



MAJESTIC PAKISTAN

A Treasure Trove of Global Heritage



 **PIA**
Pakistan International

annual report 2011

PIA's fleet through history



Boeing 777



Airbus A310



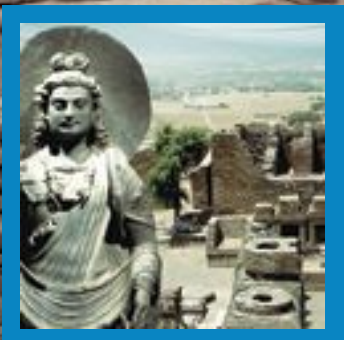
Boeing 747

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Majestic Heritage

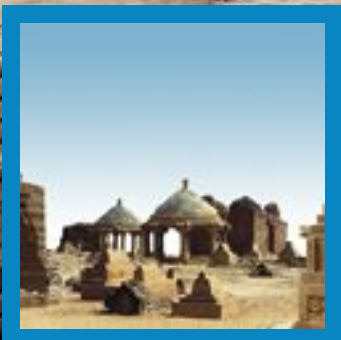
The Cultural Heritage of Pakistan is spread over centuries and is home to some of the world's leading civilizations of the past. Pakistan has inherited a wide array of heritage sites, six of which have been inscribed on the list of World Heritage Sites. Numerous archaeological discoveries from the pre-historic and historic era have proved that some of the most glorious civilizations of the past dwelled on this land.



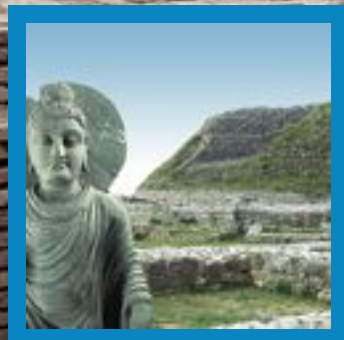
Takht-e-Bahi



Qila Gujjar Singh



Makli Hills



Taxila

Vision

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

Mission

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

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

Corporate Values

Customer Expectations

(Convenience, Care, Affordability)

Service

(Personalized, Courteous, Passionate)

Innovation

(New Ideas, Products, Value Added Services)

Cohesiveness

(Respect for Individuals, Teamwork and Effective Communication)

Integrity

(Business Ethics, Accountability, and Transparency)

Reliability

(Loyalty and Consistency)

Safety

(Passengers, Employees, Environment)

Social Responsibility

(Welfare, Health, Education)

Majestic Places

Pakistan is a rainbow of landscapes. From coastal beaches, lagoons and mangrove swamps to mighty deserts, desolate plateaus, fertile plains, dissected upland, high mountains with beautiful valleys, snow-covered peaks and eternal glaciers, the landscape leaves the beholder speechless. The landscape of Pakistan is divided into the North High Mountainous Region, the Western Low Mountainous Region, the Balochistan Plateau, the Potohar Uplands, the Punjab and the Sindh Plains.



Hanna Lake



Shangrila



Trango Towers



Aansoo Lake

Elevation: 8,611 m (28,251 ft)
Ranked: 2nd on Earth, 1st in Pakistan
Prominence: 4,017 m (13,179 ft)
Located: Pak-China Border
Range: Karakoram
First ascent: 31st July 1954 by Achille Compagnoni and Lino Lacedelli (Italy)
First Pakistani to Ascent: Ashraf Aman on 9th August 1977

Notice of 55th Annual General Meeting

Notice is hereby given that 55th Annual General Meeting of the Shareholders of Pakistan International Airlines Corporation will be held at 10:00 A.M. on Saturday, May 26, 2012 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, 2011, the Report of the Auditors thereon, and the Report of the Directors.
2. To transact any other business with the permission of the Chair.

By order of the Board

Karachi
May 04, 2012

Muhammad Shuaib
Secretary –PIA

Notes

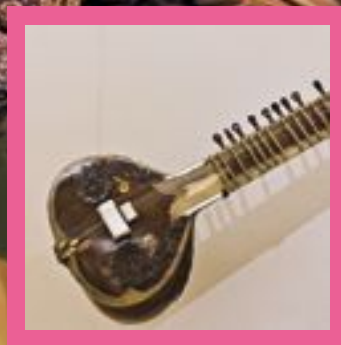
1. The shares transfer books of the Corporation will remain closed from Tuesday, May 15, 2012 to Saturday, May 26, 2012 (both days inclusive). Transfer documents (Physical Scrip Transfers / CDS Transaction IDs) received in order at the office of PIA Share Registrar / Transfer Agent, Central Depository Company of Pakistan Limited, CDC House, 99-B, Block B, S.M.C.H.S. Main Shahrah-e-Faisal, Karachi, upto 05:00 PM, by Monday, May 14, 2012 will be in time for registration of transfer of shares.
2. A Shareholder entitled to attend and vote at the Meeting may appoint another shareholder as his/her proxy. Proxy and Power of Attorney, in order to be effective, must be deposited at the registered office of PIA Share Registrar / Transfer Agent alongwith copy of CNIC not less than 48 hours before the time fixed for holding the Meeting i.e. upto 10:00 A.M. Thursday, May 24, 2012 unless the Power of Attorney has already been registered in the Corporation books, and must be stamped, signed and witnessed.
3. Any individual Beneficial Owner of CDC, entitled to attend and vote at the Meeting, must bring his / her CNIC or Passport to authenticate his / her identity alongwith CDC Account Numbers. However, if proxy is granted by such a shareholder, the same shall also have to be accompanied with an attested copy of CNIC or Passport of the granter. Representatives of Corporate Shareholders should bring the usual documents required for such purpose.
4. Shareholders are requested to promptly notify changes, if any, in their registered mailing addresses and also for the consolidation of folio numbers if any shareholder holds more than one folio to PIA Share Registrar / Transfer Agent.

Majestic Voices

The distinctive sound of the music of Pakistan is a result of the fusion of many diverse elements and many diverse cultures that dwelled on this land from time to time. Pakistan music has been heavily influenced by Sufis and Sufi traditions belonging to various parts of South Asia as well as Central Asia, Persia, Turkey and Arabia. The music of Pakistan continues to evolve by accepting positive elements of modern Western music. Pakistan has produced the likes of Nusrat Fateh Ali Khan, Madam Noor Jahan, Abida Parveen, Mehdi Hasan and Rahat Fateh Ali Khan, just to name a few.



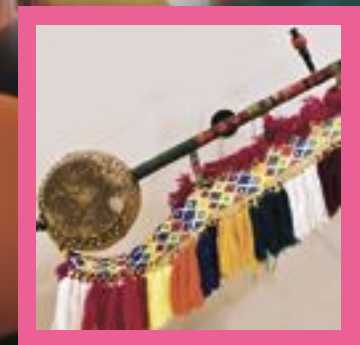
Yueqin



Sitar



Dhol



Yaktaro

Corporate Profile (as at April 30, 2012)

Board of Directors

Ch Ahmed Mukhtar
Minister for Defence and Chairman - PIA

Ms Nargis Sethi
Federal Secretary Defence

**Air Chief Marshal (Retd)
Rao Qamar Suleman**
Managing Director - PIA

Mr Husain Lawai

Mr Abdul Wajid Rana
Federal Secretary Finance

Makhdum Syed Ahmad Mahmud

Malik Nazir Ahmed

Mr Javed Akhtar

Syed Omar Sharif Bokhari

Khawaja Jalaluddin Roomi

Mr Yousaf Waqar

**Corporate Secretary
Mr Muhammad Shuaib**

Executive Management

**Air Chief Marshal (Retd)
Rao Qamar Suleman**
Managing Director

Mr M. Salim Sayani
Deputy Managing Director

Capt M. Junaid Yunus
Deputy Managing Director
Special Projects & Charters

Mr Nayyar Hayat
Chief Financial Officer

Mr Mahmood Ahmed
Director - Airport Services

Mr Irshad Ghani
Director - Corporate Planning

Mr Maqsood Ahmed
Director - Engineering
& Maintenance

Capt Naveed Ahmed Aziz
Director - Flight Operations

Mr Muzaffar Talpur
Director - Flight Services

Mr Saleem Ahmed
Officiating Director - HRA
& Coordination

Mr Sher Muhammad Jamali
Director - Information
Technology

AVM Amin Ullah Khan
Director - Precision
Engineering Complex

Mr Amanullah Qureshi
Director - Procurement
& Logistics

Mr S. Aijaz Mazhar
Director Standards &
Special Projects

External Auditors

Messrs A. F. Ferguson & Co
(Member firm PWC).

Messrs M. Yousuf Adil Saleem & Co
(Member firm Deloitte).

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 - 75200, Pakistan.
UAN: 111-786-786 / 111-FLY-PIA

www.piac.aero



Board of Directors



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 the Board of Directors of Service Industries Ltd. He also served the nation as Federal Minister for Commerce in early 90s. Ch. Mukhtar is a perfect blend of a businessman and a politician.

Ms Nargis Sethi *Director*

Ms Nargis Sethi, Federal Secretary Defence is a nominated Director since January 2012. She holds post graduate degrees in International Relations from Karachi University; Defence Studies from Quaid-e-Azam University, Islamabad and Development Administration from USA. In addition to the position of Federal Secretary Defence, she is also Federal Secretary Cabinet Division. Ms Sethi has been a Member Directing Staff at Civil Services Academy, Lahore; Additional Secretary in Prime Minister's Secretariat; Federal Secretary Health, Government of Pakistan; and, first female Principal Secretary to the Prime Minister of Pakistan. In recognition of her public service, she has been conferred with Hilal-i-Imtiaz.

Air Chief Marshal (Retd) Rao Qamar Suleman *Managing Director*

ACM(R) Rao Qamar Suleman is Managing Director PIA since March 2012. He joined Pakistan Air Force in 1972 and graduated in 1975. He had been a Fighter Pilot, a qualified Flying Instructor and has served as Instructor Pilot in various training and operational institutions of PAF. He has vast experience of command and staff assignments at various tiers. He has commanded PAF from March 2009 till March 2012, where he managed over 600 aircraft, more than 80, 000 personnel and all other resources of PAF. He is a graduate of PAF Air War College and the National Defence University. In recognition of his services, he has been decorated with Tamgha-i-Imtiaz (M), Sitara-i-Basalat, Sitara-i-Imtiaz (M) and Hilal-i-Imtiaz (M). ACM(R) Suleman is Chairman Skyrooms (Pvt) Ltd, Member CAA Board and also member of PIA Board's Finance Committee as well as HR Committee.

Makhdum Syed Ahmad Mahmud *Director*

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

Malik Nazir Ahmed *Director*

Malik Nazir Ahmed is an elected Director since March, 2008. He was re-elected for a term of three years in April 2011. 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 at 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 Board's Human Resource Committee.

Mr Javed Akhtar *Director*

Mr Javed Akhtar is a nominated Director since July, 2008 and was nominated for the second term in September, 2011. He holds a Bachelors Degree from University of Karachi. Mr Akhtar is Chairman Akhtar Group of Industries and Chairman Fashion Apparel Designing and Training Institute (FADIN). He is also working as Director of Karachi Garment City and is also member implementation committee of Ministry of textile. He is Member Managing Committee and was 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 and Human Resource Committee.

Mr Husain Lawai
Director

Mr Husain Lawai is a nominated Director since July, 2008 and was nominated for the second term in September, 2011. Presently, he is President and CEO of Summit Bank Limited and is a seasoned banker with vast experience in the banking and financial services industry. He holds Masters Degree in Business Administration from Institute of Business Administration, Karachi. Mr Lawai held the position of President & Chief Executive Officer at MCB 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. Currently Mr. Lawai is the Chairman of Central Depository Company of Pakistan. He is also on the Board of Directors of State Life Insurance Corporation of Pakistan, Glaxosmithkline Pakistan Ltd., and Wythe Pakistan Ltd. Mr Lawai is also Chairman Board's Audit Committee and Member of Board's Finance Committee.

Abdul Wajid Rana
Director

Mr Abdul Wajid Rana is a nominated Director since February, 2012. He holds Master of Business Administration degree with specialization in Economics / Master of Finance from Saint Louis University, Missouri, USA; Master of Arts (Political Science) from University of Punjab; Master of Science from Quaid-i-Azam University, and, LLB degree from University of Sindh. At present, Mr Rana 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 Federal Secretary, Economic Affairs Division; Special Secretary Finance; Economic Minister/Financial Advisor, Embassy of Pakistan, Washington D.C., USA/Canada; Principal Staff Officer to the Prime Minister of Pakistan; Joint Secretary (EF&P), Ministry of Finance; Special Assistant to Minister for Finance, Economic Affairs, Revenue, Planning & Statistics, Government of Pakistan; Provincial Secretary Finance, Sindh; Provincial Secretary Finance, KPK and Home Secretary Sindh. Mr Rana is also Chairman of Board's Finance Committee.

