7 (Amendment) 'Statement of Cash flows'
- IAS 17 (Amendment) 'Leases'
- IAS 27 (Amendment) 'Consolidated and Separate Financial Statements'
- IAS 36 (Amendment) 'Impairment of assets'
- IAS 38 (Amendment) 'Intangible assets'
- IAS 39 (Amendment) 'Financial instruments: Recognition and measurement'
- IFRIC 9 (Amendment) 'Re-assessment of embedded derivatives'
- IFRIC 16 (Amendment) 'Hedges of a net investment in a foreign operation'
- IFRIC 17 'Distributions of Non-cash Assets to Owners'
- IFRIC 18 'Transfers of Assets from Customers'

2.7 New / revised standards, interpretations and amendments to published accounting standards that are issued but not yet effective

There are certain new standards and interpretations and amendments to approved accounting standards that are mandatory for the Corporation's accounting periods beginning on or after January 1, 2011. These are either considered not relevant or do not have any significant effect on the Corporation's unconsolidated financial statements other than increase in disclosures and are therefore not mentioned in these unconsolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

3.1 Property, plant and equipment

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

Change in accounting estimate

As a result of revaluation exercise conducted by an independent valuer as of December 31, 2009, the useful lives of aircraft fleet have increased. In addition, management has reassessed the residual values of aircraft and related capital spares. These changes in accounting estimates have an impact on depreciation expense for the current year. Had there been no change in useful lives and residual values of aircrafts and related spares, depreciation expense pertaining to aircraft fleet and capital spares for the year would have been higher by Rs. 1,056 million and Rs. 206 million respectively, whereas the effect on future periods is impracticable to ascertain considering subsequent measurement of aircraft fleet under the revaluation model and inherent uncertainties attached thereto.

3.2 Employee benefits

The liabilities of defined benefit plans are determined through actuarial valuation using the Projected Unit Credit method. The method involves making assumptions about discount rates, expected rates of return on pension plan assets, future salary increases, mortality rates, future increase in medical costs and future pension increases. Due to the long-term nature of these benefits, such estimates are subject to certain uncertainties. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 24 to these unconsolidated financial statements.

3.3 Stores and spares

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

3.4 Taxation

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

3.5 Trade debts

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

3.6 Liability on account of frequent flyer programme

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

3.7 Revenue recognition

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these unconsolidated financial statements are same as those applied in the preparation of the unconsolidated financial statements of the Corporation for the year ended December 31, 2009, except for change stated in note 2.5, and are enumerated as follows:

4.1 Fixed assets

Property, plant and equipment

Owned

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

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

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

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 asset is derecognised.

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

Depreciation is charged to the profit and loss account, applying the straight-line method whereby the cost or revalued amount of assets, less their residual values, is written 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.

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

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

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

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

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

Leased

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

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. Capital spares which are not useable are treated as scrap and charged to profit and loss account.

Capital work-in-progress

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

4.2 Intangibles

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

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

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

4.3 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

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

Held to maturity

Investments with fixed or determinable payments and fixed maturity, for which the Corporation has 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.

4.4 Stores and spares

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

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

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

4.5 Trade debts and other receivables

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

4.6 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash in hand, balances with banks and 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.

4.7 Trade and other payables

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

4.8 Loans and borrowings

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

4.9 Employee benefits

Provident fund

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

Pension funds

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

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

Post retirement medical benefits

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

4.10 Taxation

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

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any, or one 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 balance sheet method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred

tax asset to be utilised. Unrecognised deferred tax asset is reassessed at each balance sheet date and recognised to the extent that it has become probable that future taxable profits or taxable temporary differences will allow the deferred tax asset to be recovered.

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

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

4.11 Revenue recognition

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

Passenger and cargo revenue

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

Engineering and other services

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

Frequent flyer programme revenue

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

In addition, miles are sold to commercial partners to use in promotional activity. The fair value of the miles sold is deferred and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The cost of the redemption of the miles is recognised when the miles are redeemed. The estimates involved in recognising revenue from frequent flyer programme are disclosed in note 3.6.

Interest / mark-up and dividend income

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

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

4.12 Borrowing costs

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

4.13 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.

4.14 Impairment

Financial assets

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

Non-Financial assets

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

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

4.15 Foreign currency transactions

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

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

4.16 Financial instruments

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

4.17 Derivative financial instruments

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

4.18 Offsetting of financial assets and financial liabilities

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

5. PROPERTY, PLANT AND EQUIPMENT

	Note	2010	2009
		Rupees in '000	
Operating fixed assets			
- owned	5.1	28,746,234	32,061,716
- leased	5.2	66,833,053	100,729,222
Capital work-in-progress	5.8	1,066,207	764,622
		<u>96,645,494</u>	<u>133,555,560</u>

5.1 Owned fixed assets

	Land		Buildings on:		Workshops and hangers	Renovation and improvements	Aircraft fleet (note 5.3)	Operating ground, catering, communication and meteorological equipment
	Leasehold (note 5.1.1)	Others (note 5.1.2)	Leasehold land (note 5.1.1)	Other lands (note 5.1.2)				
Rupees in '000								
As at December 31, 2008								
Cost or revalued amount	3,404,592	22,854	3,285,028	829,261	848,894	634,835	38,674,078	620,299
Accumulated depreciation	-	-	(103,518)	(284,924)	(718,207)	(507,501)	(18,816,125)	(410,869)
Net book value	<u>3,404,592</u>	<u>22,854</u>	<u>3,181,510</u>	<u>544,337</u>	<u>130,687</u>	<u>127,334</u>	<u>19,857,953</u>	<u>209,430</u>
Year ended December 31, 2009								
Opening net book value	3,404,592	22,854	3,181,510	544,337	130,687	127,334	19,857,953	209,430
Additions	-	-	66,085	-	47,046	62,640	339,901	15,081
Revaluation								
Cost or revalued amount	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	2,405,783	-
	-	-	-	-	-	-	2,405,783	-
Adjustments / transfer								
Cost or revalued amount	2,057,372	-	(2,057,372)	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-
	2,057,372	-	(2,057,372)	-	-	-	-	-
Disposals								
Cost or revalued amount	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Write off								
Cost or revalued amount	-	-	-	-	-	-	(3,599,763)*	-
Accumulated depreciation	-	-	-	-	-	-	3,490,337	-
	-	-	-	-	-	-	(109,426)	-
Depreciation charge for the year	-	-	(133,322)	(2,952)	(14,489)	(56,952)	(4,516,591)	(33,739)
Closing net book value	<u>5,461,964</u>	<u>22,854</u>	<u>1,056,901</u>	<u>541,385</u>	<u>163,244</u>	<u>133,022</u>	<u>17,977,620</u>	<u>190,772</u>
As at December 31, 2009								
Cost or revalued amount	5,461,964	22,854	1,293,741	829,261	895,940	697,475	35,414,216	635,380
Accumulated depreciation	-	-	(236,840)	(287,876)	(732,696)	(564,453)	(17,436,596)	(444,608)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>1,056,901</u>	<u>541,385</u>	<u>163,244</u>	<u>133,022</u>	<u>17,977,620</u>	<u>190,772</u>

Engineering equipment and tools	Traffic equipment	Furniture, fixtures and fittings	Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Other equipment	Capital spares	Total
Rupees in '000											
1,324,234 (997,651)	1,763,140 (1,270,007)	755,954 (581,862)	247,746 (179,460)	77,470 (71,287)	1,404,743 (1,178,683)	811,032 (803,478)	15,039 (14,006)	12,395 (12,394)	500,704 (385,345)	8,545,714 (3,328,509)	63,778,012 (29,663,826)
<u>326,583</u>	<u>493,133</u>	<u>174,092</u>	<u>68,286</u>	<u>6,183</u>	<u>226,060</u>	<u>7,554</u>	<u>1,033</u>	<u>1</u>	<u>115,359</u>	<u>5,217,205</u>	<u>34,114,186</u>
326,583	493,133	174,092	68,286	6,183	226,060	7,554	1,033	1	115,359	5,217,205	34,114,186
43,343	7,509	64,089	21,288	706	160,267	8,594	-	-	6,932	347,821	1,191,302
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	2,405,783
-	-	-	-	-	-	-	-	-	-	-	2,405,783
-	-	-	-	-	-	-	-	-	-	(223,869)	(223,869)
-	-	-	-	-	(2,411)	-	-	-	-	-	(2,411)
-	-	-	-	-	(2,411)	-	-	-	-	(223,869)	(226,280)
-	(5,301)	(98)	(5,850)	-	(190)	-	-	-	-	-	(11,439)
-	5,029	98	3,205	-	190	-	-	-	-	-	8,522
-	(272)	-	(2,645)	-	-	-	-	-	-	-	(2,917)
-	-	-	-	-	-	-	-	-	-	-	(3,599,763)
-	-	-	-	-	-	-	-	-	-	-	3,490,337
-	-	-	-	-	-	-	-	-	-	-	(109,426)
(68,994)	(61,536)	(30,503)	(20,569)	(2,791)	(80,859)	(1,956)	(688)	-	(16,798)	(268,193)	(5,310,932)
<u>300,932</u>	<u>438,834</u>	<u>207,678</u>	<u>66,360</u>	<u>4,098</u>	<u>303,057</u>	<u>14,192</u>	<u>345</u>	<u>1</u>	<u>105,493</u>	<u>5,072,964</u>	<u>32,061,716</u>
1,367,577 (1,066,645)	1,765,348 (1,326,514)	819,945 (612,267)	263,184 (196,824)	78,176 (74,078)	1,564,820 (1,261,763)	819,626 (805,434)	15,039 (14,694)	12,395 (12,394)	507,636 (402,143)	8,669,666 (3,596,702)	61,134,243 (29,072,527)
<u>300,932</u>	<u>438,834</u>	<u>207,678</u>	<u>66,360</u>	<u>4,098</u>	<u>303,057</u>	<u>14,192</u>	<u>345</u>	<u>1</u>	<u>105,493</u>	<u>5,072,964</u>	<u>32,061,716</u>

	Land		Buildings on:		Workshops and hangers	Renovation and improvements	Aircraft fleet (note 5.3)	Operating ground, catering, communication and meteorological equipment
	Leasehold (note 5.1.1)	Others (note 5.1.2)	Leasehold land (note 5.1.1)	Other lands (note 5.1.2)				
Rupees in '000								
As at December 31, 2009								
Cost or revalued amount	5,461,964	22,854	1,293,741	829,261	895,940	697,475	35,414,216	635,380
Accumulated depreciation	-	-	(236,840)	(287,876)	(732,696)	(564,453)	(17,436,596)	(444,608)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>1,056,901</u>	<u>541,385</u>	<u>163,244</u>	<u>133,022</u>	<u>17,977,620</u>	<u>190,772</u>
Year ended December 31, 2010								
Opening net book value	5,461,964	22,854	1,056,901	541,385	163,244	133,022	17,977,620	190,772
Additions	-	-	13,488	-	2,971	32,851	476,593	58,929
Revaluation								
Cost or revalued amount	-	-	-	-	-	-	(2,113,459)	-
Accumulated depreciation	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	(2,113,459)	-
Adjustments / transfer								
Cost or revalued amount	-	-	-	-	-	-	311,220	84,430
Accumulated depreciation	-	-	-	-	-	-	(27,466)	(54,997)
	-	-	-	-	-	-	283,754	29,433
Disposals								
Cost or revalued amount	-	-	-	-	-	-	-	(785)
Accumulated depreciation	-	-	-	-	-	-	-	785
	-	-	-	-	-	-	-	-
Write off								
Cost or revalued amount	-	-	-	-	-	(7,537)	(36,522)*	(80)
Accumulated depreciation	-	-	-	-	-	7,537	32,505	78
	-	-	-	-	-	-	(4,017)	(2)
Depreciation charge for the year	-	-	(135,893)	(3,922)	(15,898)	(56,723)	(1,719,606)	(46,693)
Closing net book value	<u>5,461,964</u>	<u>22,854</u>	<u>934,496</u>	<u>537,463</u>	<u>150,317</u>	<u>109,150</u>	<u>14,900,885</u>	<u>232,439</u>
As at December 31, 2010								
Cost or revalued amount	5,461,964	22,854	1,307,229	829,261	898,911	722,789	34,052,048	777,874
Accumulated depreciation	-	-	(372,733)	(291,798)	(748,594)	(613,639)	(19,151,163)	(545,435)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>934,496</u>	<u>537,463</u>	<u>150,317</u>	<u>109,150</u>	<u>14,900,885</u>	<u>232,439</u>
Annual depreciation rate (%)	-	-	2.5	2.5	5	20	3.2 - 5	10

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

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

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

Engineering equipment and tools	Traffic equipment	Furniture, fixtures and fittings	Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Other equipment	Capital spares	Total
Rupees in '000											
1,367,577 (1,066,645)	1,765,348 (1,326,514)	819,945 (612,267)	263,184 (196,824)	78,176 (74,078)	1,564,820 (1,261,763)	819,626 (805,434)	15,039 (14,694)	12,395 (12,394)	507,636 (402,143)	8,669,666 (3,596,702)	61,134,243 (29,072,527)
<u>300,932</u>	<u>438,834</u>	<u>207,678</u>	<u>66,360</u>	<u>4,098</u>	<u>303,057</u>	<u>14,192</u>	<u>345</u>	<u>1</u>	<u>105,493</u>	<u>5,072,964</u>	<u>32,061,716</u>
300,932	438,834	207,678	66,360	4,098	303,057	14,192	345	1	105,493	5,072,964	32,061,716
205,851	124,160	27,279	37,239	764	25,225	161	-	-	8,177	133,803	1,147,491
-	-	-	-	-	-	-	-	-	-	-	(2,113,459)
-	-	-	-	-	-	-	-	-	-	-	(2,113,459)
-	-	-	99,612 (93,546)	-	-	-	-	-	-	(19,224)	476,038 (176,009)
-	-	-	6,066	-	-	-	-	-	-	(19,224)	300,029
-	(1,527) 1,410	-	(12,090) 8,405	(98) 98	-	-	-	-	-	-	(14,500) 10,698
-	(117)	-	(3,685)	-	-	-	-	-	-	-	(3,802)
(782) 782	(26) 26	(2,225) 2,136	(839) 755	(896) 894	(3,057) 3,049	-	-	(487) 487	(374) 356	(49,508) 25,181	(102,333) 73,786
-	-	(89)	(84)	(2)	(8)	-	-	-	(18)	(24,327)	(28,547)
(79,034)	(63,022)	(34,647)	(25,709)	(1,822)	(77,653)	(1,432)	(345)	(1)	(15,400)	(339,394)	(2,617,194)
<u>427,749</u>	<u>499,855</u>	<u>200,221</u>	<u>80,187</u>	<u>3,038</u>	<u>250,621</u>	<u>12,921</u>	<u>-</u>	<u>-</u>	<u>98,252</u>	<u>4,823,822</u>	<u>28,746,234</u>
1,572,646 (1,144,897)	1,887,955 (1,388,100)	844,999 (644,778)	387,106 (306,919)	77,946 (74,908)	1,586,988 (1,336,367)	819,787 (806,866)	15,039 (15,039)	11,908 (11,908)	515,439 (417,187)	8,734,737 (3,910,915)	60,527,480 (31,781,246)
<u>427,749</u>	<u>499,855</u>	<u>200,221</u>	<u>80,187</u>	<u>3,038</u>	<u>250,621</u>	<u>12,921</u>	<u>-</u>	<u>-</u>	<u>98,252</u>	<u>4,823,822</u>	<u>28,746,234</u>
<u>10 - 20</u>	<u>10 - 20</u>	<u>10</u>	<u>25</u>	<u>15</u>	<u>10 - 20</u>	<u>10</u>	<u>20</u>	<u>10</u>	<u>10</u>	<u>3.2 - 5</u>	

5.2 Leased fixed assets

	Note	Aircraft fleet (note 5.3)	Vehicles - Motor Transport	Vehicles - Technical Ground Support	Total
Rupees in '000					
As at December 31, 2008					
Cost or revalued amount		93,998,086	107,998	84,430	94,190,514
Accumulated depreciation		(13,626,600)	(100,051)	(39,801)	(13,766,452)
Net book value		80,371,486	7,947	44,629	80,424,062
Year ended December 31, 2009					
Opening net book value		80,371,486	7,947	44,629	80,424,062
Additions		1,581,767	-	-	1,581,767
Revaluation	5.3				
Cost or revalued amount		5,105,665	-	-	5,105,665
Accumulated depreciation		17,781,915	-	-	17,781,915
		22,887,580	-	-	22,887,580
Disposals					
Cost or revalued amount		-	(2,325)	-	(2,325)
Accumulated depreciation		-	2,092	-	2,092
		-	(233)	-	(233)
Depreciation charge for the year		(4,155,315)	(1,042)	(7,597)	(4,163,954)
Closing net book value		100,685,518	6,672	37,032	100,729,222
Year ended December 31, 2010					
Opening net book value		100,685,518	6,672	37,032	100,729,222
Additions		-	-	-	-
Revaluation	5.3				
Cost or revalued amount		(30,002,460)	-	-	(30,002,460)
Accumulated depreciation		-	-	-	-
		(30,002,460)	-	-	(30,002,460)
Transfer to owned					
Cost or revalued amount		(311,220)	(99,612)	(84,430)	(495,262)
Accumulated depreciation		27,466	93,546	54,997	176,009
		(283,754)	(6,066)	(29,433)	(319,253)
Disposals					
Cost or revalued amount		-	(6,061)	-	(6,061)
Accumulated depreciation		-	5,455	-	5,455
		-	(606)	-	(606)
Depreciation charge for the year		(3,566,251)	-	(7,599)	(3,573,850)
Closing net book value		66,833,053	-	-	66,833,053
As at December 31, 2009					
Cost or revalued amount		100,685,518	105,673	84,430	100,875,621
Accumulated depreciation		-	(99,001)	(47,398)	(146,398)
Net book value		100,685,518	6,672	37,032	100,729,222
As at December 31, 2010					
Cost or revalued amount		70,371,838	-	-	70,371,838
Accumulated depreciation		(3,538,785)	-	-	(3,538,785)
Net book value		66,833,053	-	-	66,833,053
Annual depreciation rate (%)		3.33	25	10 - 20	

5.3 Aircraft fleet

During the year, the aircraft fleet of the Corporation was revalued by an independent valuer, Ascend Worldwide Limited (2009: Avmark Inc., USA), on the basis of professional assessment of current market values as of December 31, 2010. The current market value represents the value that an aircraft could best achieve under today's open market conditions and, therefore, takes into account a thorough review of recent market activity and known transactions involving the subject aircraft covering new sales, new orders, the limited open market and financial activity that has occurred to date. It additionally considers the perceived demand for the type, its availability in the market and further takes into account the expressed views of informed industry sources.

The appraisal has taken into account the age, specification, accrued hours and cycles of the aircraft and produced a Current Market Half Life Values (CMHLV). Half life or mid-time assumes that the airframe, engine, gears and all major components are half way between major overhauls or in the mid point of their useful lives for the life limited parts. CMHLV has then been adjusted to account for the maintenance status of the aircraft in accordance with the information supplied. The determination of such values involves a multiplicity of variables and some variation in perceived value must be expected. In this case, the appraisal considers that a tolerance of +/- 5% may reasonably apply to the calculated market values.

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

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

	2010			2009		
	Cost	Accumulated Depreciation	Book value	Cost	Accumulated Depreciation	Book value
	Rupees in '000			Rupees in '000		
Lands-owned	44,166	-	44,166	44,166	-	44,166
Buildings-owned	272,336	151,444	120,892	258,848	127,481	131,367
Aircraft fleet	114,639,121	37,648,146	76,990,975	114,043,600	34,371,405	79,672,195
	<u>114,955,623</u>	<u>37,799,590</u>	<u>77,156,033</u>	<u>114,346,614</u>	<u>34,498,886</u>	<u>79,847,728</u>

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

	Note	2010	2009
		Rupees in '000	
Cost of services - others	3.1 & 31	5,922,444	9,201,856
Distribution costs	3.1 & 32	44,401	49,764
Administrative expenses	3.1 & 33	224,199	223,267
		<u>6,191,044</u>	<u>9,474,887</u>

- 5.6 Included herein are fully depreciated assets costing Rs. 7,632.9 million (2009: Rs. 5,137.3 million).

5.7 Following fixed assets were disposed off during the year:

Description	Sold to	Method of disposal	Cost	Accumulated	Net	Sale
				depreciation	book value	proceeds
Rupees in '000						
Motor vehicles to employees						
Toyota Corolla (AQL-873)	Mr. Salahuddin, P-31372	Corporation policy	887	333	554	560
Toyota Corolla (ARS-627)	Mr. Zulfiqar Husain, P-24042	----do----	1,094	205	889	993
Honda City (AQL-653)	Mr. M.A.B Bugvi, P-31831	----do----	746	280	466	416
Honda City (GA-6801)	Mr. Abdul Aziz Sangi, P-46240	----do----	746	252	494	554
Honda City (GA-6832)	Mr. Mubashir Zaman, P-32740	----do----	746	252	494	403
Honda City (AJM-502)	Mr. Sohail Mustafa, P-33095	----do----	835	751	84	83
Honda City (AJM-724)	Mr. Tariq Farooq, P-31565	----do----	835	751	84	83
Honda City (AJM-743)	Mr. Mehmood Talat, P-25840	----do----	835	751	84	83
Honda City (AJM-791)	Mr. Samin Uddin Naqvi, P-37005	----do----	835	752	83	84
			7,559	4,327	3,232	3,259
Motor vehicle to subsidiary						
Honda City (AJS-663)	M/S Skyrooms (Private) Limited	Negotiation	835	752	83	750
			8,394	5,079	3,315	4,009
Aggregate value of other items where NBV is above Rs. 50,000 - Various*						
			7,802	7,022	780	3,478
Aggregate value of items where NBV is less than Rs. 50,000 - Various						
			4,365	4,052	313	2,706
	Total	2010	20,561	16,153	4,408	10,193
		2009	13,764	10,614	3,150	3,208

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

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

5.8 Capital work-in-progress

	Note	2010	2009
		Rupees in '000	
Buildings		1,152	-
Other equipment		2,170,347	1,478,925
Renovation and improvements		42,199	57,278
		2,213,698	1,536,203
Less: transfer to operating fixed assets charged off / adjustment		1,147,491	745,498
		-	26,083
		1,147,491	771,581
		1,066,207	764,622

6. INTANGIBLES

Computer softwares

Cost	6.1	274,390	274,390
Accumulated amortisation	6.2	(204,946)	(182,428)
		69,444	91,962

6.1 Cost	Note	2010 Rupees in '000	2009
Opening balance		274,390	273,046
Additions during the year		-	1,344
Closing balance		274,390	274,390
6.2 Accumulated amortisation			
Opening balance		182,428	159,892
Amortisation for the year	6.2.1	22,518	22,536
Closing balance		204,946	182,428
Useful life		5 - 10 years	5 - 10 years
6.2.1 Amortisation charge for the year has been allocated as under:			
Cost of services - others	31	2,576	2,576
Distribution costs	32	1,110	1,130
Administrative expenses	33	18,832	18,830
		22,518	22,536
7. LONG TERM INVESTMENTS			
Unquoted - at cost			
Subsidiaries	7.1	4,415,712	4,415,712
Associates	7.2	396	396
Joint venture	7.3	2	2
		4,416,110	4,416,110
Other investments	7.4	29,462	30,840
		4,445,572	4,446,950
7.1 Subsidiaries			
PIA Investments Limited (PIAIL)			
792,000 (2009: 792,000) fully paid ordinary shares of AED 100 each. Equity held 99% (2009: 99%). Break-up value of each ordinary share of AED 100: Rs. 15,074 (2009: Rs. 11,474) per ordinary share based on the audited financial statements for the year ended December 31, 2010.		2,245,155	2,245,155
Advance against shares pending allotment		2,170,557	2,170,557
		4,415,712	4,415,712
Skyrooms (Private) Limited			
4,000,000 (2009: 4,000,000) fully paid ordinary shares of Rs. 10 each. Equity held 100% (2009: 100%). Break-up value of each ordinary share is negative Rs. 22 (2009: negative Rs. 11) per ordinary share based on the audited financial statements for the year ended December 31, 2010.		40,000	40,000
Midway House (Private) Limited (under winding-up)			
2,960,000 (2009: 2,960,000) fully paid ordinary shares of Rs. 10 each. Equity held 100% (2009: 100%). Break-up value of each ordinary share of Rs. 10: Rs. Nil (2009: Rs. Nil) per ordinary share. Financial statements are not available.		28,520	28,520
Provision for diminution in value of investments		68,520	68,520
		(68,520)	(68,520)
		-	-
		4,415,712	4,415,712

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

7.2 Associate

	2010	2009
Note	Rupees in '000	
Minhal Incorporated - Sharjah		
1,600 fully paid Ordinary shares (2009: 1,600) of AED 100 each. Equity held 40% (2009: 40%). Break-up value of each ordinary share of AED 100 each: Rs. Nil (2009: Rs. Nil) per ordinary share. Financial statements are not available.	396	396

7.3 Joint venture

Abacus Distribution Systems Pakistan (Private) Limited		
312,586 (2009: 245,603) fully paid ordinary shares of Rs. 100 each. Equity held - 70% (2009: 55%)	2	2

Abacus Distribution Systems Pakistan (Private) Limited is a joint venture between the Corporation and Abacus International (Private) Limited, Singapore. 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, dated August 24, 2004, the shareholding of the Corporation has to increase to 75% over a period of 9 years.

7.4 Other investments

Available for sale	7.4.1	29,462	30,840
Held to maturity	7.4.2	-	-
		29,462	30,840

7.4.1 Available for sale

Quoted

Pakistan Services Limited

172,913 (2009: 172,913) ordinary shares of Rs. 10 each having market value per ordinary share of Rs. 168.25 (2009: Rs. 176.22) each

29,093

30,471

Unquoted

Pakistan Tourism Development Corporation Limited

10,000 (2009: 10,000) ordinary shares of Rs. 10 each

100

100

Duty Free Shops (Private) Limited

87,512 (2009: 87,512) ordinary shares of Rs. 100 each

269

269

29,462

30,840

7.4.2 Held to maturity

Promissory notes issued by the

Nigerian Government

Less: current maturity

15

7,289

7,153

(7,289)

(7,153)

-

-

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. The Corporation is in process of redeeming these promissory notes.