Mr Yousaf Waqar
Director

Mr Yousaf Waqar is an elected Director since April, 2011. He is BBA (Finance) qualified from Lahore School of Economics and certified in Corporate Governance Leadership Skills (PICG). He is a well known businessman and is presently looking after his family business, namely Diamond Group of Industries. Mr Waqar has extensively travelled to many countries of the world. He is the CEO of Eagle Industries (Pvt) Limited and is Director and partner of six other companies. Mr Waqar is an active member of Entrepreneurs Organization of Pakistan. He is very active in supporting the social sector organizations working for the development of education and health care. His passion is to serve the nation by generating new resources of employment through producing environment friendly products. Mr Waqar is also Member of Board's Audit Committee and Finance Committee.

Syed Omar Sharif Bokhari
Director

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

Khawaja Jalaluddin Roomi
Director

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

Majestic People

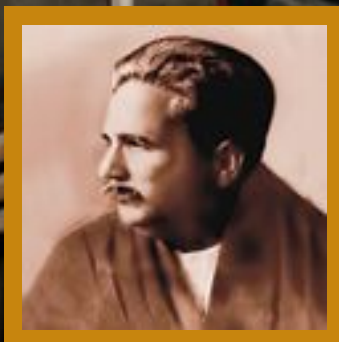
Pakistan is a country of people with tremendous potential. Historically, Pakistan has been home to people with brilliant minds and noble characters. People such as Quaid-e-Azam Mohammad Ali Jinnah, Allama Mohammad Iqbal, Liaquat Ali Khan, Mohtarma Fatima Jinnah and many other noteworthy historical figures took pride in wearing the badge of Pakistan on their hearts.



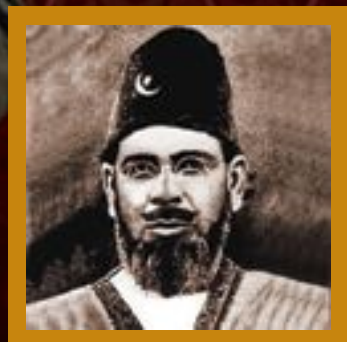
Sir Syed Ahmed Khan



Mohtarma Fatima Jinnah



Dr. Allama Mohammad Iqbal



Maulana Mohammad Ali Johar

Regulatory Appointments

Mr Nayyar Hayat Chief Financial Officer

Mr Nayyar Hayat, a Chartered Financial Analyst (CFA), an Associate of Cost & Management Accountants (ACMA), and an Associate Public Accountant (APA), joined Pakistan International Airlines as General Manager in Finance Department in April 2010. He was appointed as Chief Financial Officer (CFO) in April 2011. Mr Hayat has extensive experience in strategic planning, corporate finance, joint ventures, capital asset oversight, corporate matters, global tax structure oversight and risk management. He has got successful and diverse track record of more than fourteen years service in finance. Before joining Pakistan International Airlines, he has served in Sugar, Steel, Edible Oil, Retail, Real Estate, Education, Health and Not for Profit Sectors. He is board member of Sky Rooms (Pvt) Ltd which runs Airport Hotel. He is also a board member of Abacus Pakistan (Pvt) Ltd which is a National Distribution Company formed as a Joint Venture between Abacus Singapore and PIA.



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* member of CSR Committee, and Secretary of Board's Audit Committee as well as other two Committees of the Board. He is also Chairman of Institute of PIA Planetaria, Astronomy & Cosmology. Voluntarily, Mr Shuaib is Senior Asstt Provincial Commissioner of PIA Scouts. He also served as President PIA Cricket Academy, and International Commissioner Pakistan Boy Scouts Association.

Majestic Experiences

Pakistan is the dreamland for people looking to experience the beauty and all the shades of nature in all its glory. From extreme temperatures ranging from +50 to -30, from unscalable heights to the deepest depths, Pakistan has something to offer to every nature enthusiast. Pakistan offers a new perspective on activities, such as mountaineering, hiking, deep sea diving, nature safaris and many more.



Malakhara



Shandur Polo Tournament



Horse & Cattle show



Kabaddi

Board of Directors' Committees (as at April 30, 2012)

Audit Committee

Mr Husain Lawai
Chairman

Mr Javed Akhter
Member

Syed Omar Sharif Bokhari
Member

Khawaja Jalaluddin Roomi
Member

Mr Yousaf Waqar
Member

Finance Committee

Abdul Wajid Rana
Chairman

Mr Husain Lawai
Member

Air Chief Marshal (Retd)
Rao Qamar Suleman
Managing Director
Member

Mr Yousaf Waqar
Member

HR Committee

Makhdum Syed Ahmad Mahmud
Chairman

Malik Nazir Ahmed
Member

Mr Javed Akhter
Member

Air Chief Marshal (Retd)
Rao Qamar Suleman
Managing Director
Member

The Crux of Excellence - Strategic Business Units

PIA is more than just an Airline. The Strategic Business Units (SBUs) operating under the umbrella of PIA offer a variety of services with a particular focus on providing unmatched services for ultimate customer satisfaction. The SBUs play a very important role in improving the operational capacity and financial standing of PIA.





Strategically headquartered at Jinnah International Airport, Karachi, PIA Engineering is acclaimed as one of Asia's best Aircraft Maintenance and Repair Facility in providing world-class solutions to the aviation industry. Equipped with the most advanced, modern aircraft maintenance and overhaul facilities, it facilitates airlines whose operations extend to Asia.

CARGO

PIA Cargo is the air freight division of Pakistan International Airlines. PIA Cargo has carved a name for itself by ensuring timely deliveries, smooth operations, and a zealous customer service. PIA Cargo delivers cargo shipments domestically and to over 40 international destinations.



With a vast national network, backed with cutting-edge technology and supported by a zealous customer service, Speedex delivers documents and parcels of any size nationwide.

PIA Training Centre

The PIA Training Centre is approved by local and international regulatory authorities such as CAA, ICAO, and IATA. It is built around a highly advanced training infrastructure that delivers the highest standards of aviation instruction.

Flight Kitchen

To serve its passengers with culinary delights, PIA runs two fully-equipped Flight Kitchens in Karachi and Islamabad. The flight kitchen's menu ranges from mouth-watering Pakistani cuisine to tempting Western delicacies. The flight kitchen also makes sure that VVIP and Chartered flights for top government officials and foreign delegates are catered with sumptuous food.



Planetaria

To educate the students and to entertain people with a healthy dose of real life excitement, PIA has established planetariums in Karachi, Lahore and Peshawar. The first planetarium was established in Karachi in 1985 as a gift to people who enjoy star gazing and as a means of educating and providing constructive entertainment to citizens. PIA Planetarium is a kind of virtual observatory which regularly puts on shows about the solar system and cosmic phenomenon, with a large dome as the screen on which the slide shows/movies are presented.



Geared for **Success**

Encouraging teamwork and implementing employee satisfaction, PIA prides itself in its business ethics and effective communication brought together by the various departments of the Corporation.



Directors' Report year ended December 31, 2011

The Corporation has persevered in adverse circumstances and continued to strive in a turbulent environment and recession hit economy with a record breaking revenue of Rs. 116.6 billion.

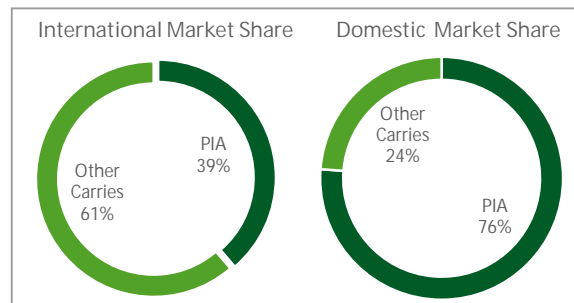
During 2011, slow economic growth in developed economies placed pressure on aviation business across the globe resulting in deteriorated consumer confidence and economic uncertainty. International travel growth remained depressed and showed mixed performance across regions. Africa, the Middle East and Latin America showed good performance while travellers in Europe and North America were relatively more reluctant to fly. International freight load factors fell due to decline in trade and increase in capacity due to deliveries of wide-body aircrafts. Asia-Pacific has had the weakest growth rates.

Outgoing year witnessed an increase in average jet fuel price from USD 80 per barrel in 2010 to USD 110 in 2011. The year was characterized by extreme volatility in fuel prices, political turmoil in the gulf countries, natural disasters and continued global recession. These events prompted IATA to slash \$4 billion from bottom line of the industry's global forecast for the year.

On the Domestic front the Pak Rupee continued to depreciate against the US Dollar starting the year at around 86 rupees and closing at around 90 rupees. The law & order situation in the country did not improve much and the economic state deteriorated further with prevailing energy crises, continuation of circular debt problem in Pakistan and double digit inflation.

Our Performance

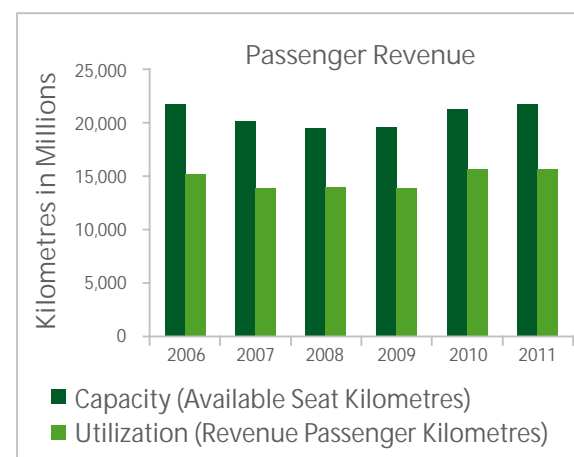
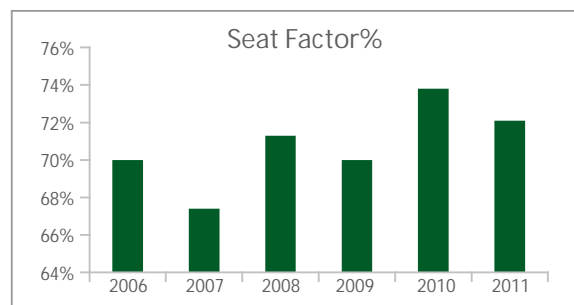
The Corporation had to face an unprecedented employees' strike which paralyzed operations for five days in February. The Corporation faced another strike in July for one and a half days putting further dent in the revenues. Growth continued at a slower pace in first nine months of 2011 but stalled in last quarter due to capacity shortfall. Despite the above challenges the Corporation registered an increase of PKR 9.02 billion in overall revenue compared to the last year. Passenger revenues increased by PKR 7.76 billion as compared to last year resulting mainly from an increase in yield from PKR 6.12 in 2010 to PKR 6.61 in 2011. New destinations including Zahidan, Colombo and Madina also added a lift to the revenues. The Corporation continues to cater to the travelling needs of Pakistanis all over the world. Despite the increasing competition with the larger airlines we have managed to retain our international market share.



Domestic market also remained highly competitive with all the airlines striving to increase their share. Remarkably, the Corporation has managed to increase its market share to 76% from 74% from the prior year.

Passenger seat factor has decreased marginally to 72% as compared to 74% last year. The Corporation experienced a slight increase in ASKs while RPKs did not witness a significant change as compared to the last year.

In order to broaden the market base, agreements have been signed with virtual airlines for offline market segments. A number of SPAs have been signed. PIA & Telenor signed a co-branding agreement for sales through EasyPaisa Outlets which will provide customers with 12,000 more outlets for ticketing.