	2010	2009
	Rupees in '000	
8. LONG-TERM ADVANCES		
Subsidiaries - considered doubtful		
Skyrooms (Private) Limited	37,042	37,042
Midway House (Private) Limited	82,476	82,476
	<u>119,518</u>	<u>119,518</u>
Provision for doubtful long-term advances	(119,518)	(119,518)
	<u>-</u>	<u>-</u>

		2010	2009	2008
		Rupees in '000		
	Note		Restated	Restated
9. LONG-TERM DEPOSITS AND PREPAYMENTS				
Deposits				
Aircraft fleet lease deposits		3,319,214	3,257,312	3,052,280
Maintenance reserve	9.1	4,409,175	3,641,985	2,767,537
Engine maintenance		72,072	77,424	72,551
Rent		67,420	58,767	59,096
Utilities		12,504	12,884	12,547
Aircraft fuel		9,240	8,958	8,276
Guarantee deposit		21,104	21,322	4,450
Others		151,152	149,350	136,442
		<u>8,061,881</u>	<u>7,228,002</u>	<u>6,113,179</u>
Prepayments				
Exposure fee to support financing	9.2	1,452,131	1,676,622	1,893,412
Less: current portion	13.1	(224,300)	(224,491)	(229,602)
		<u>1,227,831</u>	<u>1,452,131</u>	<u>1,663,810</u>
		<u>9,289,712</u>	<u>8,680,133</u>	<u>7,776,989</u>

- 9.1** Under the terms of the leasing agreement with a lessor, the Corporation is required to keep maintenance reserve, which is reimbursable to the Corporation against qualifying work carried out in accordance with the terms of the agreement. Further, the Corporation is entitled to the remaining balance of the maintenance reserve upon conclusion of the lease agreement when the title to the underlying assets shall be transferred to the Corporation. Upto December 31, 2009, the aforesaid payments were being charged to profit and loss account as and when incurred. The payments made on account of maintenance reserve net of reimbursements claimed on account of qualifying work upto December 31, 2010 and prior periods presented have now been reflected as an asset and the related adjustments have been made retrospectively in accordance with the IAS 8 'Accounting Policies, Changes in Accounting Estimates & Errors'. The effect of the adjustments made are shown below:

	Balance previously reported	Effect of adjustment	Restated amount
	Rupees in '000		
December 31, 2009			
Balance sheet			
Reserves	(72,335,101)	3,641,985	(68,693,116)
Long-term deposits and prepayments	5,038,148	3,641,985	8,680,133
Profit and loss account			
Cost of services - others	(47,257,674)	664,664	(46,593,010)
Exchange loss - net	(6,711,336)	209,784	(6,501,552)
Loss for the year	(5,822,431)	874,448	(4,947,983)
Earnings per share - basic and diluted			
'A' class ordinary shares	(2.72)	0.41	(2.31)
'B' class ordinary shares	(1.36)	0.20	(1.16)
December 31, 2008			
Balance sheet			
Reserves	(68,945,437)	2,767,537	(66,177,900)
Long-term deposits and prepayments	5,009,452	2,767,537	7,776,989

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

	Note	2010	2009
		Rupees in '000	
10. STORES AND SPARES			
Stores		837,340	792,769
Spare parts		5,526,969	5,280,298
Inventory held for disposal - adjusted to net realisable value		252,859	252,859
		6,617,168	6,325,926
Provision for slow moving and obsolete spares	10.1	(2,836,293)	(2,662,295)
		3,780,875	3,663,631
Stores and spares-in-transit		61,664	323,792
		3,842,539	3,987,423
10.1 Movement in provision is as follows:			
Balance at the beginning of the year		2,662,295	2,216,611
Provision for the year	34	173,998	445,684
Balance at the end of the year		2,836,293	2,662,295
11. TRADE DEBTS			
Considered good		8,283,109	7,978,187
Considered doubtful		929,104	623,200
Less: provision for doubtful debts	11.1	(929,104)	(623,200)
		-	-
		8,283,109	7,978,187

The ageing analysis of these trade debts is as follows:

	2010		2009	
	Trade debts Gross	Impaired	Trade debts Gross	Impaired
	Rupees in '000			
Within current year	8,026,816	194,890	7,708,840	162,998
1 year old	463,350	257,946	119,323	39,583
2 years old	43,564	12,418	225,654	77,088
Over 3 years old	678,483	463,850	547,570	343,531
	<u>9,212,213</u>	<u>929,104</u>	<u>8,601,387</u>	<u>623,200</u>

	2010	2009
	Rupees in '000	
	Note	

11.1 Movement in provision is as follows:

Balance at the beginning of the year		623,200	740,330
Written off during the year		(59,055)	(3,179)
Provision / (reversal of provision) for the year	34	364,959	(113,951)
Balance at the end of the year		<u>929,104</u>	<u>623,200</u>

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

12. ADVANCES

	Note	2010	2009	2008
		Rupees in '000		
Considered good				
Subsidiary				
Skyrooms (Private) Limited	12.1	19,676	46,402	82,968
Others				
Employees		256,870	169,701	224,530
Suppliers		183,025	919,949	961,815
Civil Aviation Authority		-	143,835	143,835
Others		5,811	5,977	5,462
		<u>445,706</u>	<u>1,239,462</u>	<u>1,335,642</u>
Considered doubtful				
Subsidiary - Skyrooms (Private) Limited		108,672	108,672	31,700
Others - Suppliers		31,915	31,915	-
		<u>140,587</u>	<u>140,587</u>	<u>31,700</u>
Provision for doubtful advances	12.2	(140,587)	(140,587)	(31,700)
		<u>-</u>	<u>-</u>	<u>-</u>
		<u>465,382</u>	<u>1,285,864</u>	<u>1,418,610</u>

12.1 Maximum aggregate gross amount due from the subsidiary at any month end was Rs. 128 million (2009: Rs. 155 million).

	Note	2010	2009
— Rupees in '000 —			
12.2 Movement in provision is as follows:			
Balance at the beginning of the year		140,587	31,700
Provision for the year	34	-	108,887
Balance at the end of the year		140,587	140,587

13. TRADE DEPOSITS AND PREPAYMENTS

Trade deposits		130,705	72,005
Prepayments	13.1	996,720	1,086,492
		1,127,425	1,158,497

13.1 Prepayments

Current portion of exposure fee to support financing	9	224,300	224,491
Commission		588,446	598,595
Interest on leased aircraft		142,480	146,693
Insurance		39,956	113,636
Rent		1,314	2,666
Others		224	411
		996,720	1,086,492

14. OTHER RECEIVABLES

Considered good

Claims receivable		319,300	214,993
Excise duty	29.1 (a)	100,000	100,000
Sales tax receivable		460,990	231,927
Receivables from GoP	14.1	332,809	142,302
Others		59,198	109,971
		1,272,297	799,193

Considered doubtful

Less: provision for doubtful other receivables	14.2	177,077	168,810
		(177,077)	(168,810)
		-	-
		1,272,297	799,193

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

	Note	2010	2009
— Rupees in '000 —			
14.2 Movement in provision is as follows:			
Balance at the beginning of the year		168,810	30,257
Provision for the year	34	8,267	138,553
Balance at the end of the year		177,077	168,810

	Note	2010	2009
		Rupees in '000	
15. SHORT - TERM INVESTMENTS			
Held to maturity			
Current portion of long-term investment	7.4.2	7,289	7,153
Available for sale			
Unquoted			
SITA INC N.V.			
325,491 (2009: 325,491) ordinary shares	15.1	19,220	19,220
Provision for diminution in value of investment	15.2	(880)	(1,222)
		18,340	17,998
		25,629	25,151

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:

	Note	2010	2009
		Rupees in '000	
Balance at the beginning of the year		1,222	2,355
Reversal during the year		(342)	(1,133)
Balance at the end of the year		880	1,222

16. CASH AND BANK BALANCES

In hand		12,188	10,457
In transit		5,070	42,254
		17,258	52,711
With banks			
- in current accounts		796,999	545,844
- in deposit accounts	16.1	579,497	144,390
		1,376,496	690,234
		1,393,754	742,945

16.1 These carry interest ranging from 0.125% to 6% (2009: 5% to 6%) per annum.

17. SHARE CAPITAL

2010 No. of shares	2009 No. of shares	Note	2010 Rupees in '000	2009 Rupees in '000
Authorised capital				
Ordinary share capital				
2,949,250,000	2,949,250,000		29,492,500	29,492,500
1,500,000	1,500,000		7,500	7,500
<u>2,950,750,000</u>	<u>2,950,750,000</u>		<u>29,500,000</u>	<u>29,500,000</u>
Preference share capital				
50,000,000	50,000,000		500,000	500,000
<u>3,000,750,000</u>	<u>3,000,750,000</u>		<u>30,000,000</u>	<u>30,000,000</u>
Issued, subscribed and paid up share capital				
Ordinary share capital				
2,341,879,318	2,092,420,074		23,418,793	20,924,201
931,028	931,028		9,310	9,310
233,934,482	233,934,482		2,339,345	2,339,345
<u>2,576,744,828</u>	<u>2,327,285,584</u>	17.1	<u>25,767,448</u>	<u>23,272,856</u>
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>25,774,948</u>	<u>23,280,356</u>

2010 No. of shares	2009 No. of shares	Note
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	
Issued during the year for cash	185,734,200	17.3
<u>Shares at the end of the year</u>	<u>2,327,285,584</u>	

17.2 At December 31, 2010, the GoP held 2,134,735,800 'A' class ordinary shares and 1,462,515 'B' class ordinary shares respectively (2009: 1,885,276,556 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively).

17.3 This represents shares issued to GoP as reimbursement of mark-up payments on term finance and sukuk certificates.

18. RESERVES

		2010	2009	2008
		Rupees in '000		
	Note		Restated	Restated
Capital reserves				
Reserve for replacement of fixed assets	18.1	1,966,779	1,966,779	1,966,779
Capital redemption reserve fund		250,000	250,000	250,000
Others		284,259	284,259	284,259
		<u>2,501,038</u>	<u>2,501,038</u>	<u>2,501,038</u>
Revenue reserve				
		1,779,674	1,779,674	1,779,674
		<u>4,280,712</u>	<u>4,280,712</u>	<u>4,280,712</u>
Unrealised gain on remeasurement of investments				
		27,900	29,278	73,265
Other reserves				
		-	-	(125,271)
Accumulated losses				
		(92,327,743)	(73,003,106)	(70,406,606)
		<u>(92,299,843)</u>	<u>(72,973,828)</u>	<u>(70,458,612)</u>
		<u>(88,019,131)</u>	<u>(68,693,116)</u>	<u>(66,177,900)</u>

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

19. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - net

	2010	2009
	Rupees in '000	
As at January 1	40,190,150	18,501,189
(Deficit) / surplus arising on property, plant and equipment during the year	(32,115,919)	25,293,363
	<u>8,074,231</u>	<u>43,794,552</u>
Less: transferred to accumulated loss:		
- Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	(1,460,486)	(2,351,483)
- Related deferred tax liability	(786,416)	(1,252,919)
	<u>(2,246,902)</u>	<u>(3,604,402)</u>
	<u>5,827,329</u>	<u>40,190,150</u>
Less: related deferred tax liability on:		
- Revaluation as at January 1	11,908,247	4,308,489
- (Deficit) / surplus arising on property, plant and equipment during the year	(11,121,831)	8,852,677
- Incremental depreciation charged during the year on related assets transferred to profit and loss account	(786,416)	(1,252,919)
	<u>-</u>	<u>11,908,247</u>
As at December 31	<u>5,827,329</u>	<u>28,281,903</u>

20. LONG-TERM FINANCING

Financier	Note	Type of facility	Limit (Million)	Repayment period	Number of instalments/ Mode	Mark-up %	2010	2009
							— Rupees in '000 —	
From Banking Companies								
- secured								
United Bank Limited		Syndicate Finance	1,650 PKR	2007 - 2010	6 Half-yearly	6 month KIBOR +0.79%	-	135,092
Citibank, N.A.	20.1	Demand Finance	82 US\$	2006 - 2017	20 Half-yearly	5.28% fixed	4,321,159	4,927,683
Royal Bank of Scotland	20.2	Demand Finance	59.5 US\$	2009 - 2013	19 Quarterly	3 month LIBOR +1.60%	3,078,475	4,022,278
National Bank of Pakistan	20.3	Syndicate Finance	120 US\$	2013	Bullet	Note 20.3	10,296,000	10,104,000
Standard Chartered Bank		Demand Finance	50 US\$	2007-2010	12 Quarterly	3 month LIBOR +1.325%	-	350,833
National Bank of Pakistan		Term Finance	500 PKR	2007-2010	12 Quarterly	3 month KIBOR +1.50%	-	166,667
National Bank of Pakistan-Bahrain		Demand Finance	50 US\$	2008-2010	24 Monthly	6 month LIBOR +2.55%	-	1,052,500
Standard Chartered Bank (Pakistan) Limited	20.4	Syndicate Finance	3,600 PKR	2009 - 2011	22 Monthly	1 month KIBOR +1.25%	163,271	2,122,518
National Bank of Pakistan-Bahrain	20.5	Demand Finance	70 US\$	2010-2012	24 Monthly	1 month LIBOR +5.50%	4,754,750	-
National Bank of Pakistan-Bahrain	20.5	Demand Finance	30 US\$	2010-2012	24 Monthly	1 month LIBOR +5.50%	2,359,500	-
National Bank of Pakistan-Bahrain	20.6	Demand Finance	US \$20 & SAR 75	2011-2013	24 Monthly	1 month LIBOR +5.25% & 1 month SIBOR +5.25%	1,287,000	-
Hong Kong Shanghai Banking Corporation	20.7	Demand Finance	850 PKR	2010-2011	17 Monthly	3 month KIBOR +0.90%	450,000	-
Others - unsecured								
Long-term loan-GoP	20.8	Term Finance	8,000 PKR	2011-2020	16 Half-year	10% fixed	8,000,000	7,000,000
Current maturity shown under current liabilities							34,710,155 (7,363,198)	29,881,571 (5,328,458)
							<u>27,346,957</u>	<u>24,553,113</u>

- 20.1** The finance is secured by way of:
- Mortgage over each of the seven ATR aircraft purchased; and
 - European Credit Agencies / GoP Guarantee.

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

- 20.3** The following are the participating banks:
- National Bank of Pakistan
 - Habib Bank Limited

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

- HBL 3 month LIBOR + 3.25%
- NBP 3 month LIBOR + 3.60%

- 20.4** The following are the participating banks:

- Standard Chartered Bank (Pakistan) Limited
- Askari Bank Limited

The finance is secured by way of GoP Guarantee.

- 20.5** The finance is secured against all the present and future receivables generated from the sale of tickets in United Kingdom (U.K.).

- 20.6** The finance is secured against all the present and future receivables generated from the sale of tickets in United Kingdom (U.K.) and Kingdom of Saudi Arabia (K.S.A.).

- 20.7** During the year, the Corporation restructured a short term loan of Rs. 1,000 million from HSBC bank into a long term loan of Rs. 850 million by paying Rs. 150 million and remaining balance shall be paid in 17 equal monthly instalments with an additional upfront fee of 0.2%. The facility is secured by way of GoP Guarantee.

- 20.8** During the year, the GoP provided further Rs. 1,000 million as an unsecured loan to the Corporation.

21. TERM FINANCE AND SUKUK CERTIFICATES

	Note	Security	Repayment period	Number of instalments	Mark-up (%)	2010	2009
						Rupees in '000	
Term finance certificates	21.1	GoP Guarantee	2009-2014	10 half yearly	6 month KIBOR +0.85%	12,792,320	12,797,440
Less: current maturity						(2,135,040)	(5,120)
						10,657,280	12,792,320
Sukuk certificates	21.2	GoP Guarantee	2012-2014	6 half yearly	6 month KIBOR +1.75%	6,800,000	6,800,000
						17,457,280	19,592,320

- 21.1** The Corporation has an option of early purchase exercisable at any time with a 30 days notice period at NIL premium.

- 21.2** 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 a 30 days prior notice to the Trustee.

22. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Note	2010	2009
— Rupees in '000 —			
Present value of minimum lease payments - aircraft fleet			
A-310-300	22.2	4,678,479	5,504,821
B-777 -200 ER	22.3	13,529,684	15,859,793
B-777 -200 LR	22.4	14,624,564	16,122,513
B-777 -300 ER	22.5	29,492,858	31,907,001
		<u>62,325,585</u>	<u>69,394,128</u>
Present value of minimum lease payments - vehicles		-	1,551
		<u>62,325,585</u>	<u>69,395,679</u>
Less: current maturity		(8,596,807)	(8,122,882)
		<u>53,728,778</u>	<u>61,272,797</u>

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

	2010			2009		
	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	10,728,274	2,131,467	8,596,807	10,568,706	2,445,824	8,122,882
Later than one year but not later than five years	42,037,772	5,303,208	36,734,564	41,540,459	6,527,326	35,013,133
Later than five years	17,781,957	787,743	16,994,214	27,767,691	1,508,027	26,259,664
	<u>70,548,003</u>	<u>8,222,418</u>	<u>62,325,585</u>	<u>79,876,856</u>	<u>10,481,177</u>	<u>69,395,679</u>

22.2 In 2003, the Corporation entered into aircrafts lease agreements with Airbus Leasing Inc. USA, to acquire six A310-300 aircrafts. The lease agreement has an extension option for a period of two additional years, which the Corporation intends to exercise. The salient features of the lease are as follows:

	2010	2009
Discount rate	5.2%	5.2%
Lease period	144 months	144 months
Security deposits (Rupees in '000)	277,992	272,808
Contingent rent (Rupees in '000)	(112,161)	(114,776)

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

	2010	2009
Discount rate - two aircraft	4.65%	4.65%
Discount rate - one aircraft and spare engine	Three month LIBOR	Three month LIBOR
Lease period - aircraft	144 months	144 months
Lease period - spare engine	96 months	96 months
Security deposits (Rupees in '000)	813,761	798,586
Contingent rent (Rupees in '000)	(43,158)	(9,302)

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 aircraft and one propulsor from Taxila - 2 Limited, a special purpose entity incorporated in Cayman Islands. The guaranteed lender is Citibank N.A. The salient features of the lease are as follows:

	2010	2009
Discount rate - aircraft and propulsor	Three month LIBOR - 0.02%	Three month LIBOR - 0.02%
Lease period - aircraft	144 months	144 months
Lease period - propulsor	96 months	96 months
Security deposits (Rupees in '000)	656,869	644,620
Contingent rent (Rupees in '000)	(779,457)	(721,432)

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 aircraft and one engine from White Crescent Limited, a special purpose entity incorporated in Amsterdam, Netherlands. The guaranteed lender is Royal Bank of Scotland. The salient features of the lease are as under:

	2010	2009
Discount rate - one aircraft	5.25%	5.25%
Discount rate - two aircraft	Three month LIBOR - 0.04%	Three month LIBOR - 0.04%
Lease period - aircraft	144 months	144 months
Lease period - engine	96 months	96 months
Security deposits (Rupees in '000)	1,320,136	1,295,518
Contingent rent (Rupees in '000)	(192,655)	(41,682)

22.6 The Corporation has an option to acquire the ownership of the aircraft at the end of lease term.

23. LONG-TERM DEPOSITS	Note	2010	2009
		Rupees in '000	
Deposits from agents		182,300	157,500
Retention money		201,841	208,317
Deposits from employees		20	30
		<u>384,161</u>	<u>365,847</u>
24. DEFERRED LIABILITIES			
Obligation for compensated absences	24.1	2,493,033	2,072,000
Post retirement medical benefits	24.2	3,690,387	2,437,282
Pension obligation	24.3	2,669,520	1,675,045
		<u>8,852,940</u>	<u>6,184,327</u>
24.1 Obligation for compensated absences			
Liability recognised in the balance sheet			
Balance at the beginning of the year		2,072,000	1,689,000
Expense recognised during the year		421,033	383,000
		<u>2,493,033</u>	<u>2,072,000</u>
24.2 Post retirement medical benefits			
Liability recognised in the balance sheet			
Present value of defined benefit obligation		3,690,387	2,437,282
Movement in liability during the year			
Balance at the beginning of the year		2,437,282	1,425,000
Expense recognised		1,489,773	1,203,037
Payments made during the year		(236,668)	(190,755)
Balance at the end of the year		<u>3,690,387</u>	<u>2,437,282</u>
Expense recognised in profit and loss account			
Current service cost		52,260	32,415
Interest cost		390,639	213,306
Net actuarial loss recognised		1,046,874	957,316
		<u>1,489,773</u>	<u>1,203,037</u>

24.3 Pension obligation

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

	PALPA		FENA		MAIN PENSION		TOTAL	
	2010	2009	2010	2009	2010	2009	2010	2009
	Rupees in '000							
(Asset) / liability recognised								
Present value of defined benefit obligation	1,558,479	1,798,581	518,432	391,465	13,123,472	11,553,539	15,200,383	13,743,585
Fair value of plan assets	(1,745,383)	(1,720,493)	(877,207)	(691,491)	(9,908,273)	(9,656,556)	(12,530,863)	(12,068,540)
	(186,904)	78,088	(358,775)	(300,026)	3,215,199	1,896,983	2,669,520	1,675,045
Movement in the defined benefit obligation								
Obligation as at January 1	1,798,581	1,624,000	391,465	338,000	11,553,539	9,332,000	13,743,585	11,294,000
Service cost	31,785	37,277	5,776	285	297,672	158,328	335,233	195,890
Interest cost	214,014	249,512	58,006	44,928	1,573,159	1,431,686	1,845,179	1,726,126
Benefits paid	(145,761)	(134,076)	(36,512)	(118,805)	(1,046,845)	(797,500)	(1,229,118)	(1,050,381)
Actuarial (gain) / loss	(340,140)	21,868	99,697	127,057	745,947	1,429,025	505,504	1,577,950
Obligation as at December 31	1,558,479	1,798,581	518,432	391,465	13,123,472	11,553,539	15,200,383	13,743,585
Movement in fair value of plan assets								
Fair value as at January 1	1,720,493	1,631,000	691,491	732,000	9,656,556	8,925,000	12,068,540	11,288,000
Expected return on plan assets	220,950	159,767	100,004	68,680	1,247,258	962,191	1,568,212	1,190,638
Employer contributions	14,199	14,199	3,995	3,995	79,786	79,786	97,980	97,980
Benefits paid	(145,761)	(134,076)	(36,512)	(118,805)	(1,046,845)	(797,500)	(1,229,118)	(1,050,381)
Actuarial (loss) / gain	(64,498)	49,603	118,229	5,621	(28,482)	487,079	25,249	542,303
Fair value as at December 31	1,745,383	1,720,493	877,207	691,491	9,908,273	9,656,556	12,530,863	12,068,540
Expense recognised in profit and loss account								
Current service cost	31,785	37,277	5,776	285	297,672	158,328	335,233	195,890
Interest cost	214,014	249,512	58,006	44,928	1,573,159	1,431,686	1,845,179	1,726,126
Expected return on plan assets	(220,950)	(159,767)	(100,004)	(68,680)	(1,247,258)	(962,191)	(1,568,212)	(1,190,638)
Actuarial loss / (gain) recognised - net	(275,642)	(27,735)	(18,532)	121,436	774,429	941,946	480,255	1,035,647
	(250,793)	99,287	(54,754)	97,969	1,398,002	1,569,769	1,092,455	1,767,025
The plan assets comprise of:								
Equity instruments	0.00%	0.00%	0.00%	0.00%	0.01%	0.02%	0.00%	0.01%
Debt instruments	13.71%	17.86%	64.36%	59.80%	14.29%	21.43%	30.79%	33.03%
Others including cash and cash equivalents	86.29%	82.14%	35.64%	40.20%	85.70%	78.55%	69.21%	66.96%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Historical Information

	2010	2009	2008	2007	2006
	Rupees in '000				
Pension Funds					
Present value of defined benefit obligation	15,200,383	13,743,585	11,294,000	10,241,000	9,466,000
Fair value of plan assets	(12,530,863)	(12,068,540)	(11,288,000)	(11,524,000)	(11,150,000)
Deficit / (surplus)	2,669,520	1,675,045	6,000	(1,283,000)	(1,684,000)
Experience adjustments arising on plan liabilities	3.3%	16%	-	3%	(2)%
Experience adjustments arising on plan assets	(0.2)%	(4)%	6%	1%	2%
Medical Scheme					
Present value of defined benefit obligation	(3,690,387)	(2,437,282)	(1,425,000)	(1,426,000)	(1,353,000)

Actuarial valuation of pension funds, compensated absences and post retirement medical benefit scheme was carried out at December 31, 2010. The valuation has been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2010	2009
Valuation discount rate	13.50%	12.75%
Salary increase rate	11.00%	10.60%
Pension indexation rate	3.00%	4.40%
Medical inflation rate	10.00%	7.38%
Expected rate of return on plan assets	13.50%	12.75%

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

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

	2010	2009
	Numbers	
Pension scheme	15,541	16,263
Post retirement medical benefit scheme	17,029	16,792
Compensated absences	17,029	16,792

24.3.2 The fair value of plan assets of pension fund includes investment in the Corporation's shares, amounting to Rs. 1.28 million (2009: Rs. 1.50 million).

24.3.3 The expected pension expense for the next one year from January 1, 2011 amounts to Rs. 713.262 million. This is the amount which the Corporation has to contribute for the next one year.

24.3.4 The total expense relating to deferred liabilities has been allocated to cost of services, distribution expenses and administrative expenses in the amount of Rs. 1,614.753 million, Rs. 442.496 million and Rs. 489.979 million respectively.

	Note	2010	2009	2008
			Rupees in '000	
			Restated	Restated
25. TRADE AND OTHER PAYABLES				
Trade creditors				
Goods		2,573,680	3,878,535	6,147,945
Services		2,276,707	1,635,277	1,894,687
Airport related charges		3,524,083	1,813,469	902,115
		8,374,470	7,327,281	8,944,747
Others				
Accrued liabilities		4,265,924	4,068,681	3,712,551
Advance against transportation (unearned revenue)		6,971,694	6,980,139	7,221,398
Unredeemed frequent flyer liabilities	25.1	1,283,440	1,373,408	1,000,096
Advance from customers		854,933	653,884	358,046
Payable to employees' provident fund	25.2	2,445,330	1,918,629	1,149,430
Unclaimed dividend - Preference shares		8,504	8,504	8,504
Collection on behalf of others		4,093,377	2,126,987	933,136
Customs and central excise duty		522,044	496,970	514,645
Capital value tax		936,163	1,002,022	953,544
Income tax deducted at source		122,162	85,871	89,285
Short-term deposits		255,375	238,840	168,865
Murabaha financing		-	-	1,200,524
Fair value of cash flow hedges		-	-	192,725
		30,133,416	26,281,216	26,447,496

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

- ticket inflation and discount rate at the rate of 13.5%;
- expiry of unavailed points after three years; and
- accumulated points above 11,000 can be used for purchase of tickets. Points lower than 11,000 are valued on aggregate cost of redeemed points.

25.2 The amount is payable to Pakistan International Airlines Corporation Provident Fund and carries markup at the rate of 14% (2009: 12.5%).

26. PROVISION FOR CIVIL AVIATION AUTHORITY'S CLAIMS

	Note	2010	2009	2008
			Rupees in '000	
Opening balance		1,500,000	1,500,000	-
Provision made during the year		-	-	1,500,000
Reversal during the year	26.1	(1,500,000)	-	-
Closing balance		-	1,500,000	1,500,000

26.1 Civil Aviation Authority (CAA), Pakistan claimed additional amounts in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest / surcharge etc. Consequently, as a matter of prudence, the Corporation had made a provision of Rs. 1,500 million there against. During the year negotiations were concluded between the Corporation and CAA as a result of which, a consensus has been reached with respect to the disputed items in favour of the Corporation. This has resulted in reversal of the provision.

	Note	2010	2009
Rupees in '000			
27. ACCRUED INTEREST			
Mark-up / profit payable on:			
- long-term financing		1,239,875	412,905
- term finance certificates		642,462	614,140
- sukuk certificates		203,456	195,840
- short-term borrowings		375,131	312,772
- provident fund		611,621	309,935
		<u>3,072,545</u>	<u>1,845,592</u>

28. SHORT-TERM BORROWINGS

Short-term loans	28.1	14,304,200	16,796,238
Running finance under mark-up arrangements	28.2	8,360,909	7,185,922
		<u>22,665,109</u>	<u>23,982,160</u>

28.1 Short-term loans - secured

Financier	Security	Facility amount (million)	Repayment period	2010	2009
Rupees in '000					
From Banking Companies					
Habib Bank Limited	GoP Guarantee	2,000 PKR	3 months	2,000,000	2,000,000
Habib Bank Limited	GoP Guarantee and promissory notes amounting to Rs 2,133 million	1,600 PKR	12 months	1,600,000	1,600,000
Habib Allied International Bank Limited - London	EURO receivables	9 USD	1 month	772,200	757,800
National Bank of Pakistan - Bahrain	UK receivables	20 GBP	-	-	1,803,191
National Bank of Pakistan - Bahrain	Charge over Saudi Arabia, Bangladesh, Dhaka, Oman and Muscat receivables	75 SAR	-	-	1,122,247
Habib Bank Limited	GoP Guarantee and promissory note amounting to Rs. 2,400 million	2,000 PKR	12 months	2,000,000	2,000,000
National Bank of Pakistan	GoP Guarantee	1,500 PKR	12 months	1,500,000	1,500,000
Habib Bank Limited	GoP Guarantee and promissory note amounting to Rs. 1,334 million	1,000 PKR	12 months	1,000,000	1,000,000
Carried forward				<u>8,872,200</u>	<u>11,783,238</u>

Financier	Security	Facility amount (million)	Repayment period	Rupees in '000	
				2010	2009
Brought forward				8,872,200	11,783,238
Hong Kong Shanghai Banking Corporation	GoP Guarantee and promissory note amounting to Rs. 1,600 million	1,000 PKR	-	-	1,000,000
Askari Bank Limited	GoP Guarantee	1,500 PKR	12 months	1,500,000	1,500,000
KASB Bank Limited	GoP Guarantee and promissory note amounting to Rs. 595 million	500 PKR	9 months	500,000	500,000
Barclays PLC	GoP Guarantee	300 PKR	-	-	750,000
Faysal Bank Limited	GoP Guarantee and ranking hypothecation charge over all current assets	15 USD	12 months	1,287,000	1,263,000
National Bank of Pakistan - Bahrain	Charge over UK, Saudi Arabia, Bangladesh and Oman receivables	20 USD	6 months	858,000	-
National Bank of Pakistan - Bahrain	Charge over UK and Saudi Arabia receivables	60 USD	3 months	1,287,000	-
				<u>14,304,200</u>	<u>16,796,238</u>

28.1.1 The borrowings in PKR carry mark-up with a spread of 0.85% to 0.90% over 1 month and 3 months KIBOR (2009: spread of 0.85% to 0.90% over 1 month and 3 months KIBOR). The borrowings in foreign currencies carry mark-up with a spread of 2.0% to 5.25% over 1 month and 3 months LIBOR / SIBOR (2009: a spread of 2.0% to 5.25% over 1 month and 3 months LIBOR / SIBOR).

28.2 Running finance under mark-up arrangements

Financier	Security	Facility amount (million)	Unavailed credit (million)	Repayment period	2010	2009
— Rupees in '000 —						
Secured						
United Bank Limited - Karachi	Hypothecation charge of Rs. 3,427 million on all present and future stock and spares and assignment of receivables from Karachi and Lahore	PKR 2,570 & PKR 380	73 PKR	8 Months 1 Month	2,876,591	2,439,718
Habib Bank Limited - NYC	EURO receivables	3 USD	-	1 Year	-	240,974
National Bank of Pakistan	First pari passu hypothecation charge on all present and future including local receivables routed through NBP current assets	PKR 575 & PKR 925	26 PKR	7 Months 3 Months	1,474,122	575,017
Habib Allied International Bank Limited - London	EURO receivables	3 USD	-	On Demand	257,287	251,931
KASB Bank Limited	Domestic receivables	400 PKR	-	1 Year	400,000	400,000
United Bank Limited - Dubai	First pari passu hypothecation, charge on all present and future current assets	22 USD	-	8 Months	1,887,415	1,859,507
Summit Bank Limited (formerly Arif Habib Bank Limited)	Hypothecation charge on specific receivables of Mirpur Azad Kashmir Region.	300 PKR	137 PKR	3 Months	163,043	123,936
United Bank Limited - Bahrain	First pari passu hypothecation charge on all present and future current assets	13 USD	-	8 Months	1,112,192	1,092,752
Habib Bank Limited	Hypothecation charge on all present and future spare parts, accessories of aircraft assets and on domestic receivables	350 PKR	203 PKR	1 Year	95,879	202,087
Un-secured						
Habib American Bank	-	1.5 USD	0.4 USD	On Demand	94,380	-
					8,360,909	7,185,922

- 28.2.1** The borrowings in PKR carry mark-up with a spread of 2.0% to 2.5% over 1 month and 3 months KIBOR. Borrowings in USD comprise of fixed and variable rate borrowings. Fixed rate borrowing carries mark-up at the rate of 3.25% per annum whereas variable rate borrowings carry mark-up with a spread of 3% to 5% over 1 month and 3 months LIBOR.

29. CONTINGENCIES AND COMMITMENTS

29.1 Contingencies

- a) The tax department had raised demand of Rs. 566.544 million (2009: Rs. 566.544 million) as Federal Excise Duty (FED) along with penalty of Rs. 1 million (2009: Rs. 1 million) and additional duty of Rs. 2,923.005 million on the contention that the Corporation had not collected FED on tickets provided to its employees either free of cost or at concessional rates. The Corporation has paid Rs. 100 million (note 14) against this which is considered fully recoverable from the department. This case is currently under adjudication before Appellate Tribunal Inland Revenue (ATIR). Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements.
- b) The tax department has also raised demands of Rs. 6.804 million (2009: Rs. 6.804 million) and Rs. 277.621 million (2009: Rs. 277.621 million) as FED and Sales Tax respectively along with penalty of Rs. 1.205 million (2009: Rs. 1.205 million) and additional duty / default surcharge of Rs. 17.91 million (2009: Rs. 18.804 million) during the audit of the Corporation for the periods 2004-2005 and 2005-2006. These demands were raised on the issues of late payment of FED, collection of FED at incorrect rate, incorrect apportionment of input tax and failure to collect FED on carriage of goods / mail of Pakistan Post. The Corporation has paid an amount of Rs. 25 million (2009: Rs. 25 million) in this regard which is considered fully recoverable. The Corporation filed an appeal with the Collector of Customs, Sales Tax and Federal Excise (Appeals), which has been decided partially in favour, partially against and partially remanded back. The Corporation and the department both have filed appeals at the ATIR level which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements.
- c) The tax department has also raised demands of Rs. 2.065 million (2009: Rs. 2.065 million) and Rs. 1,319.101 million (2009: Rs. 1,319.101 million) as FED and Sales Tax respectively along with penalty of Rs. 66.058 million (2009: Rs. 66.058 million) and additional duty / default surcharge of Rs. 534.412 million (2009: Rs. 534.412 million) during the audit of the Corporation for the period 2007-2008. These demands have been raised mainly on the issues of collection of FED at incorrect rate and incorrect apportionment of input tax. The Corporation filed appeal at Commissioner Inland Revenue (Appeals) level, which was decided in favour of the department. Currently, the Corporation has filed appeal against this at ATIR level which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements.
- d) The tax department has levied the penalty of Rs. 5,877.351 million (2009: Rs. 5,877.351 million) and Rs. 5,679.110 million (2009: Rs. Nil) on account of delayed payment of sales tax and FED for the months of November - December 2008 and January - March 2010 respectively. In this respect, the tax department has also levied default surcharge and 5% penalty on the unpaid sales tax and FED amounting to Rs. 38.88 million and Rs. 79.969 million respectively. This matter has been referred for deletion and notification is awaited in the light of discussions held with Federal Board of Revenue (FBR), Ministry of Defence and Ministry of Finance. It is expected that a notification for deletion in this regard would be issued shortly. Accordingly, no provision has been made in these unconsolidated financial statements.
- e) A show cause notice was issued to the Corporation by the Collector of Customs demanding the payment of Rs. 87.926 million (2009: Rs. 87.926 million) in respect of custom duties and other taxes levied on the import of simulator. The Corporation has filed an appeal before the Appellate Tribunal which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements.

- f) The custom authorities raised demands aggregating Rs. 274.120 million (2009: Rs. 274.120 million) in total of 44 cases of identical nature by imposing custom duty, sales tax and income tax and penalty of Rs. 54.824 million (2009: Rs. 54.824 million) on re-import of aircraft engines after repair. The Corporation filed an application to the FBR at Alternate Dispute Resolution Committee (ADRC) for review of the demands. The total demand raised by the custom authorities was reduced to Rs. 226.172 million (2009: Rs. 226.172 million) as a result of the decision of ADRC. Against the amount of Rs. 226.172 million, the Corporation has paid an amount of Rs. 95.245 million and filed a petition in the High Court of Sindh, which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements.
- g) Competition Commission of Pakistan (CCP) vide its order dated November 20, 2009 has imposed a token penalty of Rs. 10 million on account of unreasonable increase in Hajj fare during the year 2008 as compared to Hajj season 2007. Further, on account of discrimination between Hajj passengers and regular passengers the Corporation was directed to work out an amount of refund to be paid back to Hajjis based on the difference of fare between regular passenger and short duration Hajjis who flew during Hajj season 2008. The total amount of refund estimated by the Corporation is Rs. 417 million. The Corporation has filed 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 believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements.
- 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 unconsolidated financial statements.
- i) The Corporation is contesting several litigations mainly relating to suits filed against it for unlawful termination of contracts, breach of contractual rights and obligations, non-performance of servicing stipulations due to negligence or otherwise. The Corporation's management is of the view that these cases have no sound legal footing and it does not expect these contingencies to materialise. Accordingly, no provision has been made in these unconsolidated financial statements against these claims amounting to Rs. 3,549 million (2009: Rs. 3,391 million).
- j) Claims against Corporation not acknowledged as debt amount to Rs. 1,184 million (2009: Rs. 1,184 million).
- k) Contingencies relating to income tax matters are disclosed in note 37.1.

29.2 Commitments

- a) Commitments for purchase of Simulator amounted to Rs. 169.171 million (2009: Rs. 1,128.130 million).
- b) Commitments for capital expenditure amounted to Rs. 3.118 million (2009: Rs. 103.1 million).
- c) Outstanding letters of credit amounted to Rs. 175.762 million (2009: Rs. 188 million).
- d) Outstanding letters of guarantee amounted to Rs. 546.703 million (2009: Rs. 587 million).
- e) The amount of future payments in operating lease arrangement relating to Aircraft 777-200 ER and the period in which these payments will become due is as follows:

	2010	2009
	Rupees in '000	
Not later than one year	1,106,068	1,084,178
Later than one year but not later than five years	5,386,876	5,309,362
Later than five years	179,398	1,230,931
	6,672,342	7,624,471

	Note	2010	2009
		Rupees in '000	
30. REVENUE - net			
Passenger		95,743,203	84,510,491
Cargo		6,405,627	4,981,666
Excess baggage		1,071,502	1,045,167
Charter services		460,559	988,928
Engineering services		1,249,785	900,795
Handling and related services		673,301	580,857
Mail		440,014	352,339
Others		1,487,599	1,203,522
		<u>107,531,590</u>	<u>94,563,765</u>
31. COST OF SERVICES - others			
Salaries, wages and allowances		9,593,880	8,772,691
Welfare and social security costs		112,270	112,147
Retirement benefits		1,928,933	2,162,010
Compensated absences		268,539	244,281
Legal and professional charges		8,198	7,632
Stores and spares consumed		2,838,255	2,463,387
Maintenance and overhaul		4,685,690	3,829,964
Flight equipment rental		1,253,075	1,149,038
Landing and handling		11,921,701	10,494,356
Passenger services		3,693,937	3,013,146
Crew layover		3,027,500	2,559,818
Staff training		122,758	109,578
Utilities		7,642	6,557
Communication		56,574	52,927
Insurance		1,456,112	1,358,123
Rent, rates and taxes		498,859	585,271
Printing and stationery		210,594	171,575
Depreciation	5.5	5,922,444	9,201,856
Amortisation on intangibles	6.2.1	2,576	2,576
Others		242,633	296,077
		<u>47,852,170</u>	<u>46,593,010</u>
32. DISTRIBUTION COSTS			
Salaries, wages and allowances		1,731,058	1,648,369
Welfare and social security costs		101,660	168,649
Retirement benefits		488,351	547,359
Compensated absences		71,834	65,345
Distribution and advertising expenses		2,263,775	2,249,398
Legal and professional charges		28,686	27,218
Repairs and maintenance		106,303	98,744
Insurance		20,123	16,671
Printing and stationery		37,957	48,015
Communication		433,932	410,877
Staff training		51,932	66,133
Rent, rates and taxes		336,316	332,712
Utilities		31,606	26,952
Amortisation on intangibles	6.2.1	1,110	1,130
Depreciation	5.5	44,401	49,764
Others		138,987	154,610
		<u>5,888,031</u>	<u>5,911,946</u>

	Note	2010	2009
Rupees in '000			
33. ADMINISTRATIVE EXPENSES			
Salaries, wages and allowances		2,134,566	1,983,075
Welfare and social security costs		1,478,504	1,193,627
Retirement benefits		566,296	634,722
Compensated absences		80,660	73,374
Legal and professional charges		246,107	237,664
Repairs and maintenance		386,145	345,941
Insurance		14,081	17,239
Printing and stationery		70,613	100,460
Staff training		68,051	73,624
Rent, rates and taxes		483,077	418,673
Utilities		635,043	534,235
Auditors' remuneration	33.1	15,442	10,632
Communication		978,914	779,127
Amortisation on intangibles	6.2.1	18,832	18,830
Depreciation	5.5	224,199	223,267
Donations	33.2	4,878	5,630
Others		411,000	530,545
		<u>7,816,408</u>	<u>7,180,665</u>

33.1 Auditors' remuneration

	2010			2009		
	Rupees in '000					
	M. Yousuf Adil Saleem & Co.	A.F. Ferguson & Co.	Total	M. Yousuf Adil Saleem & Co.	Anjum Asim Shahid Rehman & Co.	Total
Audit fee	3,363	3,363	6,726	3,363	3,363	6,726
Fee for review of interim financial statements	1,008	1,008	2,016	1,008	1,008	2,016
Consolidated financial statements	500	500	1,000	500	500	1,000
Code of Corporate Governance	172	172	344	172	173	345
Out of pocket expenses	273	273	546	273	272	545
Tax services	-	1,310	1,310	-	-	-
Other services	3,500	-	3,500	-	-	-
	<u>8,816</u>	<u>6,626</u>	<u>15,442</u>	<u>5,316</u>	<u>5,316</u>	<u>10,632</u>

33.2 Donations include payment aggregating Rs. 2.42 million to Al-Shifa Trust situated at Terminal-2 Road, Karachi Airport, Karachi, Pakistan in which the then Managing Director was interested as a Trustee. Besides this, none of the directors or their spouse have any interest in the donees.

	Note	2010	2009
Rupees in '000			
34. OTHER PROVISIONS AND ADJUSTMENTS - net			
Loss on disposal of capital spares / assets written off		28,547	57,143
Provision for slow moving and obsolete spares	10.1	173,998	445,684
Provision / (reversal of provision) for doubtful debts	11.1	364,959	(113,951)
Arrears against mandatory retirement		4,636	53,506
Provision against doubtful other receivables	14.2	8,267	138,553
Advance given to CAA written off		143,835	-
Provision against doubtful advances	12.2	-	108,887
Others		1,905	27
		<u>726,147</u>	<u>689,849</u>

	Note	2010	2009
Rupees in '000			
35. OTHER OPERATING INCOME			
Income from financial assets			
Profit on bank deposits		20,457	32,778
Derivative income		457,061	149,767
		<u>477,518</u>	<u>182,545</u>
Income from assets other than financial assets			
Gain on disposal of property, plant and equipment		5,785	1,452
Insurance claims		49,080	436,429
Reversal of provision no longer required in respect of CAA	26.1	1,500,000	-
Others		237,569	23,803
		<u>1,792,434</u>	<u>461,684</u>
		<u>2,269,952</u>	<u>644,229</u>
36. FINANCE COSTS			
Mark-up on long-term financing		1,948,429	1,563,774
Mark-up on term finance certificates		1,714,180	1,807,991
Profit on sukuk certificates		976,588	195,840
Interest on liabilities against assets subject to finance lease		1,454,607	1,854,656
Mark-up on short-term borrowings		2,414,358	3,244,074
Interest on provident fund		301,686	189,851
Arrangement, agency and commitment fee		223,105	118,534
Amortisation of prepaid exposure fee		224,491	216,790
Bank charges, guarantee commission and other related charges		42,374	52,258
		<u>9,299,818</u>	<u>9,243,768</u>
37. TAXATION			
Current - for the year	37.1	1,077,678	472,819
- for prior years		5,872	893,525
		<u>1,083,550</u>	<u>1,366,344</u>
Deferred	37.2	11,121,831	(8,852,677)
		<u>12,205,381</u>	<u>(7,486,333)</u>

37.1 Current

37.1.1 In view of available tax losses for the year, provision for minimum taxation has been made at 1% (2009: 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.

37.1.2 The Corporation has filed tax returns for tax years up to tax year 2010 of which tax returns from tax years 2003 to 2010 have been filed under self assessment scheme. All assessments for tax years 1991 to 2002 have been finalised by the department. The minimum tax liability under section 80D of the repealed ordinance had been levied by the department from assessment year 1991-92 to assessment year 2002-03 after adding 10% of net turnover on estimated basis. The Corporation had filed appeals against it which have been decided in favour of the Corporation at Appellate Tribunal Inland Revenue (ATIR) level. The department has now filed appeal at High Court in respect of assessment year 2000-01, which is pending adjudication. Management believes that this issue will be decided in favour of the Corporation without any additional tax liability.

37.1.3 The tax department raised a demand of Rs. 1,146.081 million [reduced to Rs. 939.009 million by Commissioner Inland Revenue (Appeals)] for tax year 2005. The main contention among others was disallowance of depreciation claimed on leased aircraft. The Corporation claimed the depreciation on the contention that those aircrafts were obtained under hire purchase arrangement which has been approved by Ministry of Finance as a financing arrangement. The department did not accept this contention and disallowed depreciation expense as inadmissible. An amount of Rs. 48.235 million was recovered by FBR in this respect which has been netted off against 'provision for taxation' in these unconsolidated financial statements. The Corporation filed appeal at CIT(A) level which was decided partially in favour of the Corporation. Being further aggrieved, the Corporation has filed appeal at ITAT level which is pending adjudication. The Corporation is confident that this issue will ultimately be decided in its favour and the amount will be recovered.

	2010	2009
	Rupees in '000	
37.2 Deferred taxation		
Deferred tax credits:		
Accelerated tax depreciation	23,379,080	23,026,712
Surplus on revaluation of property, plant and equipment	-	11,908,248
	23,379,080	34,934,960
Deferred tax debits:		
Unused tax losses	(19,270,487)	(32,098,071)
Provisions for liabilities and to write down other assets	(4,108,593)	(2,836,889)
	(23,379,080)	(34,934,960)
	-	-

37.2.1 In accordance with the accounting policy of the Corporation (note 4.10), deferred tax asset of Rs. 27,093 million (2009: Rs. 10,624 million) has not been recognised in these unconsolidated financial statements due to uncertainty in availability of sufficient future taxable profits.

37.2.2 Movement in temporary differences during the year

	Balance as at January 1, 2009	Recognised in profit and loss account	Recognised in equity	Balance as at December 31, 2009	Recognised in profit and loss account	Recognised in equity	Balance as at December 31, 2010
Rupees in '000							
Deferred tax credits:							
Accelerated tax depreciation	22,527,268	499,444	-	23,026,712	352,368	-	23,379,080
Surplus on revaluation of property, plant and equipment	4,154,586	(1,099,015)	8,852,677	11,908,248	(786,417)	(11,121,831)	-
	26,681,854	(599,571)	8,852,677	34,934,960	(434,049)	(11,121,831)	23,379,080
Deferred tax debits:							
Unused tax losses	(24,483,276)	(7,614,795)	-	(32,098,071)	12,827,584	-	(19,270,487)
Provisions for liabilities and to write down other assets	(2,198,578)	(638,311)	-	(2,836,889)	(1,271,704)	-	(4,108,593)
	(26,681,854)	(8,253,106)	-	(34,934,960)	11,555,880	-	(23,379,080)
	-	(8,852,677)	8,852,677	-	11,121,831	(11,121,831)	-

38. EARNINGS PER SHARE - BASIC AND DILUTED

	2010	2009 Restated
Loss for the year (Rupees in '000)	(20,785,123)	(4,947,983)
Weighted average number of ordinary shares outstanding	2,477,153,436	2,142,060,245
Earnings per share		
'A' class ordinary share (Rupees)	(8.39)	(2.31)
'B' class ordinary share (Rupees)	(4.20)	(1.16)

38.1 Earnings per share has no dilution effect.

39. CASH GENERATED FROM OPERATIONS

	2010	2009 Restated
	Rupees in '000	
Loss before tax	(8,579,742)	(12,434,316)
Adjustments for:		
Depreciation	6,191,044	9,474,887
Gain on disposal of property, plant and equipment	(5,785)	(1,452)
Amortization of intangibles	22,518	22,536
Provision for slow moving stores and spares	173,998	445,684
Provision / (reversal of provision) for doubtful debts	364,959	(113,951)
Advance given to CAA written off	143,835	-
Property, plant and equipment written off	28,547	-
Written off / (reversal) during the year	-	(3,179)
Provision for doubtful advances	-	108,887
Provision for employees' benefits	3,003,261	3,353,062
Provision for other receivables	8,267	138,553
Finance costs	9,299,818	9,243,768
Profit on bank deposits	(20,457)	(32,778)
Reversal of provision against short term investments	(478)	(1,133)
Reversal of provision no longer required in respect of CAA	(1,500,000)	-
	9,129,785	10,200,568
Working capital changes		
Increase in stores and spares	(29,114)	(706,167)
Increase in trade debts	(669,881)	(2,103,208)
Decrease / (increase) in advances	676,647	(879,439)
Decrease in trade deposits and prepayments	31,072	433,086
(Increase) / decrease in other receivables	(481,371)	503,818
Increase in trade and other payables	3,852,200	617,372
	3,379,553	(2,134,538)
Cash generated from operations	12,509,338	8,066,030

40. REMUNERATION OF MANAGING DIRECTOR AND EXECUTIVES

	Managing Director		Unit Heads		Executives	
	2010	2009	2010	2009	2010	2009
	Rupees in '000					
Managerial remuneration	14,110	11,507	47,149	37,351	2,900,871	2,769,321
Corporation's contribution to provident fund	240	241	1,729	1,166	109,379	107,774
Other perquisites	513	-	13,241	12,096	1,614,210	1,389,318
	<u>14,863</u>	<u>11,748</u>	<u>62,119</u>	<u>50,613</u>	<u>4,624,460</u>	<u>4,266,413</u>
Number	<u>1</u>	<u>1</u>	<u>12</u>	<u>13</u>	<u>2,045</u>	<u>2,208</u>

Directors other than the Managing Director are non-executive directors. Aggregate amount charged in the financial statements for fee to directors was Rs. Nil (2009: Rs. Nil). Managing Director and certain executives are also provided with the Corporation's maintained cars and facilities as per the Corporation's rules.

41. REVENUE BY GEOGRAPHICAL SEGMENTS

	2010	2009
	Rupees in '000	
Revenue analysis		
USA / Canada	7,992,618	5,080,074
Europe	19,211,875	17,839,862
Middle East / Africa	20,875,255	20,039,639
Asia (excluding Pakistan)	4,381,339	3,370,979
Pakistan	55,070,503	48,233,211
	<u>107,531,590</u>	<u>94,563,765</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.

42. FINANCIAL RISK MANAGEMENT

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

a) Fuel price risk

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

b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. In addition, the Corporation has substantial foreign currency borrowings and lease liabilities that are primarily denominated in US Dollar, 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:

	2010	2009	2010	2009
	Rupees in '000		Rupees in '000	
Change in USD rate		(+5%)		(-5%)
Effect on loss before tax	(4,664,913)	(1,113,300)	4,664,913	1,113,300
Change in GBP rate		(+5%)		(-5%)
Effect on loss before tax	60,407	(20,220)	(60,407)	20,220
Change in SAR rate		(+5%)		(-5%)
Effect on loss before tax	42,106	(44,660)	(42,106)	44,660

c) Interest rate risk

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

	2010	2009
	Rupees in '000	
Variable rate instruments at carrying amount:		
Long-term financing	22,388,996	17,953,888
Term finance and sukuk certificates	19,592,320	19,597,440
Liabilities against assets subject to finance lease	39,826,692	44,195,480
Short-term borrowings	22,570,729	23,982,160
	<u>104,378,737</u>	<u>105,728,968</u>
Fixed rate instruments at carrying amount		
Long-term financing	12,321,159	11,927,683
Liabilities against assets subject to finance lease	22,498,893	25,198,648
Short-term borrowings	94,380	-
Bank deposits	(579,497)	(144,390)
	<u>34,334,935</u>	<u>36,981,941</u>

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	KIBOR		LIBOR	
	2010	2009	2010	2009
	Rupees in '000		Rupees in '000	
Change in interest rate	(+1%)		(+0.25%)	
Effect on loss before tax	(353,152)	(386,728)	(172,659)	(233,285)
Change in interest rate	(-1%)		(-0.25%)	
Effect on loss before tax	353,152	386,728	172,659	233,285

d) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors effecting all similar financial instruments traded in the market. The Corporation is not significantly exposed to equity securities price risk as majority of its investments are in subsidiaries, associated companies and joint venture which are stated at cost.

42.2 Liquidity risk

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

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

	Weighted average effective rate of interest	Less than 1 year	1-5 years	More than 5 years	Total
		Rupees in '000			
2010					
Long-term financing	5.94%	8,526,439	27,705,349	5,677,977	41,909,765
Term finance and sukuk certificates	13.73%	4,826,227	21,314,360	-	26,140,587
Liabilities against assets subject to finance lease	2.22%	10,728,274	42,037,772	17,781,957	70,548,003
Trade and other payables	-	12,904,273	-	-	12,904,273
Accrued interest / mark-up / profit	-	3,072,545	-	-	3,072,545
Short-term borrowings	10.40%	24,064,867	-	-	24,064,867
		<u>64,122,625</u>	<u>91,057,481</u>	<u>23,459,934</u>	<u>178,640,040</u>
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	2.620%	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>

42.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. All financial assets except cash in hand are subject to credit risk. The carrying amount of financial assets as at December 31, 2010 represents the maximum credit exposure, which is as follows:

	2010	2009
	Rupees in '000	
Long-term deposits	8,061,881	7,228,002
Trade debts	8,283,109	7,978,187
Advances	282,357	365,915
Trade deposits	130,705	72,005
Other receivables	711,307	467,266
Bank balances	1,381,566	732,488
	<u>18,850,925</u>	<u>16,843,863</u>

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 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 these unconsolidated financial statements.