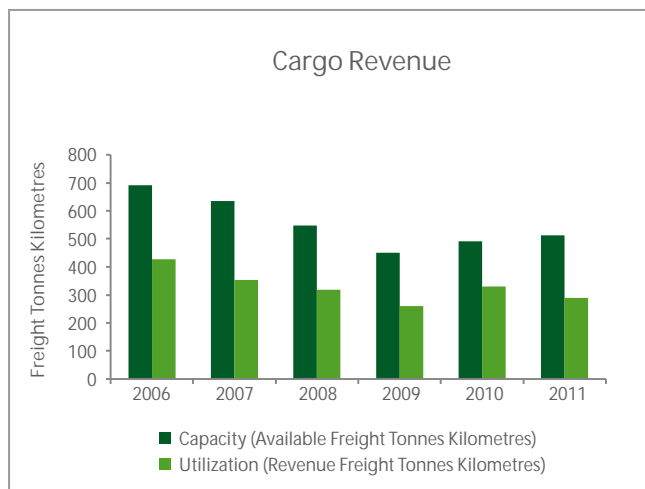
Following new destinations were introduced during the reported year:

- Karachi - Madina (Twice weekly with B747/A310 w.e.f July 2011)
- Quetta – Zahedan (Twice weekly with ATR w.e.f Jan 2011)

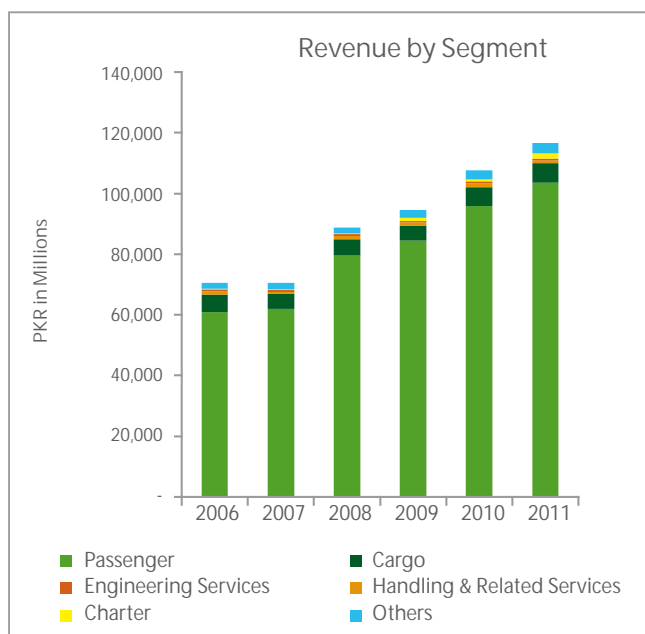
Following new routes were introduced during the reported year:

- Peshawar - Kuala Lumpur
- Sialkot - Riyadh & Sialkot - Dammam

Cargo capacity increased by 4.3% however load factor decreased from 67% to 56% resulting in a decrease in RFTK by 12.5% during 2011. Nevertheless, there has been a healthy increase in yield from Rs. 19.45 in 2010 to Rs. 22.23 in 2011.

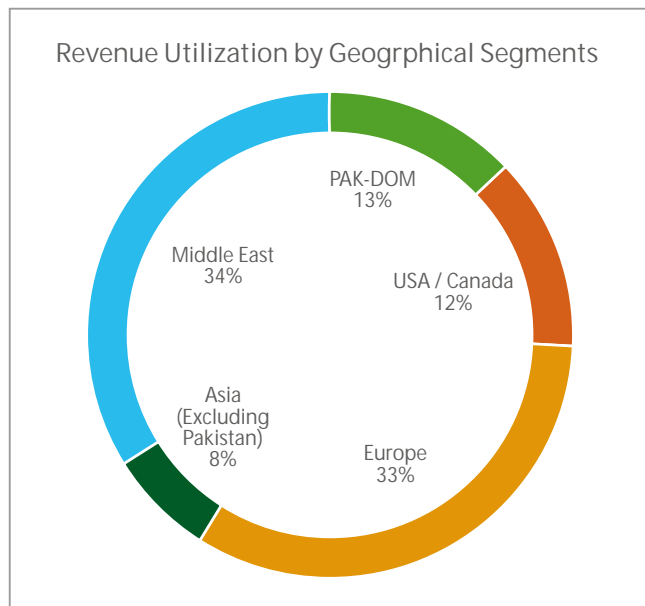
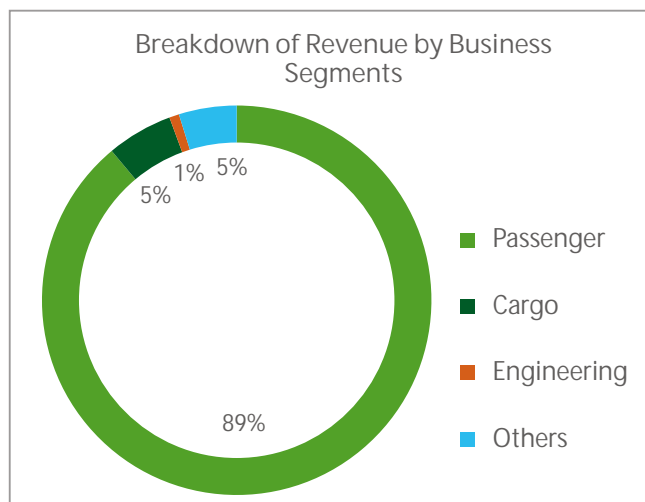


While revenues from Cargo business has not increased significantly; charter business has increased manifold from PKR 461 million to 1,643 million in 2011 mainly due to Libya, Egypt charters and Hajj charters from Kathmandu, Dacca, Kinshasa & Rangoon.



In last eighteen months under the guidance of the Board of Directors and professional supervision of management, PK MRO saved valuable foreign exchange of PKR 4.6 Billion through in-house capability development of CF6-80C2 Engine overhaul, B747 Combi to full Passenger Conversion, Commissioning of PW127 Engine Test Cell, Commissioning of ATEC 600 Tester /Av Comp, A310 APU in-house overhaul facility, B747 in-house L/Gear Overhaul, savings through PMA parts / DER repairs, completion of three Six Sigma Projects. Though MRO revenue has dropped to PKR 952 Million from PKR 1,250 in 2010, but business denied due to capacity short fall is PKR 402 Million, that otherwise would have aggregated to PKR 1.4 Billion; growth rate of nearly 12%.

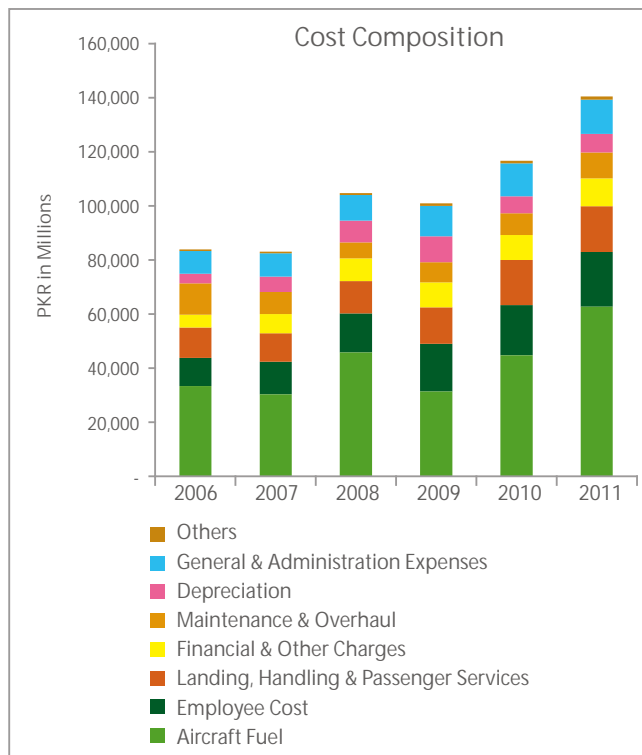
Recognizing the great potential in PIA's Maintenance Repair and Overhaul capabilities, the United States Trade and Development Agency (USTDA) has granted PIA PKR 58 million (\$864,000) to conduct a thorough feasibility for this business. This underscores the confidence and trust in PIA's engineering capabilities to create a state-of-the-art MRO facility in the region that will create significant revenue growth and as many as 3,000 jobs in Pakistan. The South Asian and Middle Eastern MRO Market are expected to grow to become \$9 billion market.



PIA's five-year business plan is focused on turning cost centers into strategic business units and focused approach to customer service will greatly help PIA return to profitability. PIA's highly skilled engineering capabilities, 60 years of legacy experience and vast infrastructure would serve as a solid foundation for the growth of MRO (Maintenance Repair Overhaul) Business in Pakistan.

A brief review of the overall results of operations for the year ended December 31, 2011 is presented below:

Particulars Year Ended December 31	2011 (PKR in Millions)	2010 (PKR in Millions)
Turnover - net	116,551	107,532
Operating Cost & Expenses	(130,805)	(106,990)
Other Income	546	2,270
Exchange Loss	(4,219)	(2,092)
Financial Costs	(10,099)	(9,300)
Loss Before Tax	(28,026)	(8,580)
Taxation	1,259	(12,205)
Loss After Tax	(26,767)	(20,785)



Flight Departure graph by year



PIA Subsidiaries

PIA Investment Limited operates Scribe Hotel in Paris and Roosevelt Hotel in New York. Both prestigious hotels have continued the profitability trend and have shown a combined increase of 7.2% in revenues over 2010 while profit before tax has also increased by 5.9% over last year.

Skyrooms Private Limited (Airport Hotel) located next to PIA Head Office in Karachi provides its services mainly to the transit passengers of PIA. Airport Hotel has struggled for profitability. However, it has turn around significantly and reduced its losses by 92%. Airport Hotel's room and bed occupancy rates have improved over past year resulting in higher revenues over past year.

Airport Hotel	2011	2010
Guest Numbers	173,149	162,549
Room Occupancy	94%	91%
Bed Occupancy	85%	79.5%

Major Judgment Areas

Revaluation of Property, Plant & Equipment

The Corporation uses the policy of revaluing its assets to market values as provided for in IAS 16 - property, plant and equipment. Land, buildings and aircrafts are revalued through independent professional valuers with sufficient regularity. A revaluation in respect of land and buildings was carried out during the current year resulting in a revaluation surplus of PKR 301 million.

The latest revaluation of aircrafts on December 31, 2011 was carried out by Ascend Worldwide Limited (UK) on the basis of professional assessment of current market values which resulted in a revaluation surplus of PKR 3,113 million as compared to deficit of PKR 32,116 million on last year's revaluation.

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

Frequent Flyer Programme - 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 valuator.

Employee Benefits

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

Hajj Operation

PIA undertakes a massive Hajj operation every year and accordingly the preparations start right away with the end of previous Hajj operation. Considering the religious as well as social aspect of this holy ritual, being National Flag Carrier, PIA gives great importance to the Hajj operation with special emphasis on Hujjaj convenience and serviceability of the aircraft.

Hajj operation of 2011 was completed successfully and approximately 108,000 Hujjaj were carried by PIA. In addition to Pakistani Hujjaj, PIA also operated charter flights to carry Hujjaj from other countries such as Kathmandu, Dacca and Kinshasa. PIA Hajj performance was much better than other airlines and despite having the maximum frequency PIA's delays were less than all other airlines. Due to the efficient



operations at Jeddah PIA was awarded a "Certificate of Appreciation" by the Saudi General Authority of Civil Aviation. PIA also received the Consumer's Choice Award for "Best Hajj Service Provider Airline" to recognize the outstanding efforts of PIA and its staff.



Full Flight Simulator

Chairman PIAC inaugurated the state-of-the-art PIA Boeing-777 flight simulator installed at the PIA Training Centre, Karachi on October 30, 2011. The new simulator uses key technologies to drive down operational costs, exceeds the latest environmental directives and dramatically reduces the carbon footprint of the device. The acquisition of this full flight simulator has resulted in improved training standards, better coordinated crew scheduling and planning and will also be a potential for generating third party revenues especially from other Asian and the Middle Eastern Airlines.



Principal Risks & Uncertainties

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

The Corporation has adopted a pro-active approach towards managing key business, operational, financial and strategic risks. Towards this end, the airline has a dynamic Corporate Safety and Quality Assurance function whose primary responsibility is to continuously assess the environment in which the airline operates and identify and address potential risks by developing controls to mitigate the same.

Financial Risk Management

PIA is exposed to a variety of financial risks which involves the analysis, evaluation, acceptance and management of some degree of risk or a combination thereof. The Corporation's aim is to achieve an appropriate balance and minimize the adverse impact on financial performance. Risk management is carried out by Finance department under set out procedures and in consultation with other departments. Financial risks are managed by deploying quality human resources in key operational areas to ensure effective monitoring of the airline's exposure in different areas.

Fuel Prices Risk

PIA is exposed to volatility in the price of Jet fuel. The Corporation manages the risk through fuel hedging programme that operates under the guidelines set by the Board of Directors. During the year the Treasury department has been revamped and state of the art tools have been added to aid risk management process. For the first time regular fuel price bulletin has been started. Substantial savings were achieved due to in the money hedging during the second half of 2011.

Geographical risks, dominated by developments surrounding Iran, have put upward pressure on oil prices, although the weak demand outlook has mitigated the impact to some extent. Oil price forecast, shows that fuel pass-on, fuel efficiency and fuel hedging measures are more important than ever. In this context the Corporation will continue with its fuel price risk management program and fuel price increase or decrease being passed on to passengers.

Interest Rate Risk

PIA manages the interest rate risk by targeting a balanced portfolio approach. PIA's loan book consists of a variety of loans i.e. against PIA assets, against GoP guarantee, PKR denominated and Forex denominated. The Corporation's weighted average interest rate has been kept under 7% through these measures, despite the average KIBOR being above 11%.

PIA executed facility documentation for a \$100 million Shari'a compliant financing facility during December 2011 to take advantage of lower interest rates abroad. The deal received the prestigious "Asian Deal of the year" from Air finance Journal. The facility was arranged by Abu Dhabi Islamic Bank, Al Hilal Bank, Citibank N.A., and United Bank Limited as Mandated Lead Arrangers and Joint Book Runners. The three-year facility reflects investor confidence in the airline and its strategic importance to Pakistan. The facility represents the first syndicated commercial foreign currency financing for a Pakistani obligor since 2007. The transaction is also important for the aviation sector as it uniquely broadens airline corporate credit to regional Islamic financiers.