Other financial assets

The credit risk on liquid funds (cash in transit and bank balances) is limited because the counter parties are primarily banks with a reasonably good credit rating, i.e. at least 'A2' for short term and 'A-' for long term.

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

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

42.4 Fair value of financial instruments

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

42.5 Capital management

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

43. TRANSACTIONS WITH RELATED PARTIES

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:

	2010	2009
	Rupees in '000	
Skyrooms (Private) Limited – Subsidiary		
Payments made against in-transit passengers	226,729	219,065
Sale of motor vehicle	750	-
Abacus Distribution Systems Pakistan (Private) Limited - Joint Venture		
Rent for Global Distribution System	644,015	368,796
Retirement funds		
Contribution to Provident Fund and others	494,138	472,009
Profit oriented state-controlled entities - common ownership		
Purchase of fuel	17,682,000	13,685,000
Insurance premium	1,422,575	1,376,000
Mark-up paid	1,527,593	769,448
GoP - Major shareholder		
Loan installment received	1,000,000	7,000,000
Finance cost	789,041	306,575
Shares issued during the year	2,494,592	1,857,342
Hajj revenue	3,955,037	4,597,549

43.1 Transactions with the directors, chief executives and key management personnel have been disclosed in note 40 to the unconsolidated financial statements.

43.2 Details of balances held with the aforementioned related parties have been disclosed in the respective notes.

43.3 The Corporation's sales of transportation services to subsidiaries, associates, joint ventures, directors and key management personnel are not determinable.

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	Amount Rupees in '000
Balance sheet		
Trade and other payables	Provision for Civil Aviation Authority's claims	1,500,000
Profit and loss account		
Cost of services - aircraft fuel	Other operating income	149,767

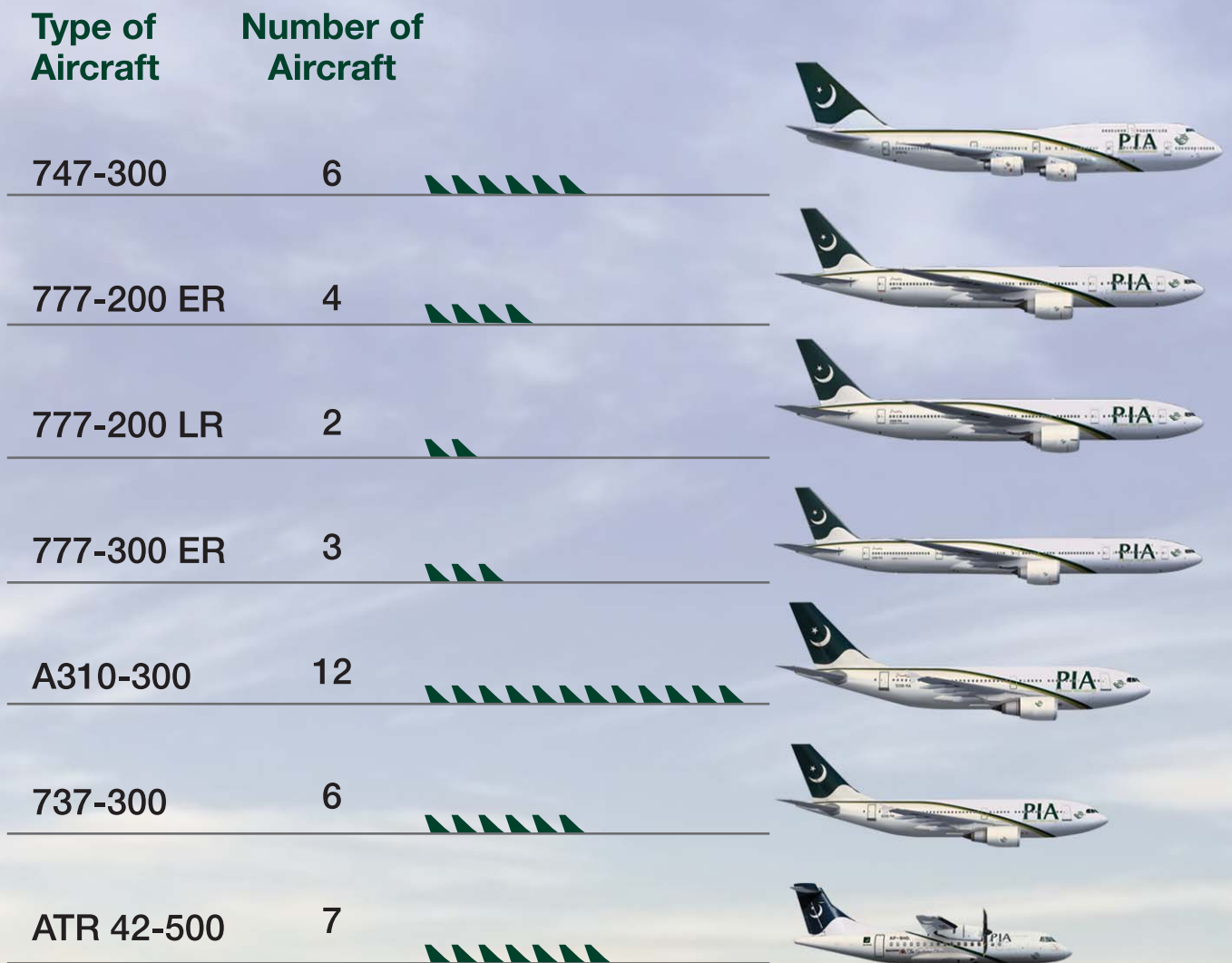
45. AUTHORISATION OF FINANCIAL STATEMENTS

These unconsolidated financial statements were authorised for issue by the Board of Directors in their meeting held on March 26, 2011.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

fleet composition



Great People to Fly With



consolidated
financial statements

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Chartered Accountants
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Chartered Accountants
Cavish Court, A-35,
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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, 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed a separate opinion on the financial statements of the Holding company. The financial statements of the subsidiary companies were 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 the other joint auditor. These consolidated financial statements are the responsibility of the Holding company's management. Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit.

Except as stated in paragraph (i) 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 PIA Investments Limited (PIAIL) - a subsidiary company have qualified their opinions as follows:

- (i) As more fully explained in note 8 to the consolidated financial statements, the receivable aggregating Rs 648.116 million (US \$ 7,553,799) represents PIAIL's share of net assets of its joint venture as of April 21, 1997, the date when that joint venture period expired. The share was recognised based on joint venture's management accounts as of April 21, 1997 as its audited accounts are not available. In this respect the amounts spent on renovation of joint venture assets and amounts set aside as renovation reserve have been added back to the net assets appearing in the aforesaid accounts prepared as of April 21, 1997 because, in view of PIAIL's management, those amounts were spent without its authorisation and are, therefore, subject of a dispute with the other joint venture partner. At present the matter is under arbitration proceedings. As the outcome of the arbitration proceedings is pending todate, it is not possible to determine with any degree of certainty, the amount of joint venture assets which are available for distribution to joint venture partners and the consequential receivable that is to be recognised in the enclosed consolidated financial statements as at December 31, 2010.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters stated in paragraphs (i) above, the consolidated financial statements present fairly the financial position of the Holding company and its subsidiary companies as at December 31, 2010 and the results of their operations for the year then ended.

We draw attention to note 1.2 to the consolidated financial statements, which states that the Holding company incurred a loss for the year of Rs. 20,785.123 million (2009: Rs. 4,947.983 million - restated) during the year ended December 31, 2010, resulting in accumulated losses of Rs. 92,327.743 million (2009: Rs. 73,003.106 million - restated) as of December 31, 2010, and, as of

that date, the Holding company's current liabilities exceeded its current assets by Rs. 59,096.96 million (2009: Rs. 51,937.058 million - restated). These conditions indicate existence of a material uncertainty which may cast doubt about the Holding company's ability to continue as a going concern. Our opinion is not qualified in this respect.

The consolidated financial statements for the year ended December 31, 2009 were audited by Anjum Asim Shahid Rahman, Chartered Accountants and M. Yousuf Adil Saleem & Co., Chartered Accountants whose report dated March 16, 2010 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) in respect of the Holding company and matters relating to going concern and term of lease agreement with the CAA in respect of a subsidiary company.

Chartered Accountants
Audit Engagement Partner: Khurshid Hasan

Chartered Accountants
Audit Engagement Partner: Syed Asad Ali Shah

Karachi: April 1, 2011

Consolidated Balance Sheet

as at December 31, 2010

	Note	2010	2009	2008	2010	2009	2008
		Rupees in '000			US\$ in '000		
		Restated	Restated	Restated	Restated	Restated	Restated
ASSETS							
NON CURRENT ASSETS							
Fixed assets							
- Property, plant and equipment	5	146,169,547	175,560,209	157,828,476	1,703,608	2,085,039	2,000,362
- Intangibles	6	2,856,378	2,826,422	2,675,492	33,291	33,568	33,910
		149,025,925	178,386,631	160,503,968	1,736,899	2,118,607	2,034,272
Long-term investments	7	141,144	89,981	137,425	1,645	1,069	1,742
Receivable from Centre Hotel	8	648,116	636,064	596,027	7,554	7,554	7,554
Long-term loans and advances	9	14,107	12,051	7,629	164	143	97
Long-term deposits and prepayments	10	9,409,373	8,791,561	7,907,505	109,666	104,413	100,222
		159,238,665	187,916,288	169,152,554	1,855,928	2,231,786	2,143,887
CURRENT ASSETS							
Stores and spares	11	3,873,673	4,017,865	3,764,276	45,148	47,718	47,709
Trade debts	12	8,698,030	8,335,142	6,190,561	101,376	98,992	78,461
Short term loans and advances	13	456,624	1,284,021	1,379,248	5,322	15,250	17,481
Trade deposits and prepayments	14	1,587,327	1,672,701	1,688,239	18,500	19,866	21,397
Accrued interest		-	-	1,325	-	-	17
Other receivables	15	1,438,007	1,060,938	1,677,336	16,760	12,600	21,259
Short-term investments	16	847,453	144,060	97,977	9,877	1,711	1,242
Taxation - net		83,048	70,628	321,855	968	839	4,079
Cash and bank balances	17	5,927,994	4,691,221	4,059,865	69,091	55,715	51,456
		22,912,156	21,276,576	19,180,682	267,042	252,691	243,101
TOTAL ASSETS		182,150,821	209,192,864	188,333,236	2,122,970	2,484,477	2,386,988

Consolidated Balance Sheet

as at December 31, 2010

Note	Rupees in '000			US\$ in '000			
	2010	2009 Restated	2008 Restated	2010	2009 Restated	2008 Restated	
EQUITY AND LIABILITIES							
SHARE CAPITAL AND RESERVES							
Share capital	18	25,774,948	23,280,356	21,423,014	300,407	276,489	271,521
Reserves	19	(82,333,026)	(63,838,186)	(62,883,030)	(959,593)	(758,174)	(796,996)
Attributable to the Holding company's shareholders		(56,558,078)	(40,557,830)	(41,460,016)	(659,186)	(481,685)	(525,475)
Non-controlling interest		1,191,149	972,553	889,061	13,883	11,551	11,268
Total equity		(55,366,929)	(39,585,277)	(40,570,955)	(645,303)	(470,134)	(514,207)
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT- NET							
		21,059,425	38,867,197	25,783,382	245,448	461,606	326,786
NON CURRENT LIABILITIES							
Long-term financing	20	29,437,736	40,300,378	34,426,312	343,097	478,627	436,328
Term finance and sukuk certificates	21	17,457,280	19,592,320	12,430,143	203,465	232,688	157,543
Liabilities against assets subject to finance lease	22	53,757,595	61,321,895	65,088,789	626,545	728,289	824,953
Long-term deposits	23	384,293	365,979	301,902	4,479	4,347	3,826
Advance rent		-	-	3,486	-	-	44
Deferred liabilities	24	24,281,277	18,307,683	16,269,775	282,999	217,431	206,208
		125,318,181	139,888,255	128,520,407	1,460,585	1,661,382	1,628,902
CURRENT LIABILITIES							
Trade and other payables	25	31,857,333	27,909,306	28,047,312	371,298	331,464	355,479
Provision for Civil Aviation Authority's claims	26	-	1,500,000	1,500,000	-	17,815	19,011
Accrued interest	27	3,096,164	1,845,592	1,475,456	36,086	21,919	18,700
Provision for taxation		1,640,243	980,550	156,800	19,117	11,645	1,987
Short-term borrowings	28	22,665,109	23,982,160	30,500,062	264,162	284,824	386,566
Current maturity of:							
- Long-term financing	20	21,129,942	5,655,812	5,649,136	246,270	67,171	71,599
- Term finance and sukuk certificates	21	2,135,040	5,120	-	24,884	61	-
- Advance rent		-	3,486	3,300	-	42	42
- Liabilities against assets subject to finance lease	22	8,616,313	8,140,663	7,268,336	100,423	96,682	92,123
		91,140,144	70,022,689	74,600,402	1,062,240	831,623	945,507
TOTAL EQUITY AND LIABILITIES		182,150,821	209,192,864	188,333,236	2,122,970	2,484,477	2,386,988
CONTINGENCIES AND COMMITMENTS							
	29						

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, 2010

	Note	2010 Rupees in '000	2009 Restated	2010 US\$ in '000	2009 Restated
REVENUE - net	30	117,336,176	103,250,358	1,367,554	1,226,251
COST OF SERVICES					
Aircraft fuel		(44,707,004)	(31,371,753)	(521,061)	(372,586)
Others	31	(53,918,808)	(53,651,857)	(628,424)	(637,195)
		(98,625,812)	(85,023,610)	(1,149,485)	(1,009,781)
GROSS PROFIT		18,710,364	18,226,748	218,069	216,470
Distribution costs	32	(6,254,267)	(6,124,229)	(72,894)	(72,734)
Administrative expenses	33	(9,953,614)	(7,722,306)	(116,009)	(91,714)
Other provisions and adjustments - net	34	(722,884)	(618,788)	(8,425)	(7,349)
Exchange loss - net		(2,091,706)	(6,501,552)	(24,379)	(77,216)
Other operating income	35	2,289,176	560,319	26,680	6,655
		(16,733,295)	(20,406,556)	(195,027)	(242,358)
PROFIT / (LOSS) FROM OPERATIONS		1,977,069	(2,179,808)	23,042	(25,888)
Finance costs	36	(9,622,515)	(9,604,550)	(112,151)	(114,068)
Share of profit from joint venture		51,427	-	599	-
Share of loss from associated company		(486)	(433)	(6)	(5)
LOSS BEFORE TAXATION		(7,594,505)	(11,784,791)	(88,516)	(139,961)
Taxation	37		7,438,882	(145,155)	88,348
Current - for the year		(1,512,046)	(711,974)	(17,623)	(8,456)
- for prior year		(13,606)	(893,525)	(158)	(10,612)
		(1,525,652)	(1,605,499)	(17,781)	(19,068)
Deferred tax (charge)/credit due to (deficit)/surplus in revaluation of aircraft		(10,928,666)*	9,044,381	(127,374)*	107,416
		(12,454,318)	7,438,882	(145,155)	88,348
LOSS FOR THE YEAR		(20,048,823)	(4,345,909)	(233,671)	(51,613)
Attributable to:					
Equity holders of the Holding company		(20,076,056)	(4,358,593)	(233,988)	(51,764)
Non controlling interest		27,233	12,684	317	151
		(20,048,823)	(4,345,909)	(233,671)	(51,613)
		(Rupees)		(US\$)	
EARNINGS PER SHARE - BASIC AND DILUTED			Restated		Restated
Loss attributable to:					
'A' class Ordinary shares of Rs.10 each	38	(8.09)	(2.03)	(0.09)	(0.02)
'B' class Ordinary shares of Rs. 5 each	38	(4.05)	(1.01)	(0.05)	(0.01)

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

* This deferred tax charge has resulted from significant decline in the fair value of aircraft as of December 31, 2010. It has no impact on the cash flows of the Corporation. Deferred tax asset of Rs. 27,093 million has not been recognised due to continuing loss situation (note 24.1.4).

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2010

	2010 Rupees in '000	2009 Restated	2010 US\$ in '000	2009 Restated
Loss for the year	(20,048,823)	(4,345,909)	(233,671)	(51,613)
Other Comprehensive Income				
Unrealised loss on re-measurement of available for sale investments	(1,379)	(43,987)	(16)	(522)
Reclassification adjustment for loss transferred to profit and loss account on account of cash flow hedge	-	125,271	-	1,488
Exchange differences on translation of foreign operations	(105,437)	711,156	(1,229)	8,446
Total comprehensive income	<u>(20,155,639)</u>	<u>(3,553,469)</u>	<u>(234,916)</u>	<u>(42,201)</u>
Attributable to:				
Equity holders of the Holding company	(20,171,406)	(3,569,861)	(235,100)	(42,396)
Non controlling interest	15,767	16,392	184	195
	<u>(20,155,639)</u>	<u>(3,553,469)</u>	<u>(234,916)</u>	<u>(42,201)</u>

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

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated Cash Flow Statement

for the year ended December 31, 2010

	Note	2010 Rupees in '000	2009 Restated	2010 US\$ in '000	2009 Restated
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations after working capital changes	39	14,293,829	9,013,850	166,595	107,053
Profit on bank deposits received		20,459	35,130	238	417
Finance costs paid		(8,395,780)	(9,254,754)	(97,853)	(109,914)
Taxes paid		(852,382)	(532,986)	(9,935)	(6,330)
Staff retirement benefits paid		(334,648)	(288,735)	(3,900)	(3,429)
Long-term deposits and prepayments - net		(544,893)	(883,235)	(6,351)	(10,490)
Net cash inflow / (outflow) from operating activities		4,186,585	(1,910,730)	48,794	(22,693)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(1,613,973)	(2,818,864)	(18,811)	(33,478)
Proceeds from sale of property, plant and equipment		22,348	20,176	260	240
Purchase of intangibles		(54,167)	(175,159)	(631)	(2,080)
Proceeds from long term investments		-	6,704	-	80
Payments against long term loans		(2,056)	(4,422)	(24)	(53)
Payments to central hotel		(12,052)	(40,037)	(140)	(475)
Net cash outflow from investing activities		(1,659,900)	(3,011,602)	(19,346)	(35,766)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		2,494,593	1,857,341	29,076	22,057
Proceeds from long-term financing		4,611,488	5,880,742	53,747	69,843
Proceeds from issue of term finance and sukuk certificates		-	7,167,297	-	85,122
Redemption of term finance certificates		(5,120)	-	(60)	-
Payment for advance rent		(3,486)	(3,300)	(41)	(39)
Proceeds from long-term deposits		18,314	64,077	213	761
Repayment of obligations under finance lease - net		(7,088,650)	(2,894,567)	(82,618)	(34,377)
Net cash generated from financing activities		27,139	12,071,590	317	143,367
Net increase in cash and cash equivalents		2,553,824	7,149,258	29,765	84,908
Cash and cash equivalents at the beginning of the year		(19,290,939)	(26,440,197)	(224,836)	(314,017)
Cash and cash equivalents at the end of the year		(16,737,115)	(19,290,939)	(195,071)	(229,109)
CASH AND CASH EQUIVALENTS					
Cash and bank balances	17	5,927,994	4,691,221	69,091	55,715
Short-term borrowings	28	(22,665,109)	(23,982,160)	(264,162)	(284,824)
		(16,737,115)	(19,290,939)	(195,071)	(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, 2010

	Attributable to the Holding company's shareholders							Total	Non-controlling interest	Total
	Issued, subscribed, and paid-up capital	Capital reserves	Revenue reserves	Reserves Unrealised gain on re-measurement of investments	Foreign currency translation reserves	Accumulated losses	Other reserves			
	Rupees in '000									
Balance as at January 1, 2009 – previously reported	21,423,014	2,501,038	1,779,674	73,265	1,955,803	(71,836,792)	(123,555)	(44,227,553)	889,061	(43,338,492)
Effect of rectification of prior year adjustment (note 10.1)	–	–	–	–	–	2,767,537	–	2,767,537	–	2,767,537
Balance as at January 1, 2009 – restated	21,423,014	2,501,038	1,779,674	73,265	1,955,803	(69,069,255)	(123,555)	(41,460,016)	889,061	(40,570,955)
Total comprehensive income for the year										
Loss for the year – restated	–	–	–	–	–	(4,358,593)	–	(4,358,593)	12,684	(4,345,909)
Other comprehensive income										
Currency translation differences	–	–	–	–	706,214	–	1,234	707,448	3,708	711,156
Unrealised loss on re-measurement of investments	–	–	–	(43,987)	–	–	–	(43,987)	–	(43,987)
Reclassification adjustment for loss transferred to profit and loss on account of cashflow hedge	–	–	–	–	–	–	125,271	125,271	–	125,271
Total comprehensive income for the year transferred to equity – restated	–	–	–	(43,987)	706,214	(4,358,593)	126,505	(3,569,861)	16,392	(3,553,469)
Surplus on revaluation	–	–	–	–	–	–	–	–	67,100	67,100
Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon – net of tax	–	–	–	–	–	2,614,705	–	2,614,705	–	2,614,705
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 – restated	23,280,356	2,501,038	1,779,674	29,278	2,662,017	(70,813,143)	2,950	(40,557,830)	972,553	(39,585,277)
Balance as at January 1, 2010	23,280,356	2,501,038	1,779,674	29,278	2,662,017	(70,813,143)	2,950	(40,557,830)	972,553	(39,585,277)
Total comprehensive income for the year										
Loss for the year	–	–	–	–	–	(20,076,056)	–	(20,076,056)	27,233	(20,048,823)
Other Comprehensive Income										
Currency translation differences	–	–	–	–	(91,594)	–	(2,377)	(93,971)	(11,466)	(105,437)
Unrealised loss on re-measurement of investments	–	–	–	(1,379)	–	–	–	(1,379)	–	(1,379)
Total comprehensive income for the year transferred to equity	–	–	–	(1,379)	(91,594)	(20,076,056)	(2,377)	(20,171,406)	15,767	(20,155,639)
Surplus on revaluation	–	–	–	–	–	–	–	–	202,829	202,829
Surplus on revaluation of fixed assets realized during the year on account of incremental depreciation charged thereon – net of tax	–	–	–	–	–	1,676,566	–	1,676,566	–	1,676,566
Transactions with owners										
Issue of share capital 'A' class ordinary shares	2,494,592	–	–	–	–	–	–	2,494,592	–	2,494,592
Balance as at December 31, 2010	25,774,948	2,501,038	1,779,674	27,899	2,570,423	(89,212,633)	573	(56,558,078)	1,191,149	(55,366,929)

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, 2010

1. THE GROUP AND ITS OPERATIONS

- 1.1 The "Group" consists of Pakistan International Airlines Corporation, i.e. the Holding company, its subsidiaries and an associate and a joint venture.

Pakistan International Airlines Corporation

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 commercial air transportation, which includes passenger, cargo and postal carriage services. Other activities of the Holding company include provision of engineering and allied services. The head office of the Holding company is situated at PIA Building, Jinnah International Airport, Karachi.

Subsidiaries

PIA Investments Limited (PIAIL) was incorporated on September 10, 1977 in Sharjah, United Arab Emirates, as a limited liability company under a decree issued by H.R.H. the Ruler of Sharjah and is currently registered in British Virgin Islands. During 1986 PIAIL was registered in British Virgin Islands under International Business Companies Ordinance, 1984 (now BVI Business Companies Act, 2004) as a company limited by shares. The principal 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:

		Location	Nature of business	Effective ownership and voting power of PIAIL (%)	Effective ownership and voting power of the Holding company (%)
•	Roosevelt Hotel Corporation, N.V. (RHC)	Netherlands-Antilles	See note (C)	100	99
•	RHC Operating LLC	State of Delaware, USA	Owner of Roosevelt Hotel, New York		
•	Minhal France S.a.r.l [Formerly Minhal France (Curacao) N. V.]	Luxembourg	See notes (A) & (B)	100	99
•	Minhal France B.V.	Netherlands	See note (A)	100	99
•	Minhal France S.A. (MFSA)	France	Owner of Scribe Hotel, Paris	90	89
•	PIA Fuel Management Limited	British Virgin Island	See note (A)	100	99

Note (A): These companies are intermediary holding companies except PIA Fuel Management Limited, which is a dormant company. These companies have been consolidated on the basis of unaudited financial statements as the same are not considered to be material to these consolidated financial statements.

Note (B): During the year ended December 31, 2010, the Minhal France (Curacao) N. V. was relocated to Luxembourg resulting in its change of name to Minhal France S.a.r.l.

Note (C): Roosevelt Hotel Corporation N. V. (RHC) is the intermediary holding company and a sole member of RHC Operating LLC, a company which owns the Roosevelt Hotel. In 2004, to comply with the requirement of loan (note 20.9), RHC transferred the net operating assets of the Hotel to RHC Operating LLC.

Skyrooms (Private) Limited (SRL) was incorporated on May 20, 1975 in Pakistan as a private limited company under the Companies Ordinance, 1984. SRL runs and manages 'Airport Hotel', Karachi. SRL is a wholly owned subsidiary of the Holding company.

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 Securities and Exchange Commission of Pakistan (the SECP) for voluntary winding up. Assets and liabilities of these subsidiaries were taken over by the Holding company, and, accordingly, 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 that 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 70% which will increase to 75% over a period of nine years ending in year 2012.

- 1.2** During the current year, the Holding company incurred a net loss of Rs. 20,785.123 million, (2009: Rs. 4,947.983 million - restated) resulting in accumulated losses of Rs. 92,327.743 million as of December 31, 2010 (2009: Rs. 73,003.106 million - restated). Further, as of December 31, 2010 current liabilities of the Holding company exceeded its current assets by Rs. 59,096.96 million (2009: Rs. 51,937.058 million).

Historically, the Government of Pakistan (GoP) has been extending significant support to the Holding company to ensure that it continues and sustains in the long-term as a viable business entity. GoP, which is also the majority shareholder of the Holding company, has been supporting the Holding company through following measures:

- Reimbursement of financial charges on term finance and sukuk certificates payable by the Holding company. In this respect, amounts aggregating Rs. 13,224 million have been provided to the Holding company towards equity against which shares have been issued by it to GoP upto December 31, 2010;
- Provision of long-term financing to meet working capital requirements. During the current year, GoP has provided an additional fixed rate loan of Rs. 1,000 million, and the total loans received from GoP upto December 31, 2010 aggregated to Rs 8,000 million; and
- Issuance of guarantees to financial institutions both local and foreign so as to enable the Holding company to raise funds at lower interest rates.