Corporate Social Responsibility

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

Having an enhanced exposure to advanced world, PIA has been instrumental in bringing latest technology and ideas and sharing the same with other cores of society in the country, since its inception in 1955. Pioneering in adoption of Information Technology and introduction of computers in the country and fully promoting the sportsmen are just two of many initial contributions of the airline. A step ahead, now PIA has institutionalized the practice of good governance by establishing a Corporate Social Responsibility Committee. This high level and appropriately empowered committee comprises of one Director, six General Managers / Equivalents and one Deputy General Manager. Committee provides a platform to evaluate, update, and recommend best practices. CSR is woven into the fabric of daily operations at PIA. Following recent and routine activities supporting the community reflect PIA's belief in contributing for the betterment of society:

Scouts Association

The PIA Boy Scouts Association, is a provincial segment of the Pakistan Boy Scouts Association. Through its various community and educational programmes, it contributes to the education of young people and helps build a better world where individuals can play constructive roles in society.

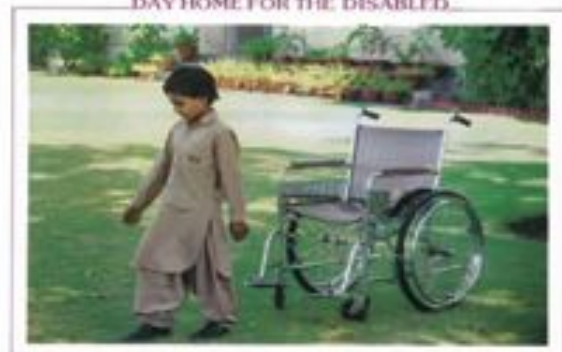
Al-Shifa Trust

PIA fully sponsors Al-Shifa Trust, which provides relief and rehabilitation services to special children suffering from cerebral palsy and other motor disorders. It is dedicated to ensuring that the children, adults young and old with physical disabilities, receive opportunities to achieve their maximum potential for independence within their family and their community. PIA keeps on meeting needs of this center which is a home to many such members of the society and a ray of hope for their families



 Al-Shifa الشفا

 DAY HOME FOR THE DISABLED



Education & Training

PIA is contributing a lot in educating thousands of people in multifarious disciplines of professional skills and awareness programmes of the following of its entities:

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

PIA Employee Health and Medical Services

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



Pattern of Shareholding

A statement showing the pattern of shareholding in the Corporation and additional information as at December 31, 2011 appears on page 32.

The highest and lowest market prices for ordinary 'A' class shares of PKR 10/- each were PKR 3.40 and PKR 1.61 per share, respectively. The highest and lowest market prices for ordinary 'B' class shares of PKR 5/- each were PKR 9.00 and PKR 1.54 per share respectively.

Government of Pakistan through Ministry of Defence holds 84.64% of shares. PEET holds 8.06%, individual and others hold 6.32% whereas, financial institutions holds 0.98%.

Changes in Board of Directors

During the Financial Year 2011, the following changes took place in PIA's Board of Directors:

Syed Naseer Ahmad	Relinquished
Mr Javed Akhtar	
Lt Gen (Retd) Syed Ather Ali	
Prof. Mian Ijaz ul Hassan	
Mr Mubashir Iftikhar	
Mr Husain Lawai	Re-Elected
Malik Nazir Ahmed	
Mr Javed Akhtar	Re-Nominated
Syed Omar Sharif Bokhari	Nominated
Mr Husain Lawai	Re-Nominated
Lt Gen (Retd) Naeem Khalid Lodhi	Nominated
Makhdum Syed Ahmad Mahmud	Nominated
Mr Yousaf Waqar	Elected
Capt. Nadeem Khan Yousufzai	Nominated

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 accounts 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 7 (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 fund as at December 31, 2011 were PKR 20, 261 million and PKR 11,294 million respectively.

Compliance with Best Practices of Corporate Governance

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

Statement of Internal Control

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

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

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

The Corporation's internal audit function is handled by a qualified Cost and Management Accountant. The internal audit has been further strengthened by hiring co-sourcing partner Messrs Taseer Hadi & Co. (KPMG) since 2010.

Way Forward

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

During the current year, the Corporation continued to pursue its business plan with the GoP at various levels. During the year a meeting regarding the business plan was held with the honorable President of Pakistan as well as two meetings were held with the honorable Prime Minister of Pakistan. Further guidelines were provided during these meetings, which after incorporation in the business plan have been approved by the Finance Ministry's Economic Reform Unit (ERU). Final nod is awaited from the Cabinet committee on restructuring (CCOR). GoP support for PIA is manifested by issuance of letters of comfort (LOC) to enable PIA to obtain financing at favorable terms and conditions. During the reported year MoF provided the required LOC to replace vacated guarantees.

The Board and management have started progressing on other areas of business plan. A significant milestone was achieved by signing definite purchase agreement of five Boeing 777. During the year the Corporation plans to induct 13 new narrow body aircrafts to augment capacity and bring efficiency. The new aircrafts will be deployed on Arabian, Gulf and domestic routes.



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. With your support we shall rise.

For and on behalf of the Board

Ch. Ahmed Mukhtar
Chairman

Date: April 30, 2012.

Achievement **Flight Simulation**

As a groundbreaking initiative, PIA recently upgraded its flight simulation facility by acquiring a new Boeing 777 Full Flight Simulator Level D with most associated options. PIA was the first airline in the world to fly a Boeing 777 and has a successful track record of training pilots and flight crews of various other airlines such as Air Malta, Alyemda, CAAC, Egypt Air, East African Airlines, Iran Air, Iraq Air, Libyan Air, JAT, Tarom, Saudia, Alia and Pakistan Air Force and the acquisition of this full flight simulator will result in further improvement in training standards. The new simulator is installed at PIA Training Centre (PTC) in Karachi and uses the latest technologies to reduce operational costs, conforms to the latest environmental directives and dramatically takes down the carbon footprints of the device.



Board Meetings Attendance

Meeting Date Attended by	330th 28/02/11	331st 26/03/11	332nd 28/04/11	333rd 08/07/11	334th 24/09/11	335th 29/10/11	336th 26/12/11
Ch Ahmed Mukhtar Minister for Defence & Chairman-PIA	✓	✓	✓	✓	✓	✓	✓
Syed Naseer Ahmad	✓	✓	✓	Leave of Absence	Relinquished 20/07/11		
Malik Nazir Ahmed	✓	✓	✓	Leave of Absence Re-Elect 30/4/11	Leave of Absence	Leave of Absence	Leave of Absence
Mr Javed Akhtar	✓	✓	✓	✓	✓ Re-Nominated 21/09/11	✓	✓
Lt Gen (Retd) Syed Athar Ali Federal Secretary Defence	✓	✓	✓	✓	Leave of absence	Leave of Absence	Relinquished 01/12/11
Syed Omar Sharif Bokhari					✓ Nominated 21/09/11 Relinquished 20/07/11	✓	Leave of absence
Prof. Mian Ijaz ul Hassan	Leave of Absence	Leave of Absence	✓	✓			
Mr Mubashir Iftikhar	✓	Leave of Absence	Leave of Absence	Relinquished 29/04/11			
Dr Waqar Masood Khan Federal Secretary Finance	✓	✓	Leave of Absence	✓	Leave of absence	✓	✓
Mr Husain Lawai	Leave of Absence	✓	✓	✓	✓ Re-Nominated 21/09/11	✓	✓
Lt Gen(Retd) Naeem Khalid Lodhi Federal Secretary Defence							✓ Nominated 02/12/11
Makhdum Syed Ahmed Mahmud					Leave of absence Nominated 21/09/11	✓	Leave of absence
Khawaja Jalaluddin Roomi	✓	✓	✓	Leave of absence	Leave of Absence	✓	Leave of absence
Mr Yousaf Waqar				✓ Elected 30/04/11	✓	✓	✓
Capt. Nadeem Khan Yousufzai Managing Director	✓	✓	✓	✓	✓	✓	✓

Attendance of Directors at Audit Committee Meetings

Meeting Date Attended by	49th 24/01/11	50th 25/03/11	51st 27/04/11	52nd 28/10/11	53rd 28/10/11	54th 28/10/11
Mr Husain Lawai Chairman	✓	✓	✓	✓	✓	✓
Syed Naseer Ahmad	✓	✓	✓	Relinquished 20/07/11		
Mr Javed Akhtar	✓	✓	✓	✓	✓	✓
Syed Omar Sharif Bokhari				✓ Nominated 21/09/11	✓	✓
Prof. Mian Ijaz ul Hassan	Leave of Absence	Leave of Absence	✓	Relinquished 20/07/11		
Mr Mubashir Iftikhar	Leave of Absence	Leave of Absence	Leave of Absence	Relinquished 29/04/11		
Khawaja Jalaluddin Roomi	✓	✓	✓	✓	✓	✓
Mr Yousaf Waqar				✓ Nominated 21/09/11	✓	✓

Achievement

Shaheed Benazir Bhutto Flight Academy



PIA Shaheed Benazir Bhutto Flight Academy Nawabshah is a state-of-the-art flying training institution, established under the patronage of the Board of Directors of Pakistan International Airlines. It has been set up with the aim of producing exceptional commercial pilots who will serve as professional cockpit crew in PIAC and other private airlines. The Academy also welcomes international students.

The ground training is undertaken at PIA Training Centre, which provides state-of-the-art flying training facilities where student pilots have the opportunity of acquiring theoretical knowledge from the most experienced instructors in the aviation industry of the country. Modern training aids, such as computer-based training gadgets, models, actual aircraft parts and instruments, are used in order to gain clear and in-depth knowledge of the systems, structures, working principles, operations and handling of the aircraft as a whole.



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Chartered Accountants
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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, 2011.

A. F. Ferguson & Co.
Chartered Accountants

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Karachi: April 30, 2012

Statement of Compliance

This Statement is being presented to comply with the Code of Corporate Governance (Code) contained in Regulation No. 35 of Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Corporation has been incorporated under Pakistan International Airlines Corporation Act, 1956 (the PIAC Act) which stipulates that chairman and eight directors are nominated by the Federal Government whereas two directors are elected by the shareholders other than the Federal Government. At present all the directors are non-executive except for the Managing Director (MD).
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Corporation.
3. All the directors of the Corporation are registered taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. One casual vacancy occurred in the Board during the year was filled in by nomination made by the Federal Government.
5. The Corporation has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors whereas signatures of employees are being obtained.
6. The Board has developed and adopted a Vision and Mission Statement, overall corporate strategy and significant policies of the Corporation. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.
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 directors. The 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 the then Board during the year 2008. Copies of the PIAC Act, PIAC Rules & Regulations 1958, along with the code of corporate governance have been circulated to the directors who joined subsequently.
10. Since the publication of Annual Report 2010, there was no change in the position of Corporate Secretary whose appointment had earlier been approved by the Board. During the year, the position of Chief Financial Officer and Head of Internal Audit fell vacant out of which the former was filled in as per the requirements of the Code, whereas the latter has been entrusted temporarily to the Deputy General Manager Internal Audit and steps are underway to fill it on permanent basis.