During the current year, the Holding company has prepared its five year business plan which has been approved by the Board of Directors of the Holding company and the Ministry of Defence. The business plan has also been endorsed by the Sub-committee of the National Assembly's Standing Committee on Defence which concurs with the recommendations contained in the plan. Further, presentations have been made in respect of the business plan in meetings with the representatives of the Ministry of Finance (MoF), which were chaired by the Finance Minister.

As envisaged in the business plan, the Holding company has devised a turn-around strategy which entails operational restructuring and assumes GoP's support in terms of providing necessary funding for recapitalisation which includes, among other measures, extending existing guarantees and issuance of new guarantees to various financial institutions by GoP. As a result of presentations made in respect of the business plan as set out above the Economic Coordination Committee (ECC) of the Cabinet has in March 2011 accorded approval for extension in existing guarantees issued to various financial institutions by GoP for Rs 8,500 million and also allowed issuance of new guarantees of Rs 5,000 million. Keeping in view the above, management of the Holding company believes that the business plan will be approved and accordingly significant financial support will be provided to the Holding company in the coming years to ensure its long-term sustainability.

In view of the situation set out above, although material uncertainty exists which may cast doubt on the Holding company's and ultimately the Group's ability to continue as a going concern, the management of the Holding company believes that considering the mitigating factors set out in the preceding paragraphs the going concern assumption is appropriate and has, as such prepared these consolidated financial statements on a going concern basis.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the requirements of 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 measurement

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

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

2.3 Functional and presentation currency

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

The US Dollar amounts reported in the balance sheet, profit and loss account, statement of comprehensive income and cash flow statement are stated as additional information, solely for the convenience of the users of these consolidated financial statements. The US Dollar amounts in the consolidated balance sheet, profit and loss account, statement of comprehensive income and cash flow statement have been translated into US Dollar at the rate of Rs. 85.80 = US \$ 1 (2009: Rs. 84.20 = US \$ 1).

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 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.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

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 loss. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group share of loss 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 loss is discontinued except to the extent that the Group have an obligation or have made payments on behalf of the investee.

2.5 Amendments to approved accounting standard effective during the year and relevant to the Group

Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions became effective from January 1, 2010 and requires an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements.

On August 14, 2009, the GoP launched a scheme called Benazir Employees' Stock Option Scheme ('BESOS') for the employees of state owned entities including the Holding company. Under the scheme, Pakistan Employees Empowerment Trust (the Trust) was formed and 12% of the shares held by the Ministry of Defence were transferred to the Trust during that year. The eligible employees have been allotted units of the Trust, based on the length of their service till August 14, 2009. On cessation of the employment each employee will be required to surrender the units for cash payment from Central Revolving Fund (CRF) of the Privatization Commission equivalent to the then prevailing market value of the shares. Under the scheme eligible employees will not be entitled to get the benefit unless they have served for five more years from the date of enforcement of BESOS except for certain exceptional reasons for early separation from the Holding company as mentioned in the Trust deed. The eligible employees will be entitled to 50% of the dividend and the remaining 50% dividend will be transferred to CRF which would settle the surrendered units of the Trust on behalf of GoP.

Management of the Holding company contends that in view of the peculiar nature of the Scheme, the requirements of Amended IFRS-2 are not applicable to the Scheme and accordingly, the management has sought an opinion in respect of the subject matter from the Technical Committee of the Institute of Chartered Accountants of Pakistan (ICAP), being a recognised professional body, the reply to which is still awaited. At present the matter is pending before ICAP and management believes that applicability of IFRS-2 will eventually be exempted by SECP. Accordingly, the financial effects of the above mentioned scheme have not been accounted for under the requirements of Amended IFRS-2 in these consolidated financial statements. Nevertheless, if the effects of BESOS were to be accounted for in these financial statements, the management is of the view that there would not have been any material impact on these consolidated financial statements.

2.6 New standard early adopted by the Group during the year

IAS 24 (Revised), 'Related party disclosures' (effective for annual periods beginning on or after January 1, 2011) - The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. Further, the revised standard also excludes the qualification of an entity as a related party by virtue of common directorship. The Group has used the early adoption option available in IAS 24 (Revised) 'Related party disclosures' and therefore the disclosures made in note 43 are based on the revised standard.

2.7 New / revised standards and interpretations, amendments to the approved accounting standards that became effective during the year ended December 31, 2010 but are not relevant to the Group or do not have any material effect

The following standards (revised or amended) and interpretations and amendments to the approved accounting standards became effective for the current year, but are either not relevant or do not have any material effect on these consolidated financial statements:

- IFRS 3 (Revised) 'Business Combinations'
- IFRS 5 (Amendment) 'Non-current Assets Held for Sale and Discontinued Operations'
- IFRS 8 (Amendment) 'Operating Segments'
- IAS 1 (Amendment) 'Presentation of financial statements'
- IAS 7 (Amendment) 'Statement of Cash flows'
- IAS 17 (Amendment) 'Leases'
- IAS 27 (Amendment) 'Consolidated and Separate Financial Statements'
- IAS 36 (Amendment) 'Impairment of assets'
- IAS 38 (Amendment) 'Intangible assets'
- IAS 39 (Amendment) 'Financial instruments: Recognition and measurement'
- IFRIC 9 (Amendment) 'Re-assessment of embedded derivatives'
- IFRIC 16 (Amendment) 'Hedges of a net investment in a foreign operation'
- IFRIC 17 'Distributions of Non-cash Assets to Owners'
- IFRIC 18 'Transfers of Assets from Customers'

2.8 New / revised standards, interpretations and amendments to published accounting standards that are issued but not yet effective

There are certain new standards and interpretations and amendments to approved accounting standards that are mandatory for the Group's accounting periods beginning on or after January 1, 2011. These are either considered not relevant or do not have any significant effect on the Group's consolidated financial statements other than increase in disclosures and are therefore not mentioned in these consolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

In the process of applying the Group's accounting policies, management has made the following estimates and judgments which are significant to 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 and useful life of aircraft fleet, land and buildings based on the periodic valuations carried out by independent professional valuers. Any change in estimate in future might affect the carrying amounts of the respective item of property, plant and equipment with a corresponding effect on the depreciation charge and impairment, surplus on revaluation and annual transfer of incremental depreciation from surplus on revaluation of 'property, plant and equipment account to accumulated loss'.

Change in accounting estimate

As a result of revaluation exercise conducted by an independent valuer as of December 31, 2009, the useful lives of aircraft fleet of the Holding company have increased. In addition, management has reassessed the residual values of aircraft and related capital spares. These changes in accounting estimates have an impact on depreciation expense for the current year. Had there been no change in useful lives and residual values of aircrafts and related spares, depreciation expense pertaining to aircraft fleet and capital spares for the year would have been higher by Rs. 1,056 million and Rs 206 million respectively, whereas the effect on future periods is impracticable to ascertain considering subsequent measurement of aircraft fleet under the revaluation model and inherent uncertainties attached thereto.

3.2 Employee benefits

The liabilities of defined benefit plans are determined through actuarial valuation using the Projected Unit Credit Method. The method involves making assumptions about discount rates, expected rates of return on pension plan assets, future salary increases, mortality rates, future increase in medical costs and future pension increases. Due to the long-term nature of these benefits, such estimates are subject to certain uncertainties. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 24 to these consolidated financial statements.

3.3 Stores and spares

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

3.4 Taxation

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

3.5 Trade debts

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

3.6 Liability on account of frequent flyer programme

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

3.7 Revenue recognition

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these consolidated financial statements are same as those applied in the preparation of the consolidated financial statements of the Group for the year ended December 31, 2009, except for change stated in note 2.6, and are enumerated as follows:

4.1 Fixed assets

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

Other items of 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 asset is derecognised.

Major renewals, improvements and overhauls are capitalised and depreciated over the period to the next major overhaul. All other repairs and maintenance including cost incurred under 'power-by-the-hour' contracts in relation to aircrafts 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.

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

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

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

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

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

Leased

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

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. Capital spares which are not useable are treated as scrap and charged to profit and loss account.

Capital work-in-progress

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

4.1.2 Intangible assets

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 acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The impairment loss, if any, resulting from such review is charged to the profit and loss account. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Other intangible assets

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

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

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

4.2 Investments

At fair value through profit or loss - held for trading

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

Available for sale

Investments classified as available for sale are initially recognised at fair value, plus transaction costs and are subsequently marked to market using 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 other comprehensive income are reclassified in the profit and loss account.

Held to maturity

Investments with fixed or determinable payments and fixed maturity, for which the 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.

4.3 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 | 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.

4.4 Trade debts and other receivables

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

4.5 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash in hand, balances with banks and 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 Group's cash management.

4.6 Trade and other payables

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

4.7 Loans and borrowings

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

4.8 Employee benefits

The Holding company

Provident fund

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

Pension funds

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

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

Post retirement medical benefits

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

Skyrooms (Private) Limited (SRL)

Defined benefit plan - gratuity

SRL operates an unfunded defined benefit gratuity scheme for all its permanent employees who have completed the prescribed qualifying period of service. Provision for gratuity 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. The last actuarial valuation was conducted as at December 31, 2010 on the basis of the 'projected unit credit method'.

The obligations in respect of defined benefit plans recognised in the balance sheet represent the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses.

Defined contribution plan - provident fund

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 Investments Limited (PIAIL)

PIAIL operates a funded gratuity scheme for its permanent employees who have completed one year of service. PIAIL determines the contributions payable to the fund by calculating maximum benefit that is payable to employees based on their number of years of service as at balance sheet date. PIAIL also operates a provident fund scheme for its permanent employees. Equal contributions are made, both by PIAIL and the employees to the provident fund at the rate of 10% of basic salary.

Roosevelt Hotel Corporation N.V.

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

Minhal France S.A.

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

4.9 Taxation

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

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any, or one 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 balance sheet method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

4.10 Revenue recognition

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

Passenger and cargo revenue

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

Room, food and beverages

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

Engineering and other services

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

Frequent flyer programme revenue

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

In addition, miles are sold to commercial partners to use in promotional activity. The fair value of the miles sold is deferred and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The cost of the redemption of the miles is recognised when the miles are redeemed. The estimates involved in recognising revenue from frequent flyer programme are disclosed in note 3.6.

Interest / mark-up and dividend income

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

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

4.11 Borrowing Costs

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

4.12 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.

4.13 Impairment

Financial assets

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

Non-Financial assets

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

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

4.14 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Pakistani Rupees at foreign exchange rates ruling at the dates the fair value was determined. Exchange gains and losses except for difference in exchange arising on translation of company's net investment in foreign entities, are dealt with in the profit and loss account.

Foreign operations

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

4.15 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value and subsequently at fair value or amortised cost as the case may be. Financial assets are de-recognised at the time when the Group loses control of the contractual rights that comprise the financial assets. Financial liabilities are de-recognised at the time when they are extinguished, that is, when the obligation specified in the contract is

discharged, cancelled, or expired. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to the profit and loss account immediately.

4.16 Derivative financial instruments

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

4.17 Offsetting of financial assets and financial liabilities

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

5. PROPERTY, PLANT AND EQUIPMENT

	Note	2010	2009
		Rupees in '000	
Operating fixed assets			
- owned	5.1	78,207,348	74,036,063
- leased	5.2	66,833,053	100,729,222
Capital work-in-progress	5.9	1,129,146	794,924
		<u>146,169,547</u>	<u>175,560,209</u>

5.1 Operating fixed assets - owned

	Land		Building on:		Hotel property (note 5.4)	Workshops and hangers	Renovation and improvements	Aircraft fleet (note 5.3)	Operating ground equipment, catering, communication and meteorological equipment	Engineering equipment and tools	Traffic equipment	Furniture, fixtures and fittings
	Leasehold (note 5.1.1)	Others (note 5.1.2)	Leasehold land (note 5.1.1)	Other lands (note 5.1.2)								
Rupees in '000												
As at December 31, 2008												
Cost or revalued amount	3,404,592	22,854	3,352,959	829,261	45,254,085	848,894	634,835	38,674,078	631,514	1,324,323	1,763,140	5,559,955
Accumulated depreciation	-	-	(129,623)	(286,586)	(5,267,051)	(718,207)	(507,501)	(18,816,125)	(418,664)	(997,671)	(1,270,007)	(3,098,772)
Net book value	<u>3,404,592</u>	<u>22,854</u>	<u>3,223,336</u>	<u>542,675</u>	<u>39,987,034</u>	<u>130,687</u>	<u>127,334</u>	<u>19,857,953</u>	<u>212,850</u>	<u>326,652</u>	<u>493,133</u>	<u>2,461,183</u>
Year ended December 31, 2009												
Opening net book value	3,404,592	22,854	3,223,336	542,675	39,987,034	130,687	127,334	19,857,953	212,850	326,652	493,133	2,461,183
Additions	-	-	74,146	-	-	47,046	62,640	339,901	15,081	43,343	7,509	190,755
Transfer	-	-	-	-	-	-	-	-	-	-	-	13,836
Revaluation												
Cost or revalued amount	-	-	-	-	(2,970,002)	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	2,405,783	-	-	-	-
	-	-	-	-	(2,970,002)	-	-	2,405,783	-	-	-	-
Translation adjustments												
Cost or revalued amount	-	-	-	-	3,394,952	-	-	-	-	-	-	442,089
Accumulated depreciation	-	-	-	-	(376,863)	-	-	-	-	-	-	(243,583)
	-	-	-	-	3,018,089	-	-	-	-	-	-	198,506
Adjustments												
Cost or revalued amount	2,057,372	-	(2,057,372)	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-
	2,057,372	-	(2,057,372)	-	-	-	-	-	-	-	-	-
Disposals												
Cost or revalued amount	-	-	-	-	(13,836)	-	-	-	-	-	(5,301)	(28,158)
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	5,029	26,420
	-	-	-	-	(13,836)	-	-	-	-	-	(272)	(1,738)
Write off												
Cost or revalued amount	-	-	-	-	-	-	-	(3,599,763)*	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	3,490,337	-	-	-	-
	-	-	-	-	-	-	-	109,426	-	-	-	-
Depreciation charge for the year	-	-	(135,258)	(2,952)	(848,785)	(14,489)	(56,952)	(4,516,591)	(33,756)	(68,994)	(61,536)	(380,599)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>1,104,852</u>	<u>539,723</u>	<u>39,172,500</u>	<u>163,244</u>	<u>133,022</u>	<u>17,977,620</u>	<u>194,175</u>	<u>301,001</u>	<u>438,834</u>	<u>2,481,943</u>
As at December 31, 2009												
Cost or revalued amount	5,461,964	22,854	1,369,733	829,261	45,665,199	895,940	697,475	35,414,216	646,595	1,367,666	1,765,348	6,178,477
Accumulated depreciation	-	-	(264,881)	(289,538)	(6,492,699)	(732,696)	(564,453)	(17,436,596)	(452,420)	(1,066,665)	(1,326,514)	(3,696,534)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>1,104,852</u>	<u>539,723</u>	<u>39,172,500</u>	<u>163,244</u>	<u>133,022</u>	<u>17,977,620</u>	<u>194,175</u>	<u>301,001</u>	<u>438,834</u>	<u>2,481,943</u>

Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Heat ventilation and air conditioning	Kitchen and bar equipment	Television / dish / stand	Other equipment	Capital spares	Total
Rupees in '000											
717,915 (183,867)	79,107 (71,725)	1,407,251 (1,180,126)	811,032 (803,478)	15,039 (14,006)	12,395 (12,394)	10,693 (5,237)	5,897 (3,473)	2,761 (2,429)	505,105 (389,561)	8,545,715 (3,328,508)	114,413,400 (37,505,011)
<u>534,048</u>	<u>7,382</u>	<u>227,125</u>	<u>7,554</u>	<u>1,033</u>	<u>1</u>	<u>5,456</u>	<u>2,424</u>	<u>332</u>	<u>115,544</u>	<u>5,217,207</u>	<u>76,908,389</u>
534,048	7,382	227,125	7,554	1,033	1	5,456	2,424	332	115,544	5,217,207	76,908,389
24,316	706	160,267	8,594	-	-	-	-	-	8,922	347,821	1,331,047
-	-	-	-	-	-	-	-	-	-	-	13,836
-	-	-	-	-	-	-	-	-	-	-	(2,970,002)
-	-	-	-	-	-	-	-	-	-	-	2,405,783
-	-	-	-	-	-	-	-	-	-	-	(564,219)
418 (287)	-	-	-	-	-	-	-	-	-	-	3,837,459 (620,733)
131	-	-	-	-	-	-	-	-	-	-	3,216,726
-	-	-	-	-	-	-	-	-	-	(223,869)	(223,869)
-	-	(2,411)	-	-	-	-	-	-	-	-	(2,411)
-	-	(2,411)	-	-	-	-	-	-	-	(223,869)	(226,280)
(8,389)	-	(190)	-	-	-	-	-	-	-	-	(55,874)
5,744 (2,645)	-	190	-	-	-	-	-	-	-	-	37,383 (18,491)
-	-	-	-	-	-	-	-	-	-	-	(3,599,763)
-	-	-	-	-	-	-	-	-	-	-	3,490,337
-	-	-	-	-	-	-	-	-	-	-	109,426
(21,993)	(3,121)	(81,198)	(1,956)	(688)	-	(893)	(292)	(96)	(17,177)	(268,193)	(6,515,519)
<u>533,857</u>	<u>4,967</u>	<u>303,783</u>	<u>14,192</u>	<u>345</u>	<u>1</u>	<u>4,563</u>	<u>2,132</u>	<u>236</u>	<u>107,289</u>	<u>5,072,966</u>	<u>74,036,063</u>
734,260 (200,403)	79,813 (74,846)	1,567,328 (1,263,545)	819,626 (805,434)	15,039 (14,694)	12,395 (12,394)	10,693 (6,130)	5,897 (3,765)	2,761 (2,525)	514,027 (406,738)	8,669,667 (3,596,701)	112,746,234 (38,710,171)
<u>533,857</u>	<u>4,967</u>	<u>303,783</u>	<u>14,192</u>	<u>345</u>	<u>1</u>	<u>4,563</u>	<u>2,132</u>	<u>236</u>	<u>107,289</u>	<u>5,072,966</u>	<u>74,036,063</u>

	Land		Building on:		Hotel property (note 5.4)	Workshops and hangers	Renovation and improvements	Aircraft fleet (note 5.3)	Operating ground equipment, catering, communication and meteorological equipment	Engineering equipment and tools	Traffic equipment	Furniture, fixtures and fittings
	Leasehold (note 5.1.1)	Others (note 5.1.2)	Leasehold land (note 5.1.1)	Other lands (note 5.1.2)								
Rupees in '000												
As at December 31, 2009												
Cost or revalued amount	5,461,964	22,854	1,369,733	829,261	45,665,199	895,940	697,475	35,414,216	646,595	1,367,666	1,765,348	6,178,477
Accumulated depreciation	-	-	(264,881)	(289,538)	(6,492,699)	(732,696)	(564,453)	(17,436,596)	(452,420)	(1,066,665)	(1,326,514)	(3,696,534)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>1,104,852</u>	<u>539,723</u>	<u>39,172,500</u>	<u>163,244</u>	<u>133,022</u>	<u>17,977,620</u>	<u>194,175</u>	<u>301,001</u>	<u>438,834</u>	<u>2,481,943</u>
Year ended December 31, 2010												
Opening net book value	5,461,964	22,854	1,104,852	539,723	39,172,500	163,244	133,022	17,977,620	194,175	301,001	438,834	2,481,943
Additions	-	-	14,738	-	65,271	2,971	32,851	476,593	58,929	205,851	124,160	137,913
Revaluation												
Cost or revalued amount	-	-	-	-	8,301,597	-	-	(2,113,459)	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	8,301,597	-	-	(2,113,459)	-	-	-	-
Translation adjustments												
Cost or revalued amount	-	-	-	-	130,459	-	-	-	-	-	-	(126,484)
Accumulated depreciation	-	-	-	-	69,115	-	-	-	-	-	-	32,464
	-	-	-	-	199,574	-	-	-	-	-	-	(94,020)
Adjustments												
Cost or revalued amount	-	-	-	-	-	-	-	311,220	84,430	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	(27,466)	(54,997)	-	-	-
	-	-	-	-	-	-	-	283,754	29,433	-	-	-
Disposals												
Cost or revalued amount	-	-	-	-	-	-	-	-	(785)	-	(1,527)	(86,037)
Accumulated depreciation	-	-	-	-	-	-	-	-	785	-	1,410	75,953
	-	-	-	-	-	-	-	-	-	-	(117)	(10,084)
Write off												
Cost or revalued amount	-	-	-	-	-	-	(7,537)	(36,522)*	(80)	(782)	(26)	(2,225)
Accumulated depreciation	-	-	(819)	-	-	-	7,537	32,505	78	782	26	2,076
	-	-	(819)	-	-	-	-	(4,017)	(2)	-	-	(149)
Depreciation charge for the year	-	-	(137,824)	(3,922)	(755,298)	(15,898)	(56,723)	(1,719,606)	(46,693)	(79,034)	(63,022)	(361,312)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>980,947</u>	<u>535,801</u>	<u>46,983,644</u>	<u>150,317</u>	<u>109,150</u>	<u>14,900,885</u>	<u>235,842</u>	<u>427,818</u>	<u>499,855</u>	<u>2,154,291</u>
As at December 31, 2010												
Cost or revalued amount	5,461,964	22,854	1,384,471	829,261	54,162,526	898,911	722,789	34,052,048	789,089	1,572,735	1,887,955	6,101,644
Accumulated depreciation	-	-	(403,524)	(293,460)	(7,178,882)	(748,594)	(613,639)	(19,151,163)	(553,247)	(1,144,917)	(1,388,100)	(3,947,353)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>980,947</u>	<u>535,801</u>	<u>46,983,644</u>	<u>150,317</u>	<u>109,150</u>	<u>14,900,885</u>	<u>235,842</u>	<u>427,818</u>	<u>499,855</u>	<u>2,154,291</u>
Annual depreciation rate (%)	-	-	2.5	2.5	2-3.33	5	20	3.2 - 5	10	10 - 20	10 - 20	10

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

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

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

Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Heat ventilation and air conditioning	Kitchen and bar equipment	Television / dish / stand	Other equipment	Capital spares	Total
Rupees in '000											
734,260 (200,403)	79,813 (74,846)	1,567,328 (1,263,545)	819,626 (805,434)	15,039 (14,694)	12,395 (12,394)	10,693 (6,130)	5,897 (3,765)	2,761 (2,525)	514,027 (406,738)	8,669,667 (3,596,701)	112,746,234 (38,710,171)
<u>533,857</u>	<u>4,967</u>	<u>303,783</u>	<u>14,192</u>	<u>345</u>	<u>1</u>	<u>4,563</u>	<u>2,132</u>	<u>236</u>	<u>107,289</u>	<u>5,072,966</u>	<u>74,036,063</u>
533,857 39,940	4,967 764	303,783 25,225	14,192 161	345 -	1 -	4,563 175	2,132 -	236 -	107,289 8,177	5,072,966 133,803	74,036,063 1,327,522
-	-	-	-	-	-	-	-	-	-	-	6,188,138
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	6,188,138
135 (61)	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	4,110 101,518
74	-	-	-	-	-	-	-	-	-	-	105,628
99,612 (93,546)	- -	- -	- -	- -	- -	- -	- -	- -	- -	(19,224) -	476,038 (176,009)
6,066	-	-	-	-	-	-	-	-	-	(19,224)	300,029
(15,792) 10,036 (5,756)	(98) 98 -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	(104,239) 88,282 (15,957)
(839) 755 (84)	(896) 894 (2)	(3,057) 3,049 (8)	- - -	- - -	(487) 487 -	- - -	- - -	- - -	(374) 356 (18)	(49,508) 25,181 (24,327)	(102,333) 72,907 (29,426)
(26,989)	(2,152)	(77,950)	(1,432)	(345)	(1)	(911)	(292)	(72)	(15,779)	(339,394)	(3,704,649)
<u>547,108</u>	<u>3,577</u>	<u>251,050</u>	<u>12,921</u>	<u>-</u>	<u>-</u>	<u>3,827</u>	<u>1,840</u>	<u>164</u>	<u>99,669</u>	<u>4,823,824</u>	<u>78,207,348</u>
857,316 (310,208)	79,583 (76,006)	1,589,496 (1,338,446)	819,787 (806,866)	15,039 (15,039)	11,908 (11,908)	10,868 (7,041)	5,897 (4,057)	2,761 (2,597)	521,830 (422,161)	8,734,738 (3,910,914)	120,535,470 (42,328,122)
<u>547,108</u>	<u>3,577</u>	<u>251,050</u>	<u>12,921</u>	<u>-</u>	<u>-</u>	<u>3,827</u>	<u>1,840</u>	<u>164</u>	<u>99,669</u>	<u>4,823,824</u>	<u>78,207,348</u>
<u>25</u>	<u>15</u>	<u>10 - 20</u>	<u>10</u>	<u>20</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>20</u>	<u>10</u>	<u>3.2 - 5</u>	

5.2 Operating fixed assets - leased

	Aircraft fleet (note 5.3)	Vehicles - Motor Transport	Vehicles - Technical Ground Support	Total
Rupees in '000				
As at December 31, 2008				
Cost or revalued amount	93,998,086	107,998	84,430	94,190,514
Accumulated depreciation	(13,626,600)	(100,051)	(39,801)	(13,766,452)
Net book value	<u>80,371,486</u>	<u>7,947</u>	<u>44,629</u>	<u>80,424,062</u>
Year ended December 31, 2009				
Opening net book value	80,371,486	7,947	44,629	80,424,062
Additions	1,581,767	-	-	1,581,767
Revaluation				
Cost or revalued amount	5,105,665	-	-	5,105,665
Accumulated depreciation	17,781,915	-	-	17,781,915
	22,887,580	-	-	22,887,580
Disposals				
Cost or revalued amount	-	(2,325)	-	(2,325)
Accumulated depreciation	-	2,092	-	2,092
	-	(233)	-	(233)
Depreciation charge for the year	<u>(4,155,315)</u>	<u>(1,042)</u>	<u>(7,597)</u>	<u>(4,163,954)</u>
Net book value	100,685,518	6,672	37,032	100,729,222
Year ended December 31, 2010				
Opening net book value	100,685,518	6,672	37,032	100,729,222
Revaluation				
Cost or revalued amount	(30,002,460)	-	-	(30,002,460)
Accumulated depreciation	-	-	-	-
	(30,002,460)	-	-	(30,002,460)
Transfer to owned				
Cost or revalued amount	(311,220)	(99,612)	(84,430)	(495,262)
Accumulated depreciation	27,466	93,546	54,997	176,009
	(283,754)	(6,066)	(29,433)	(319,253)
Disposals				
Cost or revalued amount	-	(6,061)	-	(6,061)
Accumulated depreciation	-	5,455	-	5,455
	-	(606)	-	(606)
Depreciation charge for the year	<u>(3,566,251)</u>	<u>-</u>	<u>(7,599)</u>	<u>(3,573,850)</u>
Net book value	<u>66,833,053</u>	<u>-</u>	<u>-</u>	<u>66,833,053</u>
As at December 31, 2009				
Cost or revalued amount	100,685,518	105,673	84,430	100,875,621
Accumulated depreciation	-	(99,001)	(47,398)	(146,399)
Net book value	<u>100,685,518</u>	<u>6,672</u>	<u>37,032</u>	<u>100,729,222</u>
As at December 31, 2010				
Cost or revalued amount	70,371,838	-	-	70,371,838
Accumulated depreciation	(3,538,785)	-	-	(3,538,785)
Net book value	<u>66,833,053</u>	<u>-</u>	<u>-</u>	<u>66,833,053</u>
Annual depreciation rate (%)	<u>3.33</u>	<u>25</u>	<u>10 - 20</u>	

5.3 Aircraft fleet

During the year, the aircraft fleet of the Holding company was revalued by an independent valuer, Ascend Worldwide Limited (2009: Avmark Inc., USA), on the basis of professional assessment of current market values as of December 31, 2010. The current market value represents the value that an aircraft could best achieve under today's open market conditions and, therefore, takes into account a thorough review of recent market activity and known transactions involving the subject aircraft covering new sales, new orders, the limited open market and financial activity that has occurred to date. It additionally considers the perceived demand for the type, its availability in the market and further takes into account the expressed views of informed industry sources.