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 Chief Executive (Chairman-PIA) and CFO before approval of the Board.
13. The directors, MD 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. It comprises five non-executive directors including the Chairman of the Committee.
16. The meetings of the Audit Committee were held to review quarterly and annual financial statements of the Corporation prior to their approval by the Board, as per requirement of the Code except half-yearly financial statements which could not be reviewed due to non-existence of Board's Audit Committee at that point in time. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
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), that they or any of the partners of the firms, their spouses and minor children do not hold any 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 the 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
April 30, 2012

Ch. Ahmed Mukhtar
Chairman-PIA

Pattern of Shareholding

As at December 31, 2011

Shareholdings		No. of Shareholders	Ordinary 'A' Class Rs. 10/- each	Ordinary 'B' Class Rs. 5/- each
From	To		Total Shares Held	Total Shares Held
1	100	12140	269,030	13,108
101	500	30752	8,642,360	9,971
501	1000	4733	4,028,764	1,919
1001	5000	4741	11,267,467	12,486
5001	10000	803	6,086,980	-
10001	15000	217	2,686,661	-
15001	20000	153	2,773,271	-
20001	25000	102	2,416,041	-
25001	30000	52	1,464,139	-
30001	35000	30	989,534	-
35001	40000	27	1,055,138	-
40001	45000	28	1,203,681	-
45001	50000	44	2,184,671	-
50001	55000	15	793,633	-
55001	60000	13	763,129	-
60001	65000	7	451,221	-
65001	70000	12	820,833	-
70001	75000	4	299,000	-
75001	80000	5	391,308	-
80001	85000	4	332,219	-
85001	90000	4	349,401	-
90001	95000	3	282,234	-
95001	100000	26	2,593,488	-
100001	105000	5	513,606	-
105001	110000	3	325,002	-
110001	115000	2	225,500	-
115001	120000	4	477,500	-
120001	125000	3	369,000	-
125001	130000	2	255,500	-
130001	135000	2	265,000	-
135001	140000	4	552,519	-
140001	145000	1	142,400	-
145001	150000	2	300,000	-
150001	155000	2	305,747	-
155001	160000	1	159,253	-
160001	165000	3	490,499	-
165001	170000	2	336,000	-
175001	180000	2	356,000	-
180001	185000	2	368,500	-
185001	190000	1	190,000	-
190001	195000	1	195,000	-
195001	200000	3	594,819	-
200001	205000	2	405,579	-
205001	210000	1	210,000	-
210001	215000	4	847,393	-
215001	220000	1	220,000	-
220001	225000	1	224,000	-
225001	230000	1	229,431	-
245001	250000	1	250,000	-
255001	260000	1	258,500	-
270001	275000	1	275,000	-
295001	300000	3	900,000	-
305001	310000	1	309,440	-
315001	320000	1	316,500	-
325001	330000	1	329,500	-
350001	355000	2	704,061	-
355001	360000	1	356,728	-
370001	375000	1	372,500	-
375001	380000	1	380,000	-
385001	390000	1	387,686	-

Pattern of Shareholding

As at December 31, 2011

Shareholdings		No. of Shareholders	Ordinary 'A' Class Rs. 10/- each	Ordinary 'B' Class Rs. 5/- each
From	To		Total Shares Held	Total Shares Held
395001	400000	2	800,000	-
420001	425000	1	425,000	-
460001	465000	1	460,678	-
495001	500000	1	500,000	-
500001	505000	1	500,500	-
560001	565000	1	562,932	-
565001	570000	1	567,504	-
605001	610000	1	608,000	-
630001	635000	1	630,067	-
645001	650000	1	647,100	-
695001	700000	1	700,000	-
730001	735000	1	732,098	-
865001	870000	1	867,500	-
995001	1000000	1	1,000,000	-
1020001	1025000	1	1,020,740	-
1095001	1100000	1	1,100,000	-
1155001	1160000	1	1,157,500	-
1250001	1255000	2	2,508,575	-
1450001	1455000	1	1,451,004	-
1465001	1470000	1	1,470,000	-
1760001	1765000	1	1,765,000	-
1795001	1800000	1	1,800,000	-
2200001	2205000	1	2,204,000	-
2295001	2300000	1	2,300,000	-
2410001	2415000	1	2,410,150	-
2495001	2500000	1	2,497,778	-
2995001	3000000	1	3,000,000	-
3240001	3245000	1	3,241,466	-
3915001	3920000	1	3,916,884	-
4025001	4030000	1	4,029,000	-
5010001	5015000	1	5,010,500	-
8840001	8845000	1	8,844,200	-
9210001	9215000	1	9,212,000	-
9670001	9675000	1	9,670,146	-
13370001	13375000	1	13,374,500	-
15745001	15750000	1	15,750,000	-
16875001	16880000	1	16,876,347	-
20995001	21000000	1	21,000,000	-
231855001	231860000	1	231,855,493	-
2435935001	2435940000	1	2,435,208,439	1,462,515
		54,027	2,877,217,467	1,499,999

Majestic Resources

Pakistan is a country rich with discovered and undiscovered treasures of natural resources. From the immense fortune of coal in Sindh to the natural reserves of oil, copper, gold and natural gas in Balochistan, the natural resources are just waiting to be discovered, excavated and utilized. With such a huge potential of natural energy resources, Pakistan is truly a gem in the crown of the world.



Green onyx



Saindak



Thar Coal

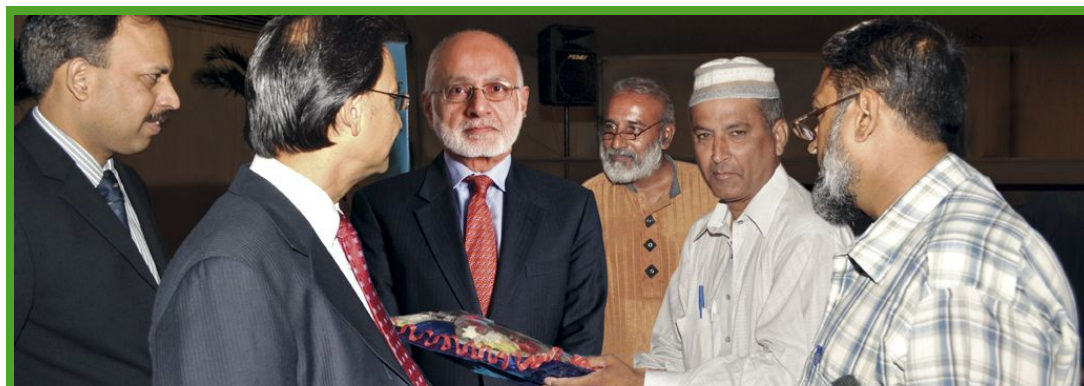


Khewra Salt Mines

PAKISTAN INTERNATIONAL AIRLINES CORPORATION Categories of Shareholders As at December 31, 2011

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	-	0.08
Directors, CEO and their spouses and minor children				
Malik Nazir Ahmad, Director	1	1,800,000	-	0.06
Yousaf Waqar Shaffi, Director	1	10,000	-	0.00
Executives	276	39,247	-	0.00
Public Sector Companies and Corporations	-	-	-	-
Banks, DFIs, NBFIs, Insurance Companies, Modarabas and Mutual Funds	41	28,081,299	3	0.98
Shareholders holding 10% or more voting interest (Secretary - Ministry of Defence, Govt. of Pakistan)	1	2,435,208,439	1,462,515	84.64
PIA Employees Empowerment Trust (PEET)	1	231,855,493	-	8.06
Individuals	53444	79,989,800	34,454	2.78
Others	259	97,741,500	2,927	3.40
Totals	54027	2,877,217,467	1,499,999	100.00

The above two statements include 7,123 Shareholders holding 184,662,151 Ordinary 'A' Class Shares and 2,420 Ordinary 'B' Class Shares through the Central Depository Company of Pakistan Limited.



"President of 54th AGM with PIA shareholders"

Six - year Summary

	2011	2010	2009	2008	2007	2006
OPERATION						
Route Kilometers	460,719	424,570	380,917	311,131	383,574	446,570
Revenue Kilometers Flown (000)	84,898	81,588	80,108	79,580	80,759	88,302
Revenue Hours Flown	141,727	142,940	132,155	132,378	132,416	141,479
Available Tonne Kilometers (000)	2,972,014	3,091,344	2,933,253	2,934,626	3,125,558	3,369,288
Available Seat Kilometers (000)	21,725,390	21,218,879	19,859,050	19,528,207	20,313,265	22,092,475
TRAFFIC						
Revenue Passengers Carried (000)	5,953	5,538	5,535	5,617	5,415	5,732
Revenue Passengers Kilometers (000)	15,663,646	15,656,596	13,891,225	13,925,297	13,680,916	15,124,413
Passenger Load Factor (%)	72	74	70	71	67	69
Revenue Freight Tonne Kilometers (000)	288,497	329,285	270,310	319,835	350,758	427,006
Kgs. of Excess Baggage & Cargo (000)	93,305	104,116	95,393	111,088	115,229	121,174
Kgs. of Mail (000)	1,335	1,454	702	778	1,127	1,410
Revenue Tonne Kilometers (000)	1,677,646	1,745,746	1,525,293	1,580,507	1,593,349	1,801,026
Revenue Load Factor (%)	56	56	52	54	51	54
Avg. Pax Stage Distance (Statute Kilometers)	2,631	2,827	2,510	2,479	2,527	2,639
FINANCIAL						
Operating Revenue (Rs. in million)	116,550.58	107,531.59	94,563.77	88,863.26	70,480.73	70,587.15
Operating Expenses (Rs. in million)	134,477.33	106,811.51	98,628.76	120,499.38	76,415.81	79,164.37
Operating Profit/(loss) (Rs. in million)	(17,926.76)	720.08	(4,064.99)	(31,636.12)	(5,935.08)	(8,577.22)
Profit/(loss) after tax (Rs. in million)	(26,767.21)	(20,785.12)	(5,822.43)	(36,138.64)	(13,398.71)	(12,763.42)
Fixed Assets (Rs. in million)	96,685.08	96,714.94	133,647.52	115,123.49	95,600.63	79,062.44
Current Assets (Rs. in million)	16,562.57	16,410.13	16,880.56	15,039.28	13,251.33	18,353.43
Current Liabilities (Rs. in million)	104,783.97	75,507.09	68,817.62	72,528.40	52,049.54	41,025.29
Long-Term Debts (Rs. in million)	89,535.86	98,533.01	105,418.23	96,926.21	74,284.84	62,650.89
Net Worth (Rs. in million)	(85,933.56)	(62,244.18)	(49,054.75)	(47,522.42)	(11,903.56)	(788.03)
Jet Fuel Prices (Rs. per US Gallon)	270.06	194.57	149.39	216.04	132.93	123.55
Cost per A. T. K. (Rs.)	45.25	34.55	33.62	41.06	24.29	23.49
RATIOS						
Earnings per share (Rs.)	(9.73)	(8.39)	(2.72)	(17.79)	(6.61)	(6.80)
Debt equity ratio	N/A	N/A	N/A	N/A	N/A	N/A
Current ratio	0.16	0.22	0.25	0.21	0.25	0.45
SHARE PRICES (Rs. 10 Share)						
High	3.40	4.02	5.10	7.65	11.30	16.30
Low	1.61	1.95	2.31	1.70	6.10	7.05
Closing	1.97	2.26	2.61	3.51	6.30	7.05
PERSONNEL						
Average No. of Employees	18,014	18,019	17,944	18,036	18,149	18,282
Revenue per Employee (Rs.)	6,470,000	5,967,678	5,269,938	4,926,994	3,883,450	3,861,019
A. T. K. per Employee	164,984	171,560	163,467	162,709	172,217	184,295



Unconsolidated

financial statements

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

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

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated balance sheet of Pakistan International Airlines Corporation (the Corporation) as at December 31, 2011 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) In our opinion, proper books of accounts have been kept by the Corporation as required by the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Corporation's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Corporation;

- (c) in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated balance sheet, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Corporation's affairs as at December 31, 2011 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. 26,767.207 million during the year ended December 31, 2011, resulting in accumulated loss of Rs. 119,016.727 million as of December 31, 2011, and as of that date, the Corporation's current liabilities exceeded its current assets by Rs. 88,221.403 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 respect of this matter.

Chartered Accountants
Audit Engagement Partner: Khurshid Hasan

Chartered Accountants
Audit Engagement Partner: Syed Asad Ali Shah

Karachi: April 30, 2012

UNCONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2011

	Note	2011	2010	2011	2010
		-----Rupees in '000-----		-----US\$ in '000-----	
ASSETS					
NON CURRENT ASSETS					
Fixed assets					
- Property, plant and equipment	5	96,632,229	96,645,494	1,074,340	1,126,404
- Intangibles	6	52,855	69,444	587	809
		<u>96,685,084</u>	<u>96,714,938</u>	<u>1,074,927</u>	<u>1,127,213</u>
Long-term investments	7	4,440,454	4,445,572	49,368	51,813
Long-term advances	8	-	-	-	-
Long-term deposits and prepayments	9	9,140,474	9,289,712	101,622	108,272
		<u>110,266,012</u>	<u>110,450,222</u>	<u>1,225,917</u>	<u>1,287,298</u>
CURRENT ASSETS					
Stores and spares	10	3,863,885	3,842,539	42,958	44,785
Trade debts	11	8,396,481	8,283,109	93,351	96,540
Advances	12	316,862	465,382	3,523	5,424
Trade deposits and prepayments	13	795,465	1,127,425	8,844	13,140
Other receivables	14	2,275,838	1,272,297	25,302	14,829
Short-term investments	15	19,220	25,629	214	299
Cash and bank balances	16	894,814	1,393,754	9,948	16,244
		<u>16,562,565</u>	<u>16,410,135</u>	<u>184,140</u>	<u>191,261</u>
TOTAL ASSETS		<u>126,828,577</u>	<u>126,860,357</u>	<u>1,410,057</u>	<u>1,478,559</u>

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

UNCONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2011

	Note	2011 -----Rupees in '000-----	2010	2011 -----US\$ in '000-----	2010
EQUITY AND LIABILITIES					
SHARE CAPITAL AND RESERVES					
Share capital	17	28,779,674	25,774,948	319,967	300,407
Reserves	18	(114,713,233)	(88,019,131)	(1,275,361)	(1,025,864)
TOTAL EQUITY		(85,933,559)	(62,244,183)	(955,394)	(725,457)
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT- NET					
	19	7,834,036	5,827,329	87,097	67,918
NON CURRENT LIABILITIES					
Long-term financing	20	31,264,901	27,346,957	347,598	318,729
Term finance and sukuk certificates	21	10,925,653	17,457,280	121,469	203,465
Liabilities against assets subject to finance lease	22	47,345,301	53,728,778	526,376	626,210
Advance from a subsidiary	23	989,403	-	11,000	-
Long-term deposits	24	444,685	384,161	4,944	4,477
Deferred liabilities	25	9,174,189	6,359,907	101,997	74,125
		100,144,132	105,277,083	1,113,384	1,227,006
CURRENT LIABILITIES					
Trade and other payables	26	44,578,472	32,626,449	495,615	380,261
Accrued interest	27	4,690,092	3,072,545	52,144	35,811
Provision for taxation		1,045,281	1,540,980	11,621	17,960
Short-term borrowings	28	25,801,027	22,665,109	286,851	264,162
Current maturities of:					
- Long-term financing	20	10,957,001	7,363,198	121,818	85,818
- Term finance and sukuk certificates	21	8,664,107	2,135,040	96,327	24,884
- Liabilities against assets subject to finance lease	22	9,047,988	8,596,807	100,594	100,196
		104,783,968	78,000,128	1,164,970	909,092
TOTAL EQUITY AND LIABILITIES		126,828,577	126,860,357	1,410,057	1,478,559
CONTINGENCIES AND COMMITMENTS					
	29				

The annexed notes 1 to 46 form an integral part of these unconsolidated financial statements.

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

UNCONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011	2010	2011	2010
		-----Rupees in '000-----		-----US\$ in '000-----	
REVENUE - net	30	116,550,576	107,531,590	1,295,788	1,253,282
COST OF SERVICES					
Aircraft fuel		(62,965,435)	(44,707,004)	(700,038)	(521,061)
Others	31	(52,001,630)	(47,852,170)	(578,145)	(557,718)
		(114,967,065)	(92,559,174)	(1,278,183)	(1,078,779)
GROSS PROFIT		1,583,511	14,972,416	17,605	174,503
Distribution costs	32	(6,388,576)	(5,888,031)	(71,027)	(68,625)
Administrative expenses	33	(8,791,872)	(7,816,408)	(97,746)	(91,100)
Other provisions and adjustments	34	(656,042)	(726,147)	(7,294)	(8,463)
Exchange loss - net		(4,219,421)	(2,091,706)	(46,911)	(24,379)
Other operating income	35	545,645	2,269,952	6,066	26,456
		(19,510,266)	(14,252,340)	(216,912)	(166,111)
(LOSS) / PROFIT FROM OPERATIONS		(17,926,755)	720,076	(199,307)	8,392
Finance cost	36	(10,099,046)	(9,299,818)	(112,279)	(108,389)
LOSS BEFORE TAXATION		(28,025,801)	(8,579,742)	(311,586)	(99,997)
Taxation	37	1,258,594	(12,205,381)	13,993	(142,254)
LOSS FOR THE YEAR		(26,767,207)	(20,785,123)	(297,593)	(242,251)
		(Rupees)		(US\$)	
EARNINGS PER SHARE - BASIC AND DILUTED					
Loss attributable to:					
'A' class ordinary shares of Rs. 10 each	38	(9.73)	(8.39)	(0.11)	(0.10)
'B' class ordinary shares of Rs. 5 each	38	(4.87)	(4.20)	(0.06)	(0.05)

The annexed notes 1 to 46 form an integral part of these unconsolidated financial statements.

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2011

	2011	2010	2011	2010
	-----Rupees in '000-----		-----US\$ in '000-----	
Loss for the year	(26,767,207)	(20,785,123)	(297,593)	(242,251)
Other comprehensive income				
Unrealised loss on re-measurement of available for sale investments	(5,118)	(1,378)	(57)	(16)
Total comprehensive income	<u>(26,772,325)</u>	<u>(20,786,501)</u>	<u>(297,650)</u>	<u>(242,267)</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 46 form an integral part of these unconsolidated financial statements.

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

UNCONSOLIDATED CASH FLOW STATEMENT

	Note	2011	2010	2011	2010
		-----Rupees in '000-----		-----US\$ in '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	39	3,686,004	12,509,338	40,980	145,796
Profit on bank deposits received		45,997	20,457	511	238
Finance costs paid		(8,481,499)	(8,072,865)	(94,296)	(94,089)
Taxes paid		(566,137)	(391,460)	(6,294)	(4,562)
Staff retirement benefits paid		(461,687)	(334,648)	(5,133)	(3,900)
Long-term deposits and prepayments - net		149,238	(609,579)	1,659	(7,105)
Net cash (used in) / generated from operating activities		(5,628,084)	3,121,243	(62,573)	36,378
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(3,650,542)	(1,429,852)	(40,586)	(16,665)
Proceeds from sale of property, plant and equipment		8,149	10,193	91	119
Purchase of intangibles		(3,214)	-	(36)	-
Proceeds from held to maturity investments		7,289	-	81	-
Net cash used in investing activities		(3,638,318)	(1,419,659)	(40,450)	(16,546)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		3,004,726	2,494,592	33,406	29,074
Repayment of long-term financing		(7,107,615)	(6,854,666)	(79,021)	(79,891)
Proceeds from long-term financing		14,619,362	11,683,250	162,535	136,168
Advance from a subsidiary		989,403	-	11,000	-
Redemption of term finance certificates		(2,560)	(5,120)	(28)	(60)
Proceeds from long-term deposits		60,524	18,314	673	213
Repayment of obligations under finance lease - net		(5,932,296)	(7,070,094)	(65,954)	(82,401)
Net cash generated from financing activities		5,631,544	266,276	62,611	3,103
(Decrease) / increase in cash and cash equivalents		(3,634,858)	1,967,860	(40,412)	22,935
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR					
		(21,271,355)	(23,239,215)	(236,491)	(270,853)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR					
		(24,906,213)	(21,271,355)	(276,903)	(247,918)
CASH AND CASH EQUIVALENTS					
Cash and bank balances	16	894,814	1,393,754	9,948	16,244
Short-term borrowings	28	(25,801,027)	(22,665,109)	(286,851)	(264,162)
		(24,906,213)	(21,271,355)	(276,903)	(247,918)

The annexed notes 1 to 46 form an integral part of these unconsolidated financial statements.

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2011

	Issued, subscribed, and paid-up share capital	Reserves			Accumulated losses	Total
		Capital reserves	Revenue reserves	Unrealised gain / (loss) on remeasurement of investments		
----- Rupees in '000 -----						
Balance as at January 1, 2010	23,280,356	2,501,038	1,779,674	29,278	(73,003,106)	(45,412,760)
Total comprehensive income for the year ended December 31, 2010						
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)
Total comprehensive income for the year ended December 31, 2011						
Loss for the year	-	-	-	-	(26,767,207)	(26,767,207)
Other comprehensive income for the year	-	-	-	(5,118)	-	(5,118)
Total comprehensive income	-	-	-	(5,118)	(26,767,207)	(26,772,325)
Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	-	-	-	-	78,223	78,223
Transactions with owners						
Issue of share capital 'A' class ordinary shares	3,004,726	-	-	-	-	3,004,726
Balance as at December 31, 2011	<u>28,779,674</u>	<u>2,501,038</u>	<u>1,779,674</u>	<u>22,782</u>	<u>(119,016,727)</u>	<u>(85,933,559)</u>

The annexed notes 1 to 46 form an integral part of these unconsolidated financial statements.

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

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. 26,767.207 million (2010: Rs. 20,785.123 million) resulting in accumulated loss of Rs. 119,016.727 million as of December 31, 2011 (2010: Rs. 92,327.743 million). Further, as of December 31, 2011 current liabilities of the Corporation exceeded its current assets by Rs. 88,221.403 million (2010: Rs. 61,589.993 million).

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

- Reimbursement of financial charges on term finance and sukuk certificates payable by the Corporation. In this respect, amounts aggregating Rs. 7,902 million have been provided to the Corporation towards equity during the years ended December 31, 2008 to 2011;
- During the years ended December 31, 2009 and 2010, the GoP has provided long-term financing aggregating to Rs. 8,000 million to meet working capital requirements of the Corporation; and
- Issuance / renewal of guarantees to financial institutions, both local and foreign, so as to enable the Corporation to raise funds.

During the current year, the Corporation continued to pursue approval of its business plan with the GoP at various levels. Presentations on the business plan were made to the President and Prime Minister of Pakistan during meetings held with them and the business plan was amended based on the guidelines given during those meetings. The business plan has now been approved by the Economic Reforms Unit of the Ministry of Finance and has been submitted to the Economic Coordination Committee of the Cabinet for approval.

The business plan includes GoP's support in terms of providing necessary funding for recapitalisation, restructuring of existing loans and issuing GoP guarantees as and when required. The objectives of the business plan, among other measures, include improving the governance structure and achieving operational efficiency through upgrading of aircraft fleet, enhancing revenues and controlling costs.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These unconsolidated financial statements are the separate financial statements of the Corporation and have been prepared in accordance with the requirements of 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 financial assets are carried at fair values;
- liability on account of frequent flyer programme is recognised at fair value; and
- defined benefit obligations are stated at present value in accordance with International Accounting Standard (IAS) - 19 'Employee Benefits'.

2.3 Functional and presentation currency

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

The US Dollar amounts reported in the balance sheet, profit and loss account, statement of comprehensive income and cash flow statement are stated as additional information, solely for the convenience of the users of these unconsolidated financial statements. The US Dollar amounts in the unconsolidated balance sheet, profit and loss account, statement of comprehensive income and cash flow statement have been translated into US Dollar at the rate of Rs. 89.9457 = US \$ 1 (2010: Rs. 85.80 = US \$ 1).

2.4 Adoption of new / revised and amended standards and interpretations to published accounting standards

During the year, following interpretation including amendments to existing standards and interpretations became effective, however, these are either not relevant to the Corporation or their application did not have material impact on the financial statements of the Corporation:

- IFRS 3 - 'Business Combinations' (Amendments)
- IFRS 7 - 'Financial Instruments: Disclosures' (Amendments)
- IAS 1 - 'Presentation of Financial Statements' (Amendments)
- IAS 27 - 'Consolidated and Separate Financial Statements' (Amendments)
- IAS 32 - 'Financial Instruments: Presentation' (Amendments)
- IAS 34 - 'Interim Financial Reporting' (Amendments)
- IFRIC 13 - 'Customer Loyalty Programmes' (Amendments)
- IFRIC 14 - 'Prepayments of a Minimum Funding Requirement' (Amendments)
- IFRIC 19 - 'Extinguishing Financial Liabilities with Equity Instruments'

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

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

- IFRS 7 - 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after July 1, 2011) - The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.
- IAS 1 - 'Presentation of Financial Statements' (effective for annual periods beginning on or after July 1, 2012) - retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.
- IAS 12 - 'Income taxes' - (effective for annual periods beginning on or after January 1, 2012) - IAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

- IAS 19 - 'Employee Benefits' (effective for annual periods beginning on or after January 1, 2013) - These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.
- IFRIC 20 - 'Stripping Costs in the Production Phase of a Surface Mine' applies to all types of natural resources that are extracted using a surface mine activity process, and addresses the issues pertaining to the recognition of production stripping cost as an asset, initial measurement of stripping activity at cost and subsequent measurement of stripping activity asset at depreciated or amortised cost based on a systematic basis over the expected useful life of the identified component of ore body.

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

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

Change in accounting estimate

As a result of revaluation exercise conducted by an independent valuer as of December 31, 2010, the useful lives of aircraft fleet have decreased. 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 aircraft and related spares, depreciation expense pertaining to aircraft fleet and capital spares for the year would have been lower by Rs. 2,496.075 million, 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 25 to these unconsolidated financial statements.

3.3 Stores and spares

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

3.6 Liability on account of frequent flyer programme

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

3.7 Revenue recognition

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these unconsolidated financial statements are same as those applied in the preparation of the unconsolidated financial statements of the Corporation for the year ended December 31, 2010 and are enumerated as follows:

4.1 Fixed assets

Property, plant and equipment

Owned

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

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property, plant and equipment is capitalised and the asset so replaced is derecognised.

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

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

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

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

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

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

Gains and losses on disposal of assets are taken to profit and loss account. When revalued assets are sold, the relevant remaining surplus is transferred directly 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 costs are added to the amount of the asset. Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged on leased assets on a basis similar to that of owned assets.

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 or loss account when the asset is derecognised.