The appraisal has taken into account the age, specification, accrued hours and cycles of the aircraft and produced a Current Market Half Life Values (CMHLV). Half life or mid-time assumes that the airframe, engine, gears and all major components are half way between major overhauls or in the mid point of their useful lives for the life limited parts. CMHLV has then been adjusted to account for the maintenance status of the aircraft in accordance with the information supplied. The determination of such values involves a multiplicity of variables and some variation in perceived value must be expected. In this case, the appraisal considers that a tolerance of +/- 5% may reasonably apply to the calculated market values.

The valuer has conducted an extended desktop appraisal of the aircraft and engines. This does not include an inspection of the aircraft or engines nor their records, but does take into account the maintenance status of the 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 Holding company, which includes maintenance condition of the aircraft and engines, aircraft shop visit dates, engine inspection and life limited parts (LLPs), landing gear and APU status.

5.4 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 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.

RHC's property is stated at revalued amount. Based on the current market conditions, management in consultation with its professionals, has determined that estimated market value of land, buildings and improvements as of December 31, 2010 is Rs. 30,888 million (US \$ 360,000,000). Before revaluation the carrying value of land, building and improvements at December 31, 2010 amounted to Rs. 24,917 million (US \$ 290,408,271) and accordingly during the year a surplus of Rs. 5,971 million (US \$ 69,591,729) has been credited to revaluation reserve. Such estimate was based primarily on arm's length market transactions in New York city.

Minhal France S.A.

The latest valuation of the Hotel Scribe was carried out on December 31, 2010 by an independent appraiser. The appraiser determined that the market value of the freehold interest in Hotel Scribe as on December 31, 2010 amounted to Rs. 18,332 million (US \$ 213,658,380) using Discounted Cashflow (DCF) method with an exit cap of 5.5% and discount rate of 7%. This valuation includes land, building and improvements and furniture and equipment. However, fair value of furniture and equipment approximates its carrying value resulting in the entire revaluation surplus allocated to land, building and improvements. Before revaluation the carrying value of land, building and improvements at December 31, 2010 amounted to Rs. 16,001 million (US \$ 186,494,899) and accordingly during the year a surplus of Rs. 2,331 million (US \$ 27,163,481) has been credited to revaluation reserve.

- 5.5 The carrying amount of the assets as at December 31, 2010, if the assets had been carried at historical cost, would have been as follows:

	Cost	Accumulated Depreciation Rupees in '000	Book value
December 31, 2010			
Lands - owned	44,166	-	44,166
Buildings - owned	272,336	151,444	120,892
Hotel Property	20,852,636	7,140,197	13,712,439
Aircraft fleet	114,639,121	37,648,146	76,990,975
	<u>135,808,259</u>	<u>44,939,787</u>	<u>90,868,472</u>
December 31, 2009			
Lands - owned	44,166	-	44,166
Buildings - owned	258,848	127,481	131,367
Hotel Property	21,127,962	6,846,252	14,281,710
Aircraft fleet	114,043,600	34,371,405	79,672,195
	<u>135,474,576</u>	<u>41,345,138</u>	<u>94,129,438</u>

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

	Note	2010 Rupees in '000	2009
Cost of services - others	31	7,008,177	10,406,178
Distribution costs	32	44,401	49,764
Administrative expenses	33	225,920	223,532
		<u>7,278,498</u>	<u>10,679,474</u>

- 5.7 Included herein are fully depreciated assets costing Rs. 7,632.9 million (2009: Rs. 5,137.3 million).

5.8 Following fixed assets were disposed off during the year:

Description	Sold to	Method of disposal	Cost	Accumulated depreciation	Net book value	Sale proceeds
Rupees in '000						
Motor vehicles to employees						
Toyota Corolla (AQL-873)	Mr. Salahuddin, P-31372	As per Group's policy	887	333	554	560
Honda City (AQL-653)	Mr. M.A.B Bugvi, P-31831	----- do -----	746	280	466	416
Honda City (GA-6801)	Mr. Abdul Aziz Sangi P-46240	----- do -----	746	252	494	554
Honda City (GA-6832)	Mr. S Mubashir Zaman, P-32740	----- do -----	746	252	494	403
Toyota Corolla (ARS-627)	Mr. Zulfiqar Husain, P-24042	----- do -----	1,094	205	889	993
Honda City (AJM-502)	Mr. Sohail Mustafa, P-33095	----- do -----	835	751	84	83
Honda City (AJM-724)	Mr. Tariq Farooq, P-31565	----- do -----	835	751	84	83
Honda City (AJM-743)	Mr. Mehmood Talat, P-25840	----- do -----	835	751	84	83
Honda City (AJM-791)	Mr. Samin Uddin Naqvi, P-37005	----- do -----	835	752	83	84
Aggregate value of other items where WDV is above Rs. 50,000 - Various*			7,559	4,327	3,232	3,259
Aggregate value of items where WDV is less than Rs. 50,000 - Various			88,878	76,933	11,945	2,706
Total			104,239	88,282	15,957	9,443
2009			55,874	37,383	18,491	3,208

* 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 of the Holding company is made through disposal committee in accordance with the prescribed procedures.

5.9 Capital work-in-progress

	2010	2009
Rupees in '000		
Buildings	1,152	4,413
Other equipment	2,176,770	1,481,298
Renovation and improvements	105,138	85,931
	2,283,060	1,571,642
Less: transfer to operating fixed assets charged off / adjustment	1,153,914	750,635
	-	26,083
	1,153,914	776,718
	1,129,146	794,924

	Note	Computer software	Goodwill	Total
Rupees in '000				
6. INTANGIBLES				
As at December 31, 2008				
Cost		273,046	2,562,338	2,835,384
Less: accumulated amortisation		(159,892)	-	(159,892)
Net book value		<u>113,154</u>	<u>2,562,338</u>	<u>2,675,492</u>
Year ended December 31, 2009				
Opening net book value		113,154	2,562,338	2,675,492
Additions during the year		1,344	-	1,344
Translation adjustment		-	172,122	172,122
Amortisation charge for the year		(22,536)	-	(22,536)
Net book value		<u>91,962</u>	<u>2,734,460</u>	<u>2,826,422</u>
As at December 31, 2009				
Cost		274,390	2,734,460	3,008,850
Less: accumulated amortisation		(182,428)	-	(182,428)
Net book value		<u>91,962</u>	<u>2,734,460</u>	<u>2,826,422</u>
Year ended December 31, 2010				
Opening net book value		91,962	2,734,460	2,826,422
Additions during the year		-	-	-
Translation adjustment		-	52,474	52,474
Amortisation charge for the year	6.1	(22,518)	-	(22,518)
Net book value		<u>69,444</u>	<u>2,786,934</u>	<u>2,856,378</u>
As at December 31, 2010				
Cost		274,390	2,786,934	3,061,324
Less: accumulated amortisation		(204,946)	-	(204,946)
Net book value		<u>69,444</u>	<u>2,786,934</u>	<u>2,856,378</u>
Useful Life		<u>5-10 years</u>		

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

	Note	2010	2009
Rupees in '000			
Cost of services - others	31	2,576	2,576
Distribution costs	32	1,110	1,130
Administrative expenses	33	18,832	18,830
		<u>22,518</u>	<u>22,536</u>

	Note	2010	2009
Rupees in '000			
7. LONG-TERM INVESTMENTS			
Investments in related parties - unquoted, using equity method			
Associate	7.1	60,253	59,138
Joint venture	7.2	51,429	2
		111,682	59,140
Other investments	7.5	29,462	30,841
		141,144	89,981

7.1 Movement in investment in Associate - unquoted

Opening balance	59,138	55,891
Share of loss during the year	(486)	(433)
	58,652	55,458
Translation adjustment	1,601	3,680
	60,253	59,138

7.2 Movement in investment in Joint Venture - unquoted

Opening balance	2	2
Share of profit during the year	51,427	-
	51,429	2

7.3 Associate - unquoted

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

Name of associate	Country of incorporation	Total assets	Total liabilities	Revenue	Loss	Interest held (%)
Rupees in '000						
2009 Minhal Incorporated	British Virgin Islands	158,397	3,124	7	(1,249)	40%
2010 Minhal Incorporated	British Virgin Islands	161,407	3,184	7	(1,301)	40%

7.4 Joint venture - unquoted

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

Name of associate	Country of incorporation	Total assets	Total liabilities	Revenue	Loss	Interest held (%)
Rupees in '000						
2009 Abacus Distribution System Pakistan (Private) Limited	Pakistan	165,275	93,807	215,078	32,682	55%
2010 Abacus Distribution Systems Pakistan (Private) Limited	Pakistan	238,497	127,736	266,762	39,294	70%

	Note	2010	2009
Rupees in '000			
7.5 Other investments			
Available for sale	7.5.1	29,462	30,841
Held to maturity	7.5.2	-	-
		29,462	30,841

7.5.1 Available for sale

Quoted

Pakistan Services Limited

172,913 (2009: 172,913) Ordinary shares of Rs.10 each having market value per Ordinary share of Rs. 168.25 (2009: Rs. 176.22) each

29,093	30,472
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Unquoted

Pakistan Tourism Development Corporation Limited

10,000 (2009: 10,000) Ordinary shares of Rs. 10 each

100	100
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Duty Free Shops (Private) Limited - Pakistan

87,512 (2009: 87,512) Ordinary shares of Rs. 100 each

269	269
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29,462	30,841
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7.5.2 Held to maturity

Promissory notes issued by the Nigerian Government
Less: current maturity

16

7,289	7,153
(7,289)	(7,153)

-	-
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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 Holding company in the Central Bank of Nigeria, which was seized by the Nigerian Government at the time of coup and civil war in Nigeria. The Holding company is in process of redeeming these promissory notes.

8. RECEIVABLE FROM CENTRE HOTEL

	Note	2010	2009
Rupees in '000			
	8.1	648,116	636,064

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

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

The parties could not reach an amicable agreement as to the above and on February 23, 1997, Notice of Arbitration was sent to Sheikh Khalifa. Subsequently an application was submitted to the Abu Dhabi Courts for an order to appoint arbitrator. PIAL won the case at various courts in Abu Dhabi and finally in March 2010, Supreme Court of Abu Dhabi advised the Federal Supreme Judicial Council to appoint one of its judges as an Arbitrator in the subject dispute. In August 2010, Judge Ahmed Al Mulla of Al Sharjah Court was appointed as the Judge Arbitrator. The arbitration proceedings on the matter are underway and the Management is of the view that the matter will be decided in PIAL's favour. The amount for PIAL's share of net current assets as at April 21, 1997 has been calculated on the basis of management accounts of the joint venture, as its audited financial statement are not available.

	Note	2010	2009
Rupees in '000			
9. LONG-TERM LOANS AND ADVANCES			
Unsecured, considered good			
Employees	9.1	20,821	17,910
Current maturity shown under short-term loans and advances	13	(6,714)	(5,859)
Unsecured, considered doubtful			
Midway house (Private) Limited		82,476	82,476
Provision for doubtful advances		(82,476)	(82,476)
		-	-
		<u>14,107</u>	<u>12,051</u>

- 9.1** This represents loans given by SRL to employees which are secured against gratuity fund balances of respective employees. The loans carry interest rate of 8% to 20% (2009: 8% to 20%) per annum and are receivable within four years from the date of disbursement. The maximum aggregate balance due from employees at the end of any month during the year was Rs. 22.243 million (2009: Rs. 17.910 million). There are no loans to directors and chief executive of SRL.

		2010	2009	2008
	Note	Rupees in '000		
			Restated	Restated
10. LONG-TERM DEPOSITS AND PREPAYMENTS				
Deposits				
Aircraft fleet lease deposits		3,319,214	3,257,312	3,052,280
Maintenance reserve	10.1	4,409,175	3,641,985	2,767,537
Engine maintenance		72,072	77,424	72,551
Rent		67,420	58,767	59,096
Utilities		18,955	15,270	14,508
Aircraft fuel		9,240	8,958	8,276
Guarantee deposit		21,104	21,322	4,450
Others		151,152	153,419	138,822
		<u>8,068,332</u>	<u>7,234,457</u>	<u>6,117,520</u>
Prepayments				
Finance charges	10.2	60,850	42,434	58,998
Rental commission		18,508	26,994	29,940
Premium on acquisition of leased land	10.3	50,778	50,778	50,778
Less: amortisation to date		(16,926)	(15,233)	(13,541)
		<u>33,852</u>	<u>35,545</u>	<u>37,237</u>
Exposure fee to support financing	10.4	1,452,131	1,676,622	1,893,412
		<u>1,565,341</u>	<u>1,781,595</u>	<u>2,019,587</u>
Current portion shown under short-term prepayments	14.1	(224,300)	(224,491)	(229,602)
		<u>9,409,373</u>	<u>8,791,561</u>	<u>7,907,505</u>

10.1 Under the terms of the leasing agreement with a lessor, the Holding company is required to keep maintenance reserve, which is reimbursable to the Holding company against qualifying work carried out in accordance with the terms of the agreement. Further, the Holding company is entitled to the remaining balance of the maintenance reserve upon conclusion of the lease agreement when the title to the underlying assets shall be transferred to the Holding company. Upto December 31, 2009, the aforesaid payments were being charged to profit and loss account as and when incurred. The payments made on account of maintenance reserve net of reimbursements claimed on account of qualifying work upto December 31, 2010 have now been reflected as a receivable and the related adjustments have been made retrospectively in accordance with the IAS 8 'Accounting Policies, Changes in Accounting Estimates & Errors'. The effect of the adjustments made are shown below:

	Balance previously reported	Effect of adjustment	Restated amount
	Rupees in '000		
December 31, 2009			
Balance sheet			
Reserves	(67,480,171)	3,641,985	(63,838,186)
Long-term deposits and prepayments	5,149,576	3,641,985	8,791,561
Profit and loss account			
Cost of services - others	(54,316,521)	664,664	(53,651,857)
Exchange loss - net	(6,711,336)	209,784	(6,501,552)
Loss for the year	(5,220,357)	874,448	(4,345,909)
Earnings per share - basic and diluted			
- 'A' class ordinary shares	(2.44)	0.41	(2.03)
- 'B' class ordinary shares	(1.22)	0.21	(1.02)
December 31, 2008			
Balance sheet			
Reserves	(65,650,567)	2,767,537	(62,883,030)
Long-term deposits and prepayments	5,139,968	2,767,537	7,907,505

10.2 The finance fees incurred in connection with the refinancing of the mortgage loans payable are being amortised over the term of the respective mortgage financing arrangement.

10.3 This represents prepaid lease payments made to Pakistan CAA for acquisition of the right to use plot of land and hotel building which are amortised over the period of 30 years on straight line basis.

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

	Note	2010	2009	2008
			Rupees in '000	
			Restated	Restated
Amortisation charge for the year has been allocated as under:				
Cost of services - others	31	1,608	1,608	1,608
Administrative expenses	33	85	85	85
		<u>1,693</u>	<u>1,693</u>	<u>1,693</u>

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

	Note	2010	2009
			Rupees in '000
11. STORES AND SPARES			
Stores		867,722	822,709
Spare parts		5,526,969	5,280,298
Inventory held for disposal - adjusted to net realisable value		252,859	252,859
Provision for slow moving and obsolete spares	11.1	(2,836,293)	(2,662,295)
		<u>3,811,257</u>	<u>3,693,571</u>
Stores and spares-in-transit		62,416	324,294
		<u>3,873,673</u>	<u>4,017,865</u>
11.1 Movement in provision is as follows:			
Balance at the beginning of the year		2,662,295	2,216,611
Provision for the year	34	173,998	445,684
Balance at the end of the year		<u>2,836,293</u>	<u>2,662,295</u>
12. TRADE DEBTS			
Considered good		8,698,030	8,335,142
Considered doubtful		942,814	640,326
Less: provision for doubtful debts	12.1	(942,814)	(640,326)
		<u>8,698,030</u>	<u>8,335,142</u>

The ageing analysis of these trade debts are as follows:

	2010		2009	
	Trade debts gross	Impaired	Trade debts gross	Impaired
Rupees in '000				
Within 1 year	8,433,152	193,166	8,064,389	168,895
1 to 2 years	485,645	262,788	137,855	42,929
2 to 3 years	43,564	12,226	225,654	77,088
Over 3 years	678,483	465,767	547,570	343,531
General provision	-	8,867	-	7,883
	<u>9,640,844</u>	<u>942,814</u>	<u>8,975,468</u>	<u>640,326</u>

	Note	2010	2009
		Rupees in '000	
12.1 Movement in provision is as follows:			
Balance at the beginning of the year		640,326	751,104
Written off during the year		(59,353)	(3,504)
Provision / (reversal) for the year - net	34	361,697	(108,040)
Exchange translation		144	766
Balance at the end of the year		<u>942,814</u>	<u>640,326</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.

	Note	2010	2009
		Rupees in '000	

13. SHORT-TERM LOANS AND ADVANCES

Loans - unsecured

Current maturity of long-term loans - employees	9	6,714	5,859
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Advances - secured

Due from related party		3,924	38,537
		<u>10,638</u>	<u>44,396</u>

Others

Employees		257,111	169,776
Suppliers		183,025	919,949
Civil Aviation Authority		-	143,835
Others		5,850	6,065
		<u>445,986</u>	<u>1,239,625</u>

Considered doubtful

Provision for advances considered doubtful	13.1	31,915	31,915
		(31,915)	(31,915)
		<u>456,624</u>	<u>1,284,021</u>

13.1 Movement in provision is as follows:

Balance at the beginning of the year		31,195	-
Provision for the year	34	-	31,195
Balance at the end of the year		<u>31,195</u>	<u>31,195</u>

		2010	2009
	Note	— Rupees in '000 —	
14. TRADE DEPOSITS AND PREPAYMENTS			
Trade deposits		130,705	72,005
Prepayments	14.1	1,456,622	1,600,696
		<u>1,587,327</u>	<u>1,672,701</u>
14.1 Prepayments			
Current portion of long-term prepayments	10	224,300	224,491
Real estate taxes		310,416	397,490
Commission		588,446	598,595
Interest on leased aircraft		142,480	146,693
Insurance		112,383	183,440
Rent		1,314	2,666
Others		77,283	47,321
		<u>1,456,622</u>	<u>1,600,696</u>
15. OTHER RECEIVABLES			
Considered good			
Insurance and other claims		319,300	214,993
Excise duty	29.1 (a)	100,000	100,000
Sales tax receivable		460,990	231,927
Receivables from PCB	15.1	62,979	204,399
Rental income	15.2	61,687	57,298
Receivables from GoP	15.3	332,809	142,302
Others		100,242	110,019
		<u>1,438,007</u>	<u>1,060,938</u>
Considered doubtful			
Provision for doubtful other receivables	15.4	177,077 <u>(177,077)</u>	168,810 <u>(168,810)</u>
		<u>1,438,007</u>	<u>1,060,938</u>

15.1 This represents Rs. 62.979 million (US \$ 734,024) [2009: Rs 61.833 million (US \$ 734,357) & 2008: Rs 57.891 million (US \$ 733,732)] receivable from Pakistan Cricket Board (PCB) on account of various payments made during the calendar years 1980 to 1981 and 2008 in terms of agreements dated October 7, 1980 and October 11, 2007 respectively signed between PIAIL and PCB for commercial development of a land owned by PCB. The project, according to the agreement dated October 7, 1980, could not be materialised and on September 13, 1987, 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 PIAC, PIAIL's parent company. The lease is for a period of 92 years and 6 months and 13 days. However, in the calendar year 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.

PIAIL then on October 11, 2007, signed a Joint Venture Agreement with PCB to form a limited liability company (NEWCO) with the objective of establishing a new five star hotel/mixed use building in Karachi. In accordance with the terms of the agreement PCB was required to provide a 5.8 acres plot, adjacent to National Stadium Karachi, through a sub-lease to NEWCO in settlement of above receivable and NEWCO was to issue shares to PIAIL and PCB in the ratio of 62.5% and 37.5% respectively 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 in process.

On April 26, 2010, a meeting of sub-committee of Public Accounts Committee (PAC) on PCB was held at Parliament House, Islamabad which besides other matters deliberated on this matter. At the said meeting, management of PIALI had made a detailed presentation to the sub-committee of PAC on sub-lease of 5.8 Acres land by PCB to PIALI / Avant. The sub-committee of PAC directed the management of PIALI to furnish a copy of all relevant documents, whereby, PCB had sub-leased 5.8 Acres to PIALI / Avant, to the office of the Auditor General of Pakistan. Pursuant to said directive, on April 28, 2010, the management of PIALI furnished all relevant documents to the office of Auditor General of Pakistan. On August 24, 2010, another meeting of sub-committee of PAC was held, which besides other matters deliberated on this matter. Considering the matter is pending before the sub-committee of PAC on PCB and based on the earlier negotiations and signed agreements, the management considers that the project would materialise and therefore, the shares would eventually be issued in the name of PIALI by Avant against amount presently receivable from PCB.

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

	2010	2009
	— Rupees in '000 —	
Not later than 1 year	227,724	266,438
Later than 1 year but not later than 5 years	774,921	952,028
Later than 5 years	273,160	402,265
	<u>1,275,805</u>	<u>1,620,731</u>

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

		2010	2009
		— Rupees in '000 —	
15.4 Movement in provision is as follows:	Note		
Balance at the beginning of the year		168,810	30,257
Provision for the year	34	8,267	138,553
Balance at the end of the year		<u>177,077</u>	<u>168,810</u>

16. SHORT TERM INVESTMENTS

Held for trading

Bred Institution			
35 (2009: 25) Ordinary shares		158,050	118,909

Available for sale

Unquoted

SITA INC N.V.			
325,491 (2009: 325,491)			
Ordinary shares	16.1	19,220	19,220
Provision for diminution in value of investment	16.2	(880)	(1,222)
		18,340	17,998

Held to maturity

Certificate of deposits			
Current portion of long-term investment	7.5.2	663,774	-
		7,289	7,153
		<u>671,063</u>	<u>7,153</u>
		<u>847,453</u>	<u>144,060</u>

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.

	2010	2009
	Note	Rupees in '000
16.2 Movement in provision is as follows:		
Balance at the beginning of the year	1,222	2,355
Reversal for the year	(342)	(1,133)
Balance at the end of the year	880	1,222

17. CASH AND BANK BALANCES

In hand	24,099	14,299
In transit	11,493	51,403
	35,592	65,702
With banks		
In current accounts	4,353,295	3,607,391
In short-term deposit accounts	17.1 1,539,107	1,018,128
	5,892,402	4,625,519
	5,927,994	4,691,221

17.1 These carry interest ranging from 0.125% to 12% (2009: 5% to 11%) per annum.

18. SHARE CAPITAL

2010	2009		2010	2009
No. of Shares		Note	Rupees in '000	
Authorised Capital				
Ordinary share capital				
2,949,250,000	2,949,250,000	'A' class shares of Rs. 10/- each	29,492,500	29,492,500
1,500,000	1,500,000	'B' class shares of Rs. 5/- each	7,500	7,500
2,950,750,000	2,950,750,000		29,500,000	29,500,000
Preference share capital				
50,000,000	50,000,000	Preference shares of Rs.10/- each	500,000	500,000
3,000,750,000	3,000,750,000		30,000,000	30,000,000
Issued, subscribed and paid up share capital				
Ordinary share capital				
'A' class shares of Rs. 10/- each				
2,341,879,318	2,092,420,074	Issued for consideration in cash	23,418,793	20,924,201
931,028	931,028	Issued for consideration other than cash for acquisition of shares	9,310	9,310
233,934,482	233,934,482	Issued as bonus shares	2,339,345	2,339,345
2,576,744,828	2,327,285,584	18.1	25,767,448	23,272,856
'B' class shares of Rs. 5/- each				
1,003,374	1,003,374	Issued for consideration in cash	5,017	5,017
2,625	2,625	Issued for consideration other than cash for acquisition of shares	13	13
494,000	494,000	Issued as bonus shares	2,470	2,470
1,499,999	1,499,999		7,500	7,500
			25,774,948	23,280,356

		2010	2009
	Note	No. of shares	
18.1	Reconciliation of number of 'A' class Ordinary shares of Rs. 10 each.		
	Shares at the beginning of the year	2,327,285,584	2,141,551,384
	Issued during the year for cash	249,459,244	185,734,200
	Shares at the end of the year	<u>2,576,744,828</u>	<u>2,327,285,584</u>

18.2 At December 31, 2010, the GoP held 2,134,735,800 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively (2009: 1,885,276,556 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively).

18.3 This represents shares issued to GoP as reimbursement of mark-up payments on term finance and sukuk certificates.

19. RESERVES

		2010	2009	2008
	Note	Rupees in '000		
			Restated	Restated
Capital Reserves				
Reserve for replacement of fixed assets	19.1	1,966,779	1,966,779	1,966,779
Capital redemption reserve fund		250,000	250,000	250,000
Others		284,259	284,259	284,259
		2,501,038	2,501,038	2,501,038
Revenue reserve		1,779,674	1,779,674	1,779,674
		<u>4,280,712</u>	<u>4,280,712</u>	<u>4,280,712</u>
Unrealised gain on remeasurement of investment		27,899	29,278	73,265
Accumulated losses		(89,212,633)	(70,813,143)	(69,069,255)
Foreign exchange translation reserve		2,570,423	2,662,017	1,955,803
Other reserves		573	2,950	(123,555)
		<u>(86,613,738)</u>	<u>(68,118,898)</u>	<u>(67,163,742)</u>
		<u>(82,333,026)</u>	<u>(63,838,186)</u>	<u>(62,883,030)</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 Holding company changed this policy to comply with the IFRSs and the excess proceeds over cost of relevant assets are credited to the profit and loss account.

20. LONG-TERM FINANCING

Financier	Note	Type of facility	Limit (Million)	Repayment period	Number of instalments / Mode	Mark-up %	2010	2009
							— Rupees in '000 —	
From Banking Companies - secured Holding Company								
United Bank Limited		Syndicate Finance	1,650 PKR	2007 - 2010	6 Half-yearly	6 month KIBOR +0.79%	-	135,092
Citibank, N.A.	20.1	Demand Finance	82 US\$	2006 - 2017	20 Half-yearly	5.28% fixed	4,321,159	4,927,683
Royal Bank of Scotland	20.2	Demand Finance	59.5 US\$	2009 - 2013	19 Quarterly	3 month LIBOR +1.60%	3,078,475	4,022,278
National Bank of Pakistan	20.3	Syndicate Finance	120 US\$	2013	Bullet	see note 20.3	10,296,000	10,104,000
Standard Chartered Bank		Demand Finance	50 US\$	2007-2010	12 Quarterly	3 month LIBOR +1.325%	-	350,833
National Bank of Pakistan		Term Finance	500 PKR	2007-2010	12 Quarterly	3 month KIBOR +1.50%	-	166,667
National Bank of Pakistan - Bahrain		Demand Finance	50 US\$	2008-2010	24 Monthly	6 month LIBOR +2.55%	-	1,052,500
Standard Chartered Bank (Pakistan) Limited	20.4	Syndicate Finance	3,600 PKR	2009 - 2011	22 Monthly	1 month KIBOR +1.25%	163,271	2,122,518
National Bank of Pakistan - Bahrain	20.5	Demand Finance	70 US\$	2010 - 2012	24 Monthly	1 month LIBOR +5.50%	4,754,750	-
National Bank of Pakistan - Bahrain	20.5	Demand Finance	30 US\$	2010 - 2012	24 Monthly	1 month LIBOR +5.50%	2,359,500	-
National Bank of Pakistan - Bahrain	20.6	Demand Finance	US \$20 & SAR 75	2011-2013	24 Monthly	1 month LIBOR + 5.25% & 1 month SIBOR + 5.25%	1,287,000	-
Hong Kong Shanghai Banking Corporation	20.7	Demand Finance	850 PKR	2010 - 2011	17 Monthly	3 month KIBOR +0.90%	450,000	-
Subsidiary - PIAIL								
JP Morgan Chase	20.9 & 20.10	Loan		2006-2011	Variable	1 month LIBOR +1.65%	8,291,767	8,137,142
JP Morgan Chase	20.9 & 20.10	Mezzanine Finance		2006-2011	Variable	1 month LIBOR +1.65%	5,148,000	5,052,000
Hong Kong Shanghai Banking Corporation	20.11 to 20.14	Loan		2004-2012	Variable	3 months EURIBOR'+1.15%	2,417,756	2,885,477
Others - unsecured								
Long-term loan - GoP	20.8	Term Finance	8,000 PKR	2011 - 2020	16 Half-yearly	10% fixed	8,000,000	7,000,000
Current maturity shown under current liabilities							50,567,678	45,956,190
							(21,129,942)	(5,655,812)
							29,437,736	40,300,378

20.1 The finance is secured by way of:

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

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

20.3 The following are the participating banks:

- National Bank of Pakistan
- Habib Bank Limited

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

- HBL 3 month LIBOR + 3.25%
- NBP 3 month LIBOR + 3.60%

20.4 The following are the participating banks:

- Standard Chartered Bank (Pakistan) Limited
- Askari Bank Limited

The finance is secured by way of GoP guarantee.

20.5 The finance is secured against all the present and future receivables generated from the sale of tickets in United Kingdom (U.K).

20.6 The finance is secured against all the present and future receivables generated from the sale of tickets in United Kingdom (U.K) and Kingdom of Saudi Arabia (K.S.A).

20.7 During the year, the Holding company restructured a short term loan of Rs. 1,000 million from HSBC bank into a long term loan of Rs. 850 million by paying Rs. 150 million and remaining balance in 17 equal monthly installments with an additional upfront fee of 0.2% . The facility is secured by way of GoP Guarantee.

20.8 During the year, the GoP provided further Rs. 1,000 million unsecured loan to the Holding company.

20.9 On September 8, 2006, RHC entered into a loan agreement and three mezzanine loan agreements amounting to US \$ 96,640,641 and US \$ 60,000,000 respectively. The loan agreements were originally due to mature on November 9, 2008 with an option for three separate one year extensions. RHC has exercised all three options thereby finally extending the maturity date to November 9, 2011. The security on these loans include RHC's property and equipment and require annual interest at LIBOR plus a spread as defined in the agreement (1.65% for 2010 and 2009). RHC is in the process of negotiation with lenders and financial institutions to refinance this debt and believes such refinancing will be finalised before its maturity i.e. November 9, 2011. Due to the fact that the long term loans are approaching maturity within twelve months from the balance sheet date and a firm commitment for refinancing is not available, the said loans have been classified under current liabilities. The management is confident that the Group would be able to meet all its commitments atleast upto December 31, 2011.

20.10 RHC 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 the exposure amount of approximately US \$ 157,000,000 (i.e. Rs. 13,470.600 million) expired on November 9, 2010 which capped the variable rate debt at 7% per annum. The cost of interest rate cap was US \$ 160,000 (i.e. Rs. 13.728 million). Effective November 9, 2010, RHC extended its interest rate cap agreements to November 9, 2011. The cost of extending the interest rate cap agreements was US \$ 44,000. RHC considers the risk of non-performance on these agreements to be remote.

- 20.11** This 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 MFSA. The loan was initially obtained to partially finance the acquisition of Scribe Gestion and Canadian National France. The refinanced loan shall mature on May 13, 2017. The loans carry interest at a variable rate indexed on the EURIBOR plus 1.15%.
- 20.12** Further, during the year ended December 31, 2006, MFSA obtained a loan of Euro 12,000,000 for renovation works. The loan shall mature on May 13, 2017. The loan bears interest at a variable rate indexed on the EURIBOR three month plus 1.15%. These 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 12,000,000 plus 10% for associated costs. There is a first ranking pledge of MFSA's goodwill 'Fonds de Commerce' for a total amount of Euro 12,000,000 plus 10% related to associated costs and a third ranking pledge of MFSA's goodwill 'Fonds de Commerce' for a total amount of Euro 16,867,353 plus 10% related to associated costs. The Banks also hold a pledge on MFSA's cash account.
- 20.13** During the year 2007, MFSA 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 11,800,000 shall expire on May 13, 2017 and effectively caps the variable rate debt at a maximum rate of 5% per annum. The cost of interest rate cap was Euro 160,000. MFSA entered into this contract with a large financial institution and considers the risk of non-performance to be remote.
- 20.14** Further during the year 2008, MFSA had 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 16,800,000 shall expire on May 13, 2017 and effectively caps the variable rate debt at a maximum rate of 5% per annum. The cost of interest rate cap was Euro 151,000. MFSA entered into this contract with a large financial institution and considers the risk of non-performance to be remote.

21. TERM FINANCE AND SUKUK CERTIFICATES

	Security	Repayment period	Number of instalments / mode	Mark-up (%)	Note	2010 Rupees in '000	2009
Term finance certificates - secured (non participatory)	GoP Guarantee	2009- 2014	10 half yearly	6 month KIBOR + 0.85%	21.1	12,792,320	12,797,440
Less: current portion						(2,135,040)	(5,120)
						10,657,280	12,792,320
Sukuk certificates	GoP Guarantee	2012 - 2014	6 half yearly	6 month KIBOR +1.75%	21.2	6,800,000	6,800,000
						17,457,280	19,592,320

- 21.1** The Holding company has an option of early purchase exercisable at any time with a 30 days notice period at NIL premium.
- 21.2** 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 a 30 days prior notice to the Trustee.

22. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Note	2010	2009
		Rupees in '000	
Present value of minimum lease payments - aircraft fleet			
A-310-300	22.2	4,678,479	5,504,821
B-777 -200 ER	22.3	13,529,684	15,859,793
B-777 -200 LR	22.4	14,624,564	16,122,513
B-777 -300 ER	22.5	29,492,858	31,907,001
		62,325,585	69,394,128
Present value of minimum lease payments - vehicles		-	1,551
- equipments		48,323	66,879
		62,373,908	69,462,558
Less: current maturity		(8,616,313)	(8,140,663)
		53,757,595	61,321,895

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

	2010			2009		
	Minimum lease payments	Finance cost	Present value of minimum lease payments	Minimum lease payments	Finance cost	Present value of minimum lease payments
	Rupees in '000					
Not later than one year	10,750,464	2,134,151	8,616,313	10,592,462	2,451,799	8,140,663
Later than one year and not later than five years	42,068,031	5,304,650	36,763,381	41,593,909	6,531,678	35,062,231
Later than five years	17,781,957	787,743	16,994,214	27,767,691	1,508,027	26,259,664
	70,600,452	8,226,544	62,373,908	79,954,062	10,491,504	69,462,558

22.2 In 2003, the Holding company entered into aircraft lease agreements with Airbus Leasing Inc. USA, to acquire six A310-300 aircraft. The lease agreement has an extension option for a period of two additional years, which the Holding company intends to exercise. The salient features of the lease are as follows:

	2010	2009
Discount rate	5.2%	5.2%
Lease period	144 months	144 months
Security deposits (Rupees in '000)	277,992	272,808
Contingent rent (Rupees in '000)	(112,161)	(114,776)

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

	2010	2009
Discount rate - two aircraft	4.65%	4.65%
Discount rate - one aircraft and spare engine	Three month LIBOR	Three month LIBOR
Lease period - aircraft	144 months	144 months
Lease period - spare engine	96 months	96 months
Security deposits (Rupees in '000)	813,761	798,586
Contingent rent (Rupees in '000)	(43,158)	(9,302)

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

	2010	2009
Discount rate - aircraft and propulsor	Three month LIBOR - 0.02%	Three month LIBOR - 0.02%
Lease period - aircraft	144 months	144 months
Lease period - propulsor	96 months	96 months
Security deposits (Rupees in '000)	656,869	644,620
Contingent rent (Rupees in '000)	(779,457)	(721,432)

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

	2010	2009
Discount rate - one aircraft	5.25%	5.25%
Discount rate - two aircraft	Three month LIBOR - 0.04%	Three month LIBOR - 0.04%
Lease period - aircraft	144 months	144 months
Lease period - engine	96 months	96 months
Security deposits (Rupees in '000)	1,320,136	1,295,518
Contingent rent (Rupees in '000)	(192,655)	(41,682)

22.6 The Holding company has an option to acquire the ownership of the asset at the end of the lease term.

	Note	2010	2009
		Rupees in '000	
23. LONG-TERM DEPOSITS			
Deposits from agents		182,300	157,500
Retention money		201,841	208,317
Others		152	162
		<u>384,293</u>	<u>365,979</u>
24. DEFERRED LIABILITIES			
Deferred gratuity - SRL		48,233	40,643
Deferred taxation	24.1	15,380,104	12,082,713
Obligation for compensated absences	24.2	2,493,033	2,072,000
Post retirement medical benefits	24.3	3,690,387	2,437,282
Pension obligation	24.4	2,669,520	1,675,045
		<u>24,281,277</u>	<u>18,307,683</u>
24.1 Deferred taxation			
Roosevelt Hotel Corporation, N.V	24.1.1	9,639,158	6,914,861
Minhal France, S.A	24.1.2	5,735,453	5,159,971
Skyroom (Private) Limited	24.1.3	5,493	7,881
Holding company	24.1.4	-	-
		<u>15,380,104</u>	<u>12,082,713</u>

	2010	2009
	Rupees in '000	
24.1.1 Roosevelt Hotel Corporation, N.V		
The components of the net deferred tax liability are as follows:		
Excess of book value over tax depreciation	(295,093)	(330,802)
Allowance for doubtful debts	(3,898)	(6,057)
Accrued vacation	(89,939)	(82,506)
Revaluation of hotel property	10,028,088	7,334,226
Net deferred tax liability	<u>9,639,158</u>	<u>6,914,861</u>
24.1.2 Minhal France, SA.		
The components of the net deferred tax liability are as follows:		
Excess of book value over tax depreciation	2,460,566	2,628,372
Revaluation of hotel property	3,266,075	2,520,178
Provision for major repairs	19,293	20,413
Employees pension plan	(10,481)	(8,992)
Net deferred tax liability	<u>5,735,453</u>	<u>5,159,971</u>
24.1.3 Skyrooms (Private) Limited		
Deferred tax credits:		
Accelerated tax depreciation	11,127	11,867
Lease land acquisition premium	11,847	10,663
	<u>22,974</u>	<u>22,530</u>
Deferred tax debits:		
Provision against trade debts	(600)	(424)
Provision for gratuity	(16,881)	(14,225)
	<u>5,493</u>	<u>7,881</u>
24.1.4 Holding company		
Deferred tax credits:		
Accelerated tax depreciation	23,379,080	23,026,712
Surplus on revaluation of Property, plant & equipment	-	11,908,248
	<u>23,379,080</u>	<u>34,934,960</u>
Deferred tax debits:		
Unused tax losses	(19,270,487)	(32,098,071)
Provisions for liabilities and to write down other assets	(4,108,593)	(2,836,889)
	<u>(23,379,080)</u>	<u>(34,934,960)</u>
	<u>-</u>	<u>-</u>

In accordance with the accounting policy of the Corporation (note 4.9), deferred tax asset of Rs. 27,093 million (2009: Rs. 10,624 million) has not been recognised in these consolidated financial statements due to uncertainty in availability of sufficient future taxable profits.

	2010	2009
	Rupees in '000	
24.2 Obligation for compensated absences - Holding company		
Liability recognised in the balance sheet		
Balance at beginning of the year	2,072,000	1,689,000
Expense recognised during the year	421,033	383,000
	<u>2,493,033</u>	<u>2,072,000</u>
24.3 Post retirement medical benefits - Holding company		
Liability recognised in the balance sheet		
Present value of defined benefit obligation	<u>3,690,387</u>	<u>2,437,282</u>
Movement in liability during the year		
Balance at the beginning of the year	2,437,282	1,425,000
Expense recognised	1,489,773	1,203,037
Payments made during the year	(236,668)	(190,755)
Balance at the end of the year	<u>3,690,387</u>	<u>2,437,282</u>
Expense recognised in profit and loss account		
Current service cost	52,260	32,415
Interest cost	390,639	213,306
Net actuarial loss recognised	1,046,874	957,316
	<u>1,489,773</u>	<u>1,203,037</u>

24.4 Pension obligation - Holding company

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

	PALPA		FENA		MAIN PENSION		TOTAL	
	2010	2009	2010	2009	2010	2009	2010	2009
Rupees in '000								
(Asset) / liability recognised								
Present value of defined benefit obligation	1,558,479	1,798,581	518,432	391,465	13,123,472	11,553,539	15,200,383	13,743,585
Fair value of plan assets	(1,745,383)	(1,720,493)	(877,207)	(691,491)	(9,908,273)	(9,656,556)	(12,530,863)	(12,068,540)
	(186,904)	78,088	(358,775)	(300,026)	3,215,199	1,896,983	2,669,520	1,675,045
Movement in the defined benefit obligation								
Obligation as at January 1	1,798,581	1,624,000	391,465	338,000	11,553,539	9,332,000	13,743,585	11,294,000
Service cost	31,785	37,277	5,776	285	297,672	158,328	335,233	195,890
Interest cost	214,014	249,512	58,006	44,928	1,573,159	1,431,686	1,845,179	1,726,126
Benefits paid	(145,761)	(134,076)	(36,512)	(118,805)	(1,046,845)	(797,500)	(1,229,118)	(1,050,381)
Actuarial (gain) / loss	(340,140)	21,868	99,697	127,057	745,947	1,429,025	505,504	1,577,950
Obligation as at December 31	1,558,479	1,798,581	518,432	391,465	13,123,472	11,553,539	15,200,383	13,743,585
Movement in fair value of plan assets								
Fair value as at January 1	1,720,493	1,631,000	691,491	732,000	9,656,556	8,925,000	12,068,540	11,288,000
Expected return on plan assets	220,950	159,767	100,004	68,680	1,247,258	962,191	1,568,212	1,190,638
Employer contributions	14,199	14,199	3,995	3,995	79,786	79,786	97,980	97,980
Benefits paid	(145,761)	(134,076)	(36,512)	(118,805)	(1,046,845)	(797,500)	(1,229,118)	(1,050,381)
Actuarial (loss) / gain	(64,498)	49,603	118,229	5,621	(28,482)	487,079	25,249	542,303
Fair value as at December 31	1,745,383	1,720,493	877,207	691,491	9,908,273	9,656,556	12,530,863	12,068,540
Expense recognised in profit and loss account								
Current service cost	31,785	37,277	5,776	285	297,672	158,328	335,233	195,890
Interest cost	214,014	249,512	58,006	44,928	1,573,159	1,431,686	1,845,179	1,726,126
Expected return on plan assets	(220,950)	(159,767)	(100,004)	(68,680)	(1,247,258)	(962,191)	(1,568,212)	(1,190,638)
Actuarial loss / (gain) recognised - net	(275,642)	(27,735)	(18,532)	121,436	774,429	941,946	480,255	1,035,647
	(250,793)	99,287	(54,754)	97,969	1,398,002	1,569,769	1,092,455	1,767,025
The plan assets comprise of:								
Equity instruments	0.00%	0.00%	0.00%	0.00%	0.01%	0.02%	0.00%	0.01%
Debt instruments	13.71%	17.86%	64.36%	59.80%	14.29%	21.43%	30.79%	33.03%
Others including cash and cash equivalents	86.29%	82.14%	35.64%	40.20%	85.70%	78.55%	69.21%	66.96%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Historical Information

	2010	2009	2008	2007	2006
	Rupees in '000				
Pension Funds					
Present value of defined benefit obligation	15,200,383	13,743,585	11,294,000	10,241,000	9,466,000
Fair value of plan assets	(12,530,863)	(12,068,540)	(11,288,000)	(11,524,000)	(11,150,000)
Deficit / (surplus)	2,669,520	1,675,045	6,000	(1,283,000)	(1,684,000)
Experience adjustments arising on plan liabilities	3.3%	16%	-	3%	(2)%
Experience adjustments arising on plan assets	(0.2)%	(4)%	6%	1%	2%
Medical Scheme					
Present value of defined benefit obligation	(3,690,387)	(2,437,282)	(1,425,000)	(1,426,000)	(1,353,000)

Actuarial valuation of pension funds, compensated absences and post retirement medical benefit scheme was carried out at December 31, 2010. The valuation has been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2010	2009
Valuation discount rate	13.50%	12.75%
Salary increase rate	11.00%	10.60%
Pension indexation rate	3.00%	4.40%
Medical inflation rate	10.00%	7.38%
Expected rate of return on plan assets	13.50%	12.75%

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

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

	2010	2009
	Number	
Pension scheme	15,541	16,263
Post retirement medical benefit scheme	17,029	16,792
Compensated absences	17,029	16,792

24.4.2 The fair value of plan assets of pension fund includes investment in the Holding company shares, amounting to Rs. 1.28 million (2009: Rs. 1.50 million).

24.4.3 The expected pension expense for the next one year from January 1, 2011 amounts to Rs. 713.262 million. This is the amount which the Holding company has to contribute for the next one year.

24.4.4 The total expense relating to deferred liabilities of the Holding company has been allocated to cost of services, distribution expenses and administrative expenses in the amount of Rs. 1,614.753 million, 442.496 million and 489.979 million respectively.

	Note	2010	2009	2008
			Rupees in '000	
25. TRADE AND OTHER PAYABLES			Restated	Restated
Trade creditors				
Goods		2,573,680	3,878,535	6,147,945
Services		2,276,707	1,603,051	1,894,687
Airport related charges		3,524,083	1,813,469	902,115
Others		385,039	335,215	317,239
		8,759,509	7,630,270	9,261,986
Other Liabilities				
Accrued liabilities		5,266,999	5,047,960	4,561,026
Advance against transportation (unearned revenue)		6,971,694	6,980,139	7,221,398
Unredeemed frequent flyer liabilities	25.1	1,283,440	1,373,408	1,000,096
Advance from customers		854,933	653,884	358,046
Amount due to related parties	25.2	158,148	156,691	146,635
Advances and deposits		150,970	167,259	189,284
Earnest money		2,799	3,073	2,237
Payable to employees' provident fund	25.3	2,445,330	1,918,629	1,149,430
Unclaimed dividend - Preference shares		8,504	8,504	8,504
Collection on behalf of others		4,093,377	2,126,987	933,136
Custom and central excise duty		522,044	496,970	514,645
Capital value tax		936,163	1,002,022	953,544
Income tax deducted at source		124,817	86,052	89,674
Sales tax payable		3,620	4,416	3,758
Bed tax		3,385	1,724	13,987
Payable to EOBI/SESSI		395	238	6,230
Short-term deposits		255,375	238,840	168,865
Murabaha financing		-	-	1,200,524
Fair value of cash flow hedges		-	-	192,725
Others		15,831	12,240	71,582
		31,857,333	27,909,306	28,047,312

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

- ticket inflation and discount rate at the rate of 13.5%;
- expiry of unavailed points after three years; and
- accumulated points above 11,000 can be used for purchase of tickets. Points lower than 11,000 are valued on aggregate cost of redeemed points.

25.2 This includes Rs. 157,876.204 million (2009: Rs. 159,066.679 & 2008: Rs. 159,160.544 million) payable to Minhal Incorporated.

25.3 The amount is payable to Pakistan International Airlines Corporation Provident Fund and carries markup at the rate of 14% (2009: 12.5%).

	Note	2010	2009	2008
		Rupees in '000		
26. PROVISION FOR CIVIL AVIATION AUTHORITY'S CLAIMS				
Opening balance		1,500,000	1,500,000	-
Provision made during the year		-	-	1,500,000
Reversal during the year	26.1	(1,500,000)	-	-
Closing balance		-	1,500,000	1,500,000

26.1 Civil Aviation Authority (CAA), Pakistan claimed additional amounts in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest / surcharge etc. Consequently, as a matter of prudence, the Holding company had made a provision of Rs. 1,500 million there against. During the year negotiations were concluded between the Holding company and CAA as a result of which, a consensus has been reached with respect to the disputed items in favour of the Holding company. This has resulted in reversal of the provision.

	2010	2009
	Rupees in '000	
27. ACCRUED INTEREST		
Mark-up / profit payable on:		
-Long-term financing	1,247,376	412,905
-Term finance certificates	642,462	614,140
-Sukuk certificates	203,456	195,840
-Short-term borrowings	391,249	312,772
-Provident fund	611,621	309,935
	<u>3,096,164</u>	<u>1,845,592</u>

28. SHORT-TERM BORROWINGS

Short-term loans	28.1	14,304,200	16,796,238
Running finance under mark-up arrangements	28.2	8,360,909	7,185,922
		<u>22,665,109</u>	<u>23,982,160</u>

28.1 Short-term loans - secured

Financier	Security	Facility amount (million)	Repayment period	2010	2009
				Rupees in '000	
From Banking Companies					
Habib Bank Limited	GoP Guarantee	2,000 PKR	3 Months	2,000,000	2,000,000
Habib Bank Limited	GoP Guarantee and promissory notes amounting to Rs 2,133 million	1,600 PKR	12 months	1,600,000	1,600,000
Habib Allied Bank Limited -London	EURO receivables	9 USD	1 month	772,200	757,800
National Bank of Pakistan - Bahrain	UK receivables	20 GBP	-	-	1,803,191
National Bank of Pakistan - Bahrain	Charge over Saudi Arabia, Bangladesh, Dhaka, Oman & Muscat Receivables	75 SAR	-	-	1,122,247
Carried forward				<u>4,372,200</u>	<u>7,283,238</u>

Financier	Security	Facility amount (million)	Repayment period	2010		2009	
				Rupees in '000			
Brought forward				4,372,200		7,283,238	
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs. 2,400 million	2,000 PKR	12 months	2,000,000		2,000,000	
National Bank of Pakistan	GoP guarantee	1,500 PKR	12 months	1,500,000		1,500,000	
Habib Bank Limited	GoP Guarantee and promissory note amounting to Rs. 1,334 million	1,000 PKR	12 months	1,000,000		1,000,000	
Hong Kong Shanghai Banking Corporation	GoP guarantee, promissory note amounting to Rs. 1,600 million	1,000 PKR	-	-		1,000,000	
Askari Bank Limited	GoP guarantee	1,500 PKR	12 months	1,500,000		1,500,000	
KASB Bank Limited	GoP guarantee, promissory note amounting to Rs. 595 million	500 PKR	9 months	500,000		500,000	
Barclays PLC	GoP guarantee	300 PKR	-	-		750,000	
Faysal Bank Limited	GoP guarantee and ranking hypothecation charge over all current assets	15 USD	12 months	1,287,000		1,263,000	
National Bank of Pakistan - Bahrain	Charge over UK and Saudi Arabia receivables	60 US \$	3 months	1,287,000		-	
National Bank of Pakistan - Bahrain	Charge over UK, Saudi Arabia, Bangladesh & Oman receivables	20 US \$	6 months	858,000		-	
				<u>14,304,200</u>		<u>16,796,238</u>	

28.1.1 The borrowings in PKR carry mark-up with a spread of 0.85% to 0.90% over 1 month and 3 months KIBOR (2009: spread of 0.85% to 0.90% over 1 month and 3 months KIBOR). The borrowings in foreign currencies carry mark-up with a spread of 2.0% to 5.25% over 1 month and 3 months LIBOR / SIBOR (2009: a spread of 2.0% to 5.25% over 1 month and 3 months LIBOR / SIBOR).