4.3 Investments

Subsidiaries and associates

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

Available for sale

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

Held to maturity

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

4.4 Stores and spares

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

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

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

4.5 Trade debts and other receivables

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

4.6 Cash and cash equivalents

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

4.7 Trade and other payables

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

4.8 Loans and borrowings

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

4.9 Employee benefits

Provident fund

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

Pension funds

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

Deferred taxation

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

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

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

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

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

4.11 Revenue recognition

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

Passenger and cargo revenue

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

Engineering and other services

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

Frequent flyer programme revenue

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

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

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

Interest / mark-up and dividend income

The Corporation recognises interest income / mark-up on short-term bank deposits, interest bearing advances and held to maturity investments on 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 Provisions

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

4.14 Impairment

Financial assets

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

Non-Financial assets

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

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

4.15 Foreign currency transactions

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

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

4.16 Financial instruments

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

4.17 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	2011	2010
		-----Rupees in '000-----	
Operating fixed assets			
- owned	5.1	26,014,121	28,746,234
- leased	5.2	69,644,560	66,833,053
Capital work-in-progress	5.8	973,548	1,066,207
		<u>96,632,229</u>	<u>96,645,494</u>

5.1 Owned fixed assets

	Land		Buildings on:		Workshops and hangars	Renovation and improvements	Aircraft fleet (note 5.4)	Operating ground, catering, communication and meteorological equipment	Engineering equipment and tools
	Leasehold (notes 5.1.1 and 5.3)	Others (note 5.1.2)	Leasehold land (notes 5.1.1 and 5.3)	Other land (note 5.1.2)					
As at December 31, 2009									
Cost or revalued amount	5,461,964	22,854	1,293,741	829,261	895,940	697,475	35,414,216	635,380	1,367,577
Accumulated depreciation	-	-	(236,840)	(287,876)	(732,696)	(564,453)	(17,436,596)	(444,608)	(1,066,645)
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>	<u>300,932</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	300,932
Additions / transfers	-	-	13,488	-	2,971	32,851	476,593	58,929	205,851
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)	(782)
Accumulated depreciation	-	-	-	-	-	7,537	32,505	78	782
	-	-	-	-	-	-	(4,017)	(2)	-
Depreciation charge for the year	-	-	(135,893)	(3,922)	(15,898)	(56,723)	(1,719,606)	(46,693)	(79,034)
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>	<u>427,749</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	1,572,646
Accumulated depreciation	-	-	(372,733)	(291,798)	(748,594)	(613,639)	(19,151,163)	(545,435)	(1,144,897)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>934,496</u>	<u>537,463</u>	<u>150,317</u>	<u>109,150</u>	<u>14,900,885</u>	<u>232,439</u>	<u>427,749</u>

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 -----										
1,765,348 (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>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>
438,834	207,678	66,360	4,098	303,057	14,192	345	1	105,493	5,072,964	32,061,716
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 (117)	- - -	(12,090) 8,405 (3,685)	(98) 98 -	- - -	- - -	- - -	- - -	- - -	- - -	(14,500) 10,698 (3,802)
(26) 26 -	(2,225) 2,136 (89)	(839) 755 (84)	(896) 894 (2)	(3,057) 3,049 (8)	- - -	- - -	(487) 487 -	(374) 356 (18)	(49,508) 25,181 (24,327)	(102,333) 73,786 (28,547)
(63,022)	(34,647)	(25,709)	(1,822)	(77,653)	(1,432)	(345)	(1)	(15,400)	(339,394)	(2,617,194)
<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>
1,887,955 (1,388,100)	844,999 (644,778)	387,106 (306,919)	77,946 (74,908)	1,586,988 (1,336,367)	819,787 (806,866)	15,039 (15,039)	11,908 (11,908)	515,439 (417,187)	8,734,737 (3,910,915)	60,527,480 (31,781,246)
<u>499,855</u>	<u>200,221</u>	<u>80,187</u>	<u>3,038</u>	<u>250,621</u>	<u>12,921</u>	<u>-</u>	<u>-</u>	<u>98,252</u>	<u>4,823,822</u>	<u>28,746,234</u>

	Land		Buildings on:		Workshops and hangars	Renovation and improvements	Aircraft fleet (note 5.4)	Operating ground, catering, communication and meteorological equipment
	Leasehold (notes 5.1.1 and 5.3)	Others (note 5.1.2)	Leasehold land (notes 5.1.1 and 5.3)	Other land (note 5.1.2)				
As at December 31, 2010								
Cost or revalued amount	5,461,964	22,854	1,307,229	829,261	898,911	722,789	34,052,048	777,874
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>
Year ended December 31, 2011								
Opening net book value	5,461,964	22,854	934,496	537,463	150,317	109,150	14,900,885	232,439
Additions / transfers	-	1,546	-	10,767	449	19,109	154,841	2,001
Revaluation								
Cost or revalued amount	(51,964)	-	-	-	-	-	(855,021)	-
Accumulated depreciation	-	-	352,700	-	-	-	-	-
	(51,964)	-	352,700	-	-	-	(855,021)	-
Adjustments / transfer								
Cost or revalued amount	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Disposals								
Cost or revalued amount	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Write off								
Cost or revalued amount	-	-	-	-	-	-	(155,178)*	(507)
Accumulated depreciation	-	-	-	-	-	-	154,572	462
	-	-	-	-	-	-	(606)	(45)
Depreciation charge for the year	-	-	(80,786)	(20,866)	(14,097)	(59,730)	(2,491,976)	(46,565)
Closing net book value	<u>5,410,000</u>	<u>24,400</u>	<u>1,206,410</u>	<u>527,364</u>	<u>136,669</u>	<u>68,529</u>	<u>11,708,123</u>	<u>187,830</u>
As at December 31, 2011								
Cost or revalued amount	5,410,000	24,400	1,307,229	840,028	899,360	741,898	33,196,690	779,368
Accumulated depreciation	-	-	(100,819)	(312,664)	(762,691)	(673,369)	(21,488,567)	(591,538)
Net book value	<u>5,410,000</u>	<u>24,400</u>	<u>1,206,410</u>	<u>527,364</u>	<u>136,669</u>	<u>68,529</u>	<u>11,708,123</u>	<u>187,830</u>
Annual depreciation rate (%)	-	-	2.5	2.5	5	20	4 - 100	10

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

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

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

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-----											
1,572,646 (1,144,897) <u>427,749</u>	1,887,955 (1,388,100) <u>499,855</u>	844,999 (644,778) <u>200,221</u>	387,106 (306,919) <u>80,187</u>	77,946 (74,908) <u>3,038</u>	1,586,988 (1,336,367) <u>250,621</u>	819,787 (806,866) <u>12,921</u>	15,039 (15,039) <u>-</u>	11,908 (11,908) <u>-</u>	515,439 (417,187) <u>98,252</u>	8,734,737 (3,910,915) <u>4,823,822</u>	60,527,480 (31,781,246) <u>28,746,234</u>
427,749	499,855	200,221	80,187	3,038	250,621	12,921	-	-	98,252	4,823,822	28,746,234
26,796	7,714	17,815	32,482	388	19,951	1,319	-	-	952,665	87,253	1,335,096
-	-	-	-	-	-	-	-	-	-	-	(906,985)
-	-	-	-	-	-	-	-	-	-	-	352,700
-	-	-	-	-	-	-	-	-	-	-	(554,285)
-	-	-	-	-	-	-	-	-	-	28,868	28,868
-	-	-	-	-	-	-	-	-	-	28,868	28,868
-	-	(784)	(17,277)	-	(1,254)	-	-	-	-	(5,982)	(25,297)
-	-	784	12,326	-	1,183	-	-	-	-	5,982	20,275
-	-	-	(4,951)	-	(71)	-	-	-	-	-	(5,022)
(218)	-	(197)	-	(155)	-	-	-	-	(59)	(181,618)	(337,932)
218	-	197	-	155	-	-	-	-	59	113,397	269,060
-	-	-	-	-	-	-	-	-	-	(68,221)	(68,872)
(95,187)	(65,097)	(33,931)	(36,404)	(1,197)	(62,860)	(2,244)	-	-	(26,287)	(430,671)	(3,467,898)
<u>359,358</u>	<u>442,472</u>	<u>184,105</u>	<u>71,314</u>	<u>2,229</u>	<u>207,641</u>	<u>11,996</u>	<u>-</u>	<u>-</u>	<u>1,024,630</u>	<u>4,441,051</u>	<u>26,014,121</u>
1,599,224 (1,239,866) <u>359,358</u>	1,895,669 (1,453,197) <u>442,472</u>	861,833 (677,728) <u>184,105</u>	402,311 (330,997) <u>71,314</u>	78,179 (75,950) <u>2,229</u>	1,605,685 (1,398,044) <u>207,641</u>	821,106 (809,110) <u>11,996</u>	15,039 (15,039) <u>-</u>	11,908 (11,908) <u>-</u>	1,468,045 (443,415) <u>1,024,630</u>	8,663,258 (4,222,207) <u>4,441,051</u>	60,621,230 (34,607,109) <u>26,014,121</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>4 - 100</u>	

5.2 Leased fixed assets

	Aircraft fleet (note 5.4)	Vehicles - motor transport	Vehicles - technical	Total
	----- Rupees in '000 -----			
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>
Year ended December 31, 2010				
Opening net book value	100,685,518	6,672	37,032	100,729,222
Additions	-	-	-	-
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	(3,566,251)	-	(7,599)	(3,573,850)
Closing net book value	<u>66,833,053</u>	<u>-</u>	<u>-</u>	<u>66,833,053</u>
Year ended December 31, 2011				
Opening net book value	66,833,053	-	-	66,833,053
Additions	2,408,105	-	-	2,408,105
Revaluation				
Cost or revalued amount	-	-	-	-
Accumulated depreciation	3,968,247	-	-	3,968,247
	3,968,247	-	-	3,968,247
Transfer to owned				
Cost or revalued amount	-	-	-	-
Accumulated depreciation	-	-	-	-
	-	-	-	-
Disposals				
Cost or revalued amount	-	-	-	-
Accumulated depreciation	-	-	-	-
	-	-	-	-
Depreciation charge for the year	(3,564,845)	-	-	(3,564,845)
Closing net book value	<u>69,644,560</u>	<u>-</u>	<u>-</u>	<u>69,644,560</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>
As at December 31, 2011				
Cost or revalued amount	72,779,943	-	-	72,779,943
Accumulated depreciation	(3,135,383)	-	-	(3,135,383)
Net book value	<u>69,644,560</u>	<u>-</u>	<u>-</u>	<u>69,644,560</u>
Annual depreciation rate (%)	<u>4 - 11</u>	<u>25</u>	<u>10 - 20</u>	

5.3 Land and building

During the year, a revaluation exercise was organised by the Corporation, which was carried out by the following independent valuers:

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

The fair values were determined with reference to market based evidence, based on active market prices, and adjusted for any difference in nature, location or condition of specific property.

5.4 Aircraft fleet

During the year, the aircraft fleet of the Corporation was revalued by an independent valuer, Ascend Worldwide Limited (2010: Ascend Worldwide Limited), on the basis of professional assessment of current market values as of December 31, 2011. The current market value represents the value that an aircraft could best achieve under today's open market conditions and, therefore, takes into account a thorough review of market activity and known transaction data involving the subject aircraft types, covering 'open' market and financial sales. It additionally considers the perceived demand for each type, its availability in the market and further takes into account the expressed views of informed industry sources.

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

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

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

	2011			2010		
	Cost	Accumulated depreciation	Book value	Cost	Accumulated depreciation	Book value
	----- Rupees in '000 -----					
Leasehold Land	44,166	-	44,166	44,166	-	44,166
Buildings on leasehold land	338,422	164,058	174,364	338,422	161,544	176,878
Aircraft fleet	121,935,050	43,394,508	78,540,542	119,372,103	37,290,078	2,082,025
	<u>122,317,638</u>	<u>43,558,566</u>	<u>78,759,072</u>	<u>119,754,691</u>	<u>37,451,622</u>	<u>82,303,069</u>

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

	Note	2011	2010
		----- Rupees in '000 -----	
Cost of services - others	31	6,764,275	5,922,444
Distribution costs	32	40,723	44,401
Administrative expenses	33	227,745	224,199
		<u>7,032,743</u>	<u>6,191,044</u>

5.7 Following fixed assets were disposed off during the year:

Description	Sold to	Method of disposal	Accumulated	Net	Sale	
			Cost	depreciation	book value	proceeds
			----- Rupees in '000 -----			
Motor vehicles to employees						
Toyota Corolla	Mr. M F Ansari	Corporation policy	1,000	900	100	1
Honda City	Mr. Abdul Qadir	-----do-----	846	761	85	85
Honda City	Mrs. Ghazala Rashid	-----do-----	846	761	85	85
Honda City	Mr. Sher M Jamali	-----do-----	846	761	85	85
Toyota Corolla	Mr. M Kamal Alam Siddiqui	-----do-----	887	532	355	900
Honda City	Mr. Syed Jawed Kamran	-----do-----	858	467	391	435
Toyota Corolla	Mr. L.T. Col. Moen Rauf	-----do-----	1,094	386	708	720
Toyota Corolla	Mr. Ali Gul Kalhoro	-----do-----	1,094	451	643	830
Toyota Corolla	Mr. M Haneef Pathan	-----do-----	1,197	359	838	694
Toyota Corolla	Mr. Sohail Mahmood	-----do-----	1,068	160	908	619
Honda City	Mr. Mazhar Zaidi Kayani	-----do-----	795	716	79	79
Honda City	Mr. Asad Afridi	-----do-----	885	797	88	88
			<u>11,416</u>	<u>7,051</u>	<u>4,365</u>	<u>4,621</u>
Aggregate value of other items where NBV is above Rs. 50,000 - Various*			5,401	4,805	596	3,122
Aggregate value of items where NBV is less than Rs. 50,000 - Various			8,480	8,419	61	406
	Total	2011	<u>25,297</u>	<u>20,275</u>	<u>5,022</u>	<u>8,149</u>
		2010	<u>20,561</u>	<u>16,153</u>	<u>4,408</u>	<u>10,193</u>