28.2 Running finance under mark-up arrangements

Financier	Security	Facility amount (million)	Unavailed credit (million)	Repayment period	2010	2009
— Rupees in '000—						
Secured						
United Bank Limited - Karachi	Hypothecation charge of Rs. 3,427 million on all present and future stock and spares and assignment of receivables from Karachi and Lahore	PKR 2,570 & PKR 380	73 PKR	8 Months 1 Month	2,876,591	2,439,718
Habib Bank Limited - NYC	EURO receivables	3 USD	-	1 Year	-	240,974
National Bank of Pakistan - Karachi	First pari passu hypothecation charge on all present and future including local receivables routed through NBP current assets	PKR 575 & PKR 925	26 PKR	7 Months 3 Months	1,474,122	575,017
Habib Allied Bank Limited - London	EURO receivables	3 USD	-	On Demand	257,287	251,931
KASB Bank Limited	Domestic receivables	400 PKR	-	1 Year	400,000	400,000
United Bank Limited - Dubai	First pari passu hypothecation, charge on all present and future current assets	22 USD	-	8 Months	1,887,415	1,859,507
Summit Bank Limited (formerly Arif Habib Bank Limited)	Hypothecation charge on specific receivables of Mirpur Azad Kashmir Region.	300 PKR	137 PKR	3 Months	163,043	123,936
United Bank Limited - Bahrain	First pari passu hypothecation charge on all present and future current assets	13 USD	-	8 Months	1,112,192	1,092,752
Habib Bank Limited	Hypothecation charge on all present and future spare parts, accessories of aircraft assets and on domestic receivables	350 PKR	203 PKR	1 Year	95,879	202,087
Un-secured						
Habib American Bank	-	1.5 USD	0.4 USD	On Demand	94,380	-
					<u>8,360,909</u>	<u>7,185,922</u>

29. CONTINGENCIES AND COMMITMENTS

29.1 Contingencies

- a) The tax department had raised demand of Rs. 566.544 million (2009: Rs. 566.544 million) as Federal Excise Duty (FED) along with penalty of Rs. 1 million (2009: Rs. 1 million) and additional duty of Rs. 2,923.005 million on the contention that the Holding company had not collected FED on tickets provided to its employees either free of cost or at concessional rates. The Holding company has paid Rs. 100 million (note 15) against this which is considered fully recoverable from the department. This case is currently under adjudication before Appellate Tribunal Inland Revenue (ATIR). Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements.
- b) The tax department has also raised demands of Rs. 6.804 million (2009: Rs. 6.804 million) and Rs. 277.621 million (2009: Rs. 277.621 million) as FED and Sales Tax respectively along with penalty of Rs. 1.205 million (2009: Rs. 1.205 million) and additional duty / default surcharge of Rs. 17.91 million (2009: Rs. 18.804 million) during the audit of the Holding company for the periods 2004-2005 and 2005-2006. These demands were raised on the issues of late payment of FED, collection of FED at incorrect rate, incorrect apportionment of input tax and failure to collect FED on carriage of goods / mail of Pakistan Post. The Holding company has paid an amount of Rs. 25 million (2009: Rs. 25 million) in this regard which is considered fully recoverable. The Holding company filed an appeal with the Collector of Customs, Sales Tax and Federal Excise (Appeals), which has been decided partially in favour, partially against and partially remanded back. The Holding company and the department both have filed appeals at the ATIR level which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements.
- c) The tax department has also raised demands of Rs. 2.065 million (2009: Rs. 2.065 million) and Rs. 1,319.101 million (2009: Rs. 1,319.101 million) as FED and Sales Tax respectively along with penalty of Rs. 66.058 million (2009: Rs. 66.058 million) and additional duty / default surcharge of Rs. 534.412 million (2009: Rs. 534.412 million) during the audit of the Holding company for the period 2007-2008. These demands have been raised mainly on the issues of collection of FED at incorrect rate and incorrect apportionment of input tax. The Holding company filed appeal at Commissioner Inland Revenue (Appeals) level, which was decided in favour of the department. Currently, the Holding company has filed appeal against this at ATIR level which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements.
- d) The tax department has levied the penalty of Rs. 5,877.351 million (2009: Rs. 5,877.351 million) and Rs. 5,679.110 million (2009: Rs. Nil) on account of delayed payment of sales tax and FED for the months of November - December 2008 and January - March 2010 respectively. In this respect, the tax department has also levied default surcharge and 5% penalty on the unpaid sales tax and FED amounting to Rs. 38.88 million and Rs. 79.969 million respectively. This matter has been referred for deletion and notification is awaited in the light of discussions held with Federal Board of Revenue (FBR), Ministry of Defence and Ministry of Finance. It is expected that a notification for deletion in this regard would be issued shortly. Accordingly, no provision has been made in these consolidated financial statements.
- e) A show cause notice was issued to the Holding company by the Collector of Customs demanding the payment of Rs. 87.926 million (2009: Rs. 87.926 million) in respect of custom duties and other taxes levied on the import of simulator. The Holding company has filed an appeal before the appellate tribunal which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements.

- f)** The custom authorities raised demands aggregating Rs. 274.120 million (2009: Rs. 274.120 million) in total of 44 cases of identical nature by imposing custom duty, sales tax and income tax and penalty of Rs. 54.824 million (2009: Rs. 54.824 million) on re-import of aircraft engines after repair. The Holding company filed an application to the FBR at Alternate Dispute Resolution Committee (ADRC) for review of the demands. The total demand raised by the custom authorities was reduced to Rs. 226.172 million (2009: Rs. 226.172 million) as a result of the decision of ADRC. Against the amount of Rs. 226.172 million, the Holding company has paid an amount of Rs. 95.245 million and filed a petition in the High Court of Sindh, which is pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements.
- g)** Competition Commission of Pakistan (CCP) vide its order dated November 20, 2009 has imposed a token penalty of Rs. 10 million on account of unreasonable increase in Haj fare during the year 2008 as compared to Haj season 2007. Further, on account of discrimination between Haj passengers and regular passengers the Holding company was directed to work out an amount of refund to be paid back to Hajjis based on the difference of fare between regular passenger and short duration Hajjis who flew during Hajj season 2008. The total amount of refund estimated by the Holding company is Rs. 417 million. The Holding company has filed 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 believes that the case will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements.
- 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)** 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 materialise. Accordingly, no provision has been made in these consolidated financial statements against these claims amounting to Rs. 3,549 million (2009: Rs. 3,391 million).
- j)** Claims against Holding company not acknowledged as debt amount to Rs. 1,184 million (2009: Rs. 1,184 million).
- k)** Contingencies relating to income tax matters are disclosed in note 37.
- l)** PIAL upon receipt of instructions from Holding company under section 176 of The BVI Business Companies Act, 2004 had provided a notice dated June 6, 2007 to its minority shareholder for redemption of PIAL's shares held by that shareholder. That redemption notice was re-issued on March 7, 2010. However, the matter of shares redemption could not be finalised because of non-agreement upon the redemption price and other related matters. At present, the subject matter is sub-judice under the BVI Court. The management, however, is confident that a significant cash outflow of PIAL is not expected as a result of the eventual redemption.
- m)** A number of lawsuits which arose in the normal course of business are pending against RHC. The eventual disposition of these legal actions, in the opinion of management based upon available insurance coverage and the assessment of the merits of such actions by counsel, will not have a material adverse effect on the financial position of RHC.

29.2 Commitments

- a) Commitments for purchase of Simulator amounted to Rs.169.171 million (2009: 1,128.130 million).
- b) Commitments for capital expenditure amounted to Rs. 3.118 million (2009: Rs. 103.1 million).
- c) Outstanding letters of credit amounted to Rs. 175.762 million (2009: Rs. 188.0 million).
- d) Outstanding letters of guarantee amounted to Rs. 546.703 million (2009: Rs. 587.0 million).
- e) The amount of future payments in operating lease arrangement relating to Aircraft 777-200 ER and the period in which these payments will become due is as follows:

	2010	2009
	Rupees in '000	
Not later than one year	1,106,068	1,084,178
Later than one year but not later than five years	5,386,876	5,309,362
Later than five years	179,398	1,230,931
	<u>6,672,342</u>	<u>7,624,471</u>

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

	2010	2009
	Rupees in '000	
Commitment for capital expenditure	-	1,646
Commitment for leasehold land		
Not later than one year	7,617	5,078
Later than one year but not later than five years	50,778	48,239
Later than five years	248,813	258,969
	307,208	312,286
	<u>307,208</u>	<u>313,932</u>

30. REVENUE - net

Passenger	95,743,203	84,510,491
Cargo	6,405,627	4,981,666
Excess baggage	1,071,502	1,045,167
Charter	460,559	988,928
Engineering services	1,249,785	900,795
Handling and related services	673,301	580,857
Mail	440,014	352,339
Room, food and beverages sales	9,052,378	8,073,761
Others	2,239,807	1,816,354
	<u>117,336,176</u>	<u>103,250,358</u>

	Note	2010	2009
		Rupees in '000	
			Restated
31. COST OF SERVICES - others			
Salaries, wages and allowances		13,049,404	12,558,142
Welfare and social security costs		150,266	145,743
Retirement benefits		1,928,933	2,162,010
Compensated absences		268,539	244,281
Legal and professional charges		8,198	7,632
Stores and spares consumed		2,849,706	2,463,387
Maintenance and overhaul		5,210,016	4,745,995
Flight equipment rental		1,253,075	1,149,038
Landing and handling		11,921,701	10,494,356
Passenger services		3,693,937	2,794,081
Crew layover		3,027,500	2,559,818
Food and beverages		465,721	-
Staff training		122,758	109,578
Food cost		34,826	35,309
Utilities		39,988	33,076
Communication		56,857	53,138
Insurance		1,456,196	1,437,372
Rent, rates and taxes		506,252	591,524
Printing and stationery		211,433	172,425
Depreciation	5.6	7,008,177	10,406,178
Amortisation of intangibles and prepayment	6.1	4,184	4,184
Fixed assets written off		880	-
Others		650,261	1,484,590
		<u>53,918,808</u>	<u>53,651,857</u>
32. DISTRIBUTION COSTS			
Salaries, wages and allowances		1,909,010	1,648,369
Welfare and social security costs		101,660	168,649
Retirement benefits		488,351	547,359
Compensated absences		71,834	65,345
Distribution and advertising expenses		2,263,775	2,249,398
Legal and professional charges		28,686	27,218
Repairs and maintenance		106,303	98,744
Insurance		20,123	16,671
Printing and stationery		37,957	48,015
Communication		433,932	410,877
Staff training		51,932	66,133
Rent, rates and taxes		336,316	332,712
Utilities		31,606	26,952
Amortisation of intangibles	6.1	1,110	1,130
Depreciation	5.6	44,401	49,764
Others		327,271	366,893
		<u>6,254,267</u>	<u>6,124,229</u>

33. ADMINISTRATIVE EXPENSES

	Note	2010	2009
— Rupees in '000 —			
Salaries, wages and allowances		2,757,388	1,994,046
Welfare and social security costs		1,483,773	1,198,344
Retirement benefits		566,296	634,722
Compensated absences		80,660	73,374
Legal and professional charges		246,631	238,753
Repairs and maintenance		386,145	345,941
Insurance		14,085	17,243
Printing and stationery		70,973	100,824
Staff training		68,051	73,624
Municipal taxes		612,503	-
Rent, rates and taxes		588,097	419,002
Utilities		636,745	535,631
Auditors' remuneration	33.1	26,788	24,397
Communication		979,197	779,338
Amortisation of intangibles and prepayment	6.1	18,917	18,915
Depreciation	5.6	225,920	223,532
Donation	33.3	4,878	5,630
Others		1,186,567	1,038,990
		<u>9,953,614</u>	<u>7,722,306</u>

33.1 Auditors' remuneration

Audit fee - Holding company	6,726	6,726
Fee for review of interim financial statements	2,016	2,016
Remuneration of subsidiaries' auditors	11,346	13,765
Consolidated financial statements	1,000	1,000
Code of Corporate Governance	345	345
Out of pocket expenses	545	545
Tax services	1,310	-
Other services	3,500	-
	<u>26,788</u>	<u>24,397</u>

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

33.3 Donations include payment aggregating Rs. 2.42 million to Al-Shifa Trust situated at Terminal-2, Road, Karachi Airport, Pakistan in which the then Managing Director was interested as a Trustee. Besides this, none of the directors or their spouse have any interest in the donees.

34. OTHER PROVISIONS AND ADJUSTMENTS - net

	Note	2010	2009
— Rupees in '000 —			
Loss on disposal of capital spares		28,547	57,143
Provision for slow moving spares	11.1	173,998	445,684
Provision / (reversal of provision) for doubtful debts - net	12.1	361,697	(108,040)
Arrears against mandatory retirement		4,635	53,506
Provision against doubtful other receivables	15.4	8,267	138,553
Advance given to CAA written off		143,835	-
Provision against doubtful advances	13.1	-	31,915
Others		1,905	27
		<u>722,884</u>	<u>618,788</u>

35. OTHER OPERATING INCOME	Note	2010	2009
		————— Rupees in '000 —————	
Income from financial assets			
Profit on bank deposits		20,459	33,805
Derivative income		457,061	-
Others		1,266	965
Income from assets other than financial assets			
Gain on disposal of property, plant and equipment		5,785	1,452
Insurance claims		49,080	436,429
Reversal of provision	26.1	237,569	-
Reversal of provision no longer required in respect of CAA		1,500,000	-
Others		17,956	87,668
		<u>2,289,176</u>	<u>560,319</u>
36. FINANCE COSTS			
Mark-up on long-term financing		2,271,123	1,924,530
Profit on term finance certificates		1,714,180	1,807,991
Profit on sukuk certificates		976,588	195,840
Interest on liabilities against assets subject to finance lease		1,454,607	1,854,656
Mark-up on short-term borrowings		2,414,358	3,244,074
Interest on provident fund		301,686	189,851
Arrangement, agency and commitment fee		223,105	118,534
Amortisation of prepaid exposure fee		224,491	216,790
Bank charges, guarantee commission and other related charges		42,377	52,284
		<u>9,622,515</u>	<u>9,604,550</u>
37. TAXATION			
Current - for the year	37.1	1,512,046	711,974
- for prior year		13,606	893,525
Deferred	24.1	10,928,666	(9,044,381)
		<u>12,454,318</u>	<u>(7,438,882)</u>
37.1 Current			

In view of available tax losses for the year, provision for minimum taxation has been made at 1% (2009: 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 tax department raised a demand of Rs. 1,146.081 million [reduced to Rs. 939.009 million by Commissioner Inland Revenue (Appeals)] for tax year 2005. The main contention among others was disallowance of depreciation claimed on leased aircrafts. The Holding company claimed the depreciation on the contention that those aircrafts were obtained under hire/purchase arrangement which has been approved by Ministry of Finance as a financing arrangement. The department did not accept this contention and disallowed depreciation expense as inadmissible. An amount of Rs. 48.235 million was recovered by FBR in this respect which has been netted off against 'provision for taxation' in these consolidated financial statements. The Holding company filed appeal at CIT(A) level which was decided partially in favour of the Holding company. Being further aggrieved, the Holding company has filed appeal at ITAT level which is pending adjudication. The Holding company is confident that this issue will ultimately be decided in its favour and the amount will be recovered.

38. EARNINGS PER SHARE - BASIC AND DILUTED

	2010	2009 Restated
Loss for the year (Rupees in '000)	(20,048,823)	(4,345,909)
Weighted average number of Ordinary shares outstanding	2,477,153,436	2,142,060,245
Earnings per share		
‘A’ class Ordinary share (Rupees)	(8.09)	(2.03)
‘B’ class Ordinary share (Rupees)	(4.05)	(1.01)

38.1 Earnings per share has no dilution effect.

39. CASH GENERATED FROM OPERATIONS

	2010	2009 Restated
	Rupees in '000	
Loss before tax	(7,594,505)	(11,784,791)
Adjustments for:		
Depreciation	7,278,498	10,679,474
Gain on disposal of fixed assets	(5,785)	(1,452)
Loss on disposal of capital spares	28,547	57,143
Amortisation	24,211	24,229
Provision for slow moving stores and spares	173,998	445,684
Provision / (reversal of provision) for doubtful debts	361,697	(108,040)
Provision for other receivables	8,267	138,553
Arrears of mandatory retirement	4,635	53,506
Provision for doubtful advances and other receivables	-	31,915
Advance given to CAA written off	143,835	-
Reversal of provision no longer required in respect of CAA	(1,500,000)	-
Provision for employees' benefits	2,983,580	3,344,091
Fixed asset written off	29,426	-
Finance costs	9,622,515	9,604,550
Share of loss from associates	486	433
Share of profit from joint venture	(51,427)	-
Profit on bank deposits	(20,459)	(33,805)
Reversal of provision against short term investments	(342)	(1,133)
Reversal of liabilities no longer payable	(237,569)	-
	11,249,608	12,450,357
Working capital changes		
(Increase) in stores and spares	(29,806)	(699,273)
(Increase) in trade debts	(724,585)	(2,036,541)
Decrease in advances	683,562	63,312
Decrease in trade deposits and prepayments	85,374	15,538
(Increase) in short term investments	(703,051)	(44,950)
(Increase) / decrease in other receivables	(458,255)	477,025
Increase / (decrease) in trade and other payables	4,190,982	(1,211,618)
	3,044,221	(3,436,507)
Cash generated from operations	14,293,829	9,013,850

40. REMUNERATION OF MANAGING DIRECTOR AND EXECUTIVES

	Managing Director		Unit Heads		Executives	
	2010	2009	2010	2009	2010	2009
	Rupees in '000					
Managerial remuneration	14,110	11,507	47,149	37,351	2,920,423	2,825,131
Contribution to provident fund	240	241	1,729	1,166	115,816	108,940
Other perquisites	513	-	13,241	12,096	1,617,561	1,406,721
	<u>14,863</u>	<u>11,748</u>	<u>62,119</u>	<u>50,613</u>	<u>4,653,800</u>	<u>4,340,792</u>
Number	<u>1</u>	<u>1</u>	<u>12</u>	<u>13</u>	<u>2,049</u>	<u>2,212</u>

Directors other than the Managing Director are non-executive directors. Aggregate amount charged in the financial statements for fee to directors was Rs. Nil (2009: Rs. Nil 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 according to the nature of services provided, with each segment representing a strategic business unit that serves different markets.

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

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

Transaction between business segments, 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 Segment Analysis

	Airlines operations		Hotel operations		Eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009
Rupees in '000								
Revenue								
External sales	107,531,590	94,563,765	10,031,315	8,924,049	-	-	117,562,905	103,487,814
Intersegment sales	-	-	-	-	(226,729)	(237,456)	(226,729)	(237,456)
Total Revenue	107,531,590	94,563,765	10,031,315	8,924,049	(226,729)	(237,456)	117,336,176	103,250,358
Results								
Segment results	720,076	(3,190,548)	1,262,254	933,766	(5,261)	(76,974)	1,977,069	(2,179,808)
Interest expense	(9,299,816)	(9,243,768)	(322,699)	(360,782)	-	-	(9,622,515)	(9,604,550)
Interest income	20,457	32,778	2	1,027	-	-	20,459	33,805
Share of associate's loss	-	-	-	-	-	-	(486)	(433)
Income taxes	(12,205,381)	(7,486,333)	(248,937)	(47,452)	-	-	(12,454,318)	7,438,882
Depreciation	(6,191,044)	(9,474,886)	(1,087,454)	(1,204,588)	-	-	(7,278,498)	(10,679,474)
Amortisation	22,518	22,536	1,693	1,693	-	-	24,211	24,229

	Airlines operations		Hotel operations		Eliminations / Adjustments		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009
Rupees in '000								
Assets and Liabilities								
Segment assets	126,860,357	163,655,163	56,906,337	48,142,583	(1,615,873)	(15,910)	182,150,821	211,781,836
Investment in Associates	396	396	-	-	59,857	58,742	60,253	59,138
Capital expenditure	1,455,499	3,065,604	206,245	146,109	-	-	1,661,744	3,211,713
Segment liabilities	183,277,211	180,786,020	33,382,902	30,215,966	(201,788)	(187,744)	216,458,325	210,814,242

41.2 Geographical segments - by area of original sale

	2010 (Rupees in '000)				
	Pakistan	United States	Europe	Others	Total
Segment revenue	54,875,249	15,063,972	21,809,136	25,814,548	117,562,905
Carrying amount of assets	126,692,241	35,280,802	19,050,580	1,169,503	182,193,126
	2009 (Rupees in '000)				
	Pakistan	United States	Europe	Others	Total
Segment revenue	48,478,425	11,440,701	20,158,070	23,173,162	103,250,358
Carrying amount of assets	156,741,131	31,134,822	17,704,613	4,515,596	210,096,162

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 expose it to a variety of financial risks: market risk (including currency risk, fair value 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's 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, bank deposits, available-for-sale investments and derivative financial instruments.

a) Fuel price risk

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

b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. In addition, the Group has substantial foreign currency borrowings and lease liabilities that are primarily denominated in US Dollar, Saudi Riyal (SAR) 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.

	2010	2009	2010	2009
	Rupees in '000		Rupees in '000	
Change in USD rate		(+5%)		(-5%)
Effect on loss before tax	<u>(4,664,913)</u>	<u>(3,593,954)</u>	<u>4,664,913</u>	<u>3,593,954</u>
Change in GBP rate		(+5%)		(-5%)
Effect on loss before tax	<u>60,407</u>	<u>(20,220)</u>	<u>(60,407)</u>	<u>20,220</u>
Change in SAR rate		(+5%)		(-5%)
Effect on loss before tax	<u>42,106</u>	<u>(44,660)</u>	<u>(42,106)</u>	<u>44,660</u>

c) Interest rate risk

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

	2010	2009
	Rupees in '000	
Variable rate instruments at carrying amount:		
Long-term financing	38,246,519	34,028,507
Term finance and sukuk certificates	19,592,320	19,597,440
Liabilities against assets subject to finance lease	39,826,692	69,395,679
Short-term borrowings	22,570,730	23,982,160
	<u>120,236,261</u>	<u>147,003,786</u>
Fixed rate instruments at carrying amount		
Financial Assets		
Bank balances	1,201,398	625,615
Short-term investments	663,774	248,087
Security deposit	3,319,214	365,979
	<u>5,184,386</u>	<u>1,239,681</u>
Financial Liabilities		
Long-term financing	12,321,159	11,927,683
Liabilities against assets subject to finance lease	22,547,216	66,880
Short-term borrowings	94,380	-
	<u>34,962,755</u>	<u>11,994,563</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	
	2010	2009	2010	2009
	Rupees in '000		Rupees in '000	
Change in interest rate	(+1%)		(+0.25%)	
Effect on loss before tax	<u>(353,152)</u>	<u>(386,728)</u>	<u>(212,303)</u>	<u>(233,285)</u>
Change in interest rate	(-1%)		(-0.25%)	
Effect on loss before tax	<u>353,152</u>	<u>386,728</u>	<u>212,303</u>	<u>233,285</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 as majority of its investments are in subsidiaries, associated companies and joint venture which are stated at cost.

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'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					
2010					
Long-term financing	4.71%	22,611,521	29,748,844	5,901,177	58,261,542
Term finance and sukuk certificates	13.73%	4,826,227	21,314,360	-	26,140,587
Liabilities against assets subject to finance lease	2.209%	10,728,274	42,037,772	17,781,957	70,548,003
Trade and other payables	-	27,821,579	-	-	27,821,579
Accrued interest / mark-up / profit	-	3,096,164	-	-	3,096,164
Short-term borrowings	10.40%	24,064,867	-	-	24,064,867
		<u>93,148,632</u>	<u>93,100,976</u>	<u>23,683,134</u>	<u>209,932,742</u>
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	2.620%	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>

42.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. All financial assets except cash in hand are subject to credit risk. The carrying amount of financial assets as at December 31, 2010 represents the maximum credit exposure, which is as follows:

	2010	2009
Rupees in '000		
Long-term loans	14,107	12,051
Long-term deposits	8,068,332	3,592,472
Trade debts	8,698,030	8,335,142
Trade deposits	1,587,327	72,005
Other receivables	877,017	529,411
Receivable from Centre Hotel	648,116	636,064
Long-term investments	141,144	93,021
Bank balances	5,903,895	4,625,519
	<u>25,937,968</u>	<u>17,895,685</u>

Trade debts

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Holding company normally grants a credit term of 30 to 60 days to customers 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 12 to the financial statements.

Other financial assets

The credit risk on liquid funds (cash in transit and bank balances) is limited because the counter parties are primarily banks with a reasonably good credit rating, i.e. atleast 'A2' for short term and 'A-' for long term.

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

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

42.4 Fair value of financial instruments

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

42.5 Capital management

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

43. TRANSACTIONS WITH RELATED PARTY

The related parties of the Group comprise of directors, key management personnel and employees' retirement benefit plans. 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:

	Note	2010	2009
		Rupees in '000	
Retirement funds			
Contribution to Provident Fund and others		1,127,599	1,054,300
Management fee paid to Accor	43.1	104,169	89,849
Profit oriented state-controlled entities - common ownership			
Purchase of fuel		17,682,000	13,685,000
Insurance premium		1,422,575	1,376,000
Mark-up paid		1,527,593	769,448
Abacus Distribution Systems Pakistan (Private) Limited - Joint Venture			
Rent for Global Distribution System		644,015	368,796
GoP - Major shareholder			
Loan installment received		1,000,000	7,000,000
Finance cost		789,041	306,575
Shares issued during the year		2,494,592	1,857,342
Hajj revenue		3,955,037	4,597,549

43.1 One of the hotels owned by PIAL, Hotel Scribe Paris, is managed by a related party, Accor. The amount of management fee is based on the agreement with the related party.

43.2 Transactions with the directors, chief executives and key management personnel have been disclosed in note 40 to these 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	2009	2008
		— Rupees '000 —	
Balance sheet			
Trade deposits and prepayments - Others (Note 14)	Real estate taxes	397,490	-
Hotel running expenses (Note 31)	Cost of services-maintenance	499,421	-
Occupancy co-efficient (Note 10)	Capital work in progress	12,818	12,502
Income tax payable	Trade and other payables-others	105,663	133,267
Trade and other payables (Note 25)	Provision for Civil Aviation Authority's claims	1,500,000	1,500,000
Intangibles (Note 6)	Long term deposits and prepayments - premium on acquisition of leased land	35,545	37,237
Cost of services - aircraft fuel	Other operating income	149,767	149,767
Trade deposits and prepayments - Others (Note 14)	Trade deposits and prepayments-Insurance	69,804	67,691

45. AUTHORISATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorised for issue in the meeting of the Board of Directors of the Holding company held on March 26, 2011.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Form of Proxy

54th AGM OF PIA

I / We _____ of _____ being Shareholder(s)
of Pakistan International Airlines Corporation holding the following Shares:

Folio No. Participant ID No. / Account No.	"A" Class Shares	"B" Class Shares

hereby appoint Mr. / Mrs. / Miss _____ of _____ or failing him / her _____ of _____ who is / are also a Shareholder(s) of the Corporation vide Registered Folio / Participant ID No. _____ Account No. _____ as my / our Proxy in my / our absence to attend and vote for me / us and on my / our behalf at the 54th Annual General Meeting of the Corporation to be held on Saturday, April 30, 2011 and at any adjournment thereof.

As witness my / our hand / seal this _____ day of April 2011.

Signed by the said _____ in the presence of _____

WITNESSES

- Name: _____
CNIC No. _____
Address: _____
- Name: _____
CNIC No. _____
Address: _____

Signature
(Affix Revenue
Stamp of
Appropriate
Value)

NOTES

- This Proxy Form, duly executed, must be lodged at the office of Secretary-PIA, PIA Head Office, Karachi, not less than 48 hours before the time fixed for holding the Meeting i.e. upto 10:00 A.M. Thursday, April 28, 2011.
- No person shall act as Proxy unless he himself is a Shareholder of the Corporation except that a corporate entity may appoint a person who is not a Shareholder.
- Proxies without Folio / Participant ID Number and Account / Sub-Account number will not be entertained.
- Signature of the appointer Shareholder should agree with his specimen signature registered with the Corporation.
- 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.
- In addition to the above the following requirements have to be met by CDC Account Holders / Corporate Entities:
 - Attested copies of CNIC or Passport of the Beneficial Owner and the Proxy holder shall be furnished with the Proxy Form whereas the Proxy holder shall also show his original CNIC or Passport at the meeting.
 - In case of corporate entity, the Board of Directors' Resolution / Power of Attorney with specimen signature of the Nominee / Attorney shall be produced at the Meeting unless these documents have already been provided.

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