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

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

5.8 Capital work-in-progress	Buildings	Others	Advance to suppliers	Total
	-----Rupees in '000-----			
Year ended December 31, 2010				
Balance as at January 1, 2010	121,597	358,185	284,841	764,623
Additions during the year	161,909	518,342	85,695	765,946
Transfer to operating assets	(13,488)	(225,211)	(225,663)	(464,362)
Balance as at December 31, 2010	<u>270,018</u>	<u>651,316</u>	<u>144,873</u>	<u>1,066,207</u>
Year ended December 31, 2011				
Balance as at January 1, 2011	270,018	651,316	144,873	1,066,207
Additions during the year	44,788	181,362	824,695	1,050,845
Transfer to operating assets	(10,767)	(727,660)	(405,077)	(1,143,504)
Balance as at December 31, 2011	<u>304,039</u>	<u>105,018</u>	<u>564,491</u>	<u>973,548</u>

6. INTANGIBLES	Note	2011	2010
		-----Rupees in '000-----	
Computer software			
Cost	6.1	277,604	274,390
Accumulated amortisation	6.2	(224,749)	(204,946)
		<u>52,855</u>	<u>69,444</u>
6.1 Cost			
Opening balance		274,390	274,390
Additions during the year		3,214	-
Closing balance		<u>277,604</u>	<u>274,390</u>
6.2 Accumulated amortisation			
Opening balance		204,946	182,428
Amortisation for the year	6.2.1	19,803	22,518
Closing balance		<u>224,749</u>	<u>204,946</u>
Useful life		<u>5 - 10 years</u>	<u>5 - 10 years</u>
6.2.1 Amortisation charge for the year has been allocated as under:			
Cost of services - others	31	1,967	2,576
Distribution costs	32	50	1,110
Administrative expenses	33	17,786	18,832
		<u>19,803</u>	<u>22,518</u>
7. LONG-TERM INVESTMENTS			
Unquoted - at cost			
Subsidiaries	7.1	4,415,714	4,415,714
Associate	7.2	396	396
		<u>4,416,110</u>	<u>4,416,110</u>
Other investments	7.3	24,344	29,462
		<u>4,440,454</u>	<u>4,445,572</u>

	2011	2010
	-----Rupees in '000-----	
7.1 Subsidiaries		
PIA Investments Limited (PIAIL) 792,000 (2010: 792,000) fully paid ordinary shares of AED 100 each. Equity held 100% (2010: 99%). Break-up value of each ordinary share of AED 100: Rs. 31,121 (2010: Rs. 29,773) per ordinary share based on the audited financial statements for the year ended December 31, 2011.	2,245,155	2,245,155
Advance against equity	2,170,557	2,170,557
	<u>4,415,712</u>	<u>4,415,712</u>
Skyrooms (Private) Limited 4,000,000 (2010: 4,000,000) fully paid ordinary shares of Rs. 10 each. Equity held 100% (2010: 100%). Break-up value of each ordinary share of Rs. 10: negative Rs. 23 (2010: negative Rs. 22) per ordinary share based on the unaudited financial statements for the year ended December 31, 2011.	40,000	40,000
Midway House (Private) Limited (under winding-up) 2,960,000 (2010: 2,960,000) fully paid ordinary shares of Rs. 10 each. Equity held 100% (2010: 100%). Break-up value of each ordinary share of Rs. 10: Rs. Nil (2010: Rs. Nil) per ordinary share. Financial statements are not available.	28,520	28,520
Abacus Distribution Systems Pakistan (Private) Limited 312,586 (2010: 312,586) fully paid ordinary shares of Rs. 100 each. Equity held - 70% (2010: 70%) Break-up value of each ordinary share of Rs. 100: Rs. 377 (2010: Rs. 248) per ordinary share based on the unaudited financial statements for the year ended December 31, 2011.	2	2
	68,522	68,522
Provision for diminution in value of investments	(68,520)	(68,520)
	<u>2</u>	<u>2</u>
	<u>4,415,714</u>	<u>4,415,714</u>

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

	2011	2010
	-----Rupees in '000-----	
7.2 Associate		
Minhal Incorporated - Sharjah 1,600 fully paid ordinary shares (2010: 1,600) of AED 100 each. Equity held 40% (2010: 40%). Break-up value of each ordinary share of AED 100 each: Rs. 40,566 (2010: Rs. 39,125) per ordinary share based on the audited financial statements for the year ended December 31, 2011.	<u>396</u>	<u>396</u>

	Note	2011	2010
-----Rupees in '000-----			
7.3			
Other investments			
Available for sale	7.3.1	24,344	29,462
Held to maturity	7.3.2	-	-
		<u>24,344</u>	<u>29,462</u>
7.3.1			
Available for sale			
Quoted			
Pakistan Services Limited			
172,913 (2010: 172,913) ordinary shares of Rs. 10 each			
having market value per ordinary share of Rs. 138.65			
(2010: Rs. 168.25) each		23,975	29,093
Unquoted			
Pakistan Tourism Development Corporation Limited			
10,000 (2010: 10,000) ordinary shares of Rs. 10 each		100	100
Duty Free Shops (Private) Limited			
87,512 (2010: 87,512) ordinary shares of Rs. 100 each		269	269
		<u>24,344</u>	<u>29,462</u>
7.3.2			
Held to maturity			
Promissory notes issued by the Nigerian Government		-	7,289
Less: current maturity	15	-	(7,289)
		<u>-</u>	<u>-</u>

This represents two promissory notes, issued by the Nigerian Government on May 8, 1988, amounting to US\$ 1.32 million and US\$ 2.94 million. These were issued in consideration of bank balance of the Corporation in the Central Bank of Nigeria, which was seized by the Nigerian Government at the time of coup and civil war in Nigeria. These promissory notes were redeemed during the year.

	Note	2011	2010
-----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>
9.			
LONG-TERM DEPOSITS AND PREPAYMENTS			
Deposits			
Aircraft fleet lease deposits		3,479,587	3,319,214
Maintenance reserve	9.1	4,292,547	4,409,175
Engine maintenance		81,851	72,072
Rent		81,231	67,420
Utilities		13,606	12,504
Aircraft fuel		11,730	9,240
Guarantee deposit		21,891	21,104
Others		154,500	151,152
		<u>8,136,943</u>	<u>8,061,881</u>
Prepayments			
Exposure fee to support financing	9.2	1,227,831	1,452,131
Less: current portion	13.1	(224,300)	(224,300)
		<u>1,003,531</u>	<u>1,227,831</u>
		<u>9,140,474</u>	<u>9,289,712</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. 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.
- 9.2 This represents consideration paid to Ex-Im Bank for the purpose of 12 year guarantees issued by it in favour of the Corporation, which is being amortised over lease term.

	Note	2011	2010
-----Rupees in '000-----			
10. STORES AND SPARES			
Stores		859,191	837,340
Spare parts		5,707,043	5,526,969
Inventory held for disposal - adjusted to net realisable value		252,859	252,859
		<u>6,819,093</u>	<u>6,617,168</u>
Provision for slow moving and obsolete spares	10.1	(2,959,535)	(2,836,293)
		<u>3,859,558</u>	<u>3,780,875</u>
Stores and spares-in-transit		4,327	61,664
		<u>3,863,885</u>	<u>3,842,539</u>
10.1 Movement in provision is as follows:			
Balance at the beginning of the year		2,836,293	2,662,295
Provision for the year	34	123,242	173,998
Balance at the end of the year		<u>2,959,535</u>	<u>2,836,293</u>
11. TRADE DEBTS			
Considered good		8,396,481	8,283,109
Considered doubtful		924,292	929,104
Less: provision for doubtful debts	11.1	(924,292)	(929,104)
		<u>8,396,481</u>	<u>8,283,109</u>

The ageing analysis of these trade debts is as follows:

	2011		2010	
	Trade debts gross	Impaired	Trade debts gross	Impaired
-----Rupees in '000-----				
Within current year	8,088,143	43,197	8,026,816	194,890
1 year old	293,109	103,092	463,350	257,946
2 years old	418,864	265,656	43,564	12,418
Over 3 years old	520,657	512,347	678,483	463,850
	<u>9,320,773</u>	<u>924,292</u>	<u>9,212,213</u>	<u>929,104</u>

	Note	2011	2010
-----Rupees in '000-----			
11.1 Movement in provision is as follows:			
Balance at the beginning of the year		929,104	623,200
Written off during the year		(115,020)	(59,055)
Provision for the year	34	110,208	364,959
Balance at the end of the year		<u>924,292</u>	<u>929,104</u>

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

	Note	2011	2010
		-----Rupees in '000-----	
12. ADVANCES			
Considered good			
Subsidiary			
Skyrooms (Private) Limited		-	19,676
Others			
Employees		178,614	256,870
Suppliers		132,593	183,025
Others		5,655	5,811
		<u>316,862</u>	<u>445,706</u>
Considered doubtful			
Subsidiary - Skyrooms (Private) Limited	12.1	136,188	108,672
Others - Suppliers		55,339	31,915
		<u>191,527</u>	<u>140,587</u>
Provision for doubtful advances	12.2	(191,527)	(140,587)
		<u>-</u>	<u>-</u>
		<u>316,862</u>	<u>465,382</u>
12.1	Maximum aggregate gross amount due from the subsidiary at the end of any month was Rs. 136 million (2010: Rs. 128 million).		
	Note	2011	2010
		-----Rupees in '000-----	
12.2	Movement in provision is as follows:		
Balance at the beginning of the year		140,587	140,587
Provision for the year	34	50,940	-
Balance at the end of the year		<u>191,527</u>	<u>140,587</u>
13. TRADE DEPOSITS AND PREPAYMENTS			
Trade deposits		41,731	130,705
Prepayments	13.1	753,734	996,720
		<u>795,465</u>	<u>1,127,425</u>
13.1	Prepayments		
Current portion of exposure fee to support financing	9	224,300	224,300
Commission		317,775	588,446
Interest on leased aircraft		148,188	142,480
Insurance		37,575	39,956
Rent		25,662	1,314
Others		234	224
		<u>753,734</u>	<u>996,720</u>
14. OTHER RECEIVABLES			
Considered good			
Claims receivable		71,751	319,300
Excise duty	29.1 (a)	100,000	100,000
Sales tax receivable		1,595,090	460,990
Receivables from GoP	14.1	332,809	332,809
Others		176,188	59,198
		<u>2,275,838</u>	<u>1,272,297</u>
Considered doubtful			
Less: provision for doubtful other receivables	14.2	(177,077)	(177,077)
		<u>-</u>	<u>-</u>
		<u>2,275,838</u>	<u>1,272,297</u>
14.1	This represents maintenance and other charges incurred in respect of aircraft owned by GoP.		

	Note	2011	2010
		-----Rupees in '000-----	
14.2	Movement in provision is as follows:		
	Balance at the beginning of the year	177,077	168,810
	Provision for the year	-	8,267
	Balance at the end of the year	<u>177,077</u>	<u>177,077</u>
15.	SHORT-TERM INVESTMENTS		
	Held to maturity		
	Current portion of long-term investment	-	7,289
	Available for sale		
	Unquoted		
	SITA INC N.V.	19,220	19,220
	325,491 (2010: 325,491) ordinary shares		
	Provision for diminution in value of investment	-	(880)
		<u>19,220</u>	<u>18,340</u>
		<u>19,220</u>	<u>25,629</u>

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

	Note	2011	2010
		-----Rupees in '000-----	
15.2	Movement in provision is as follows:		
	Balance at the beginning of the year	880	1,222
	Reversal during the year	(880)	(342)
	Balance at the end of the year	<u>-</u>	<u>880</u>
16.	CASH AND BANK BALANCES		
	In hand	7,606	12,188
	In transit	47,103	5,070
		<u>54,709</u>	<u>17,258</u>
	With banks		
	- in current accounts	660,755	796,999
	- in deposit accounts	179,350	579,497
		<u>840,105</u>	<u>1,376,496</u>
		<u>894,814</u>	<u>1,393,754</u>

16.1 These carry interest ranging from 0.125% to 5% (2010: 0.125% to 6%) per annum.

17. SHARE CAPITAL

2011 ----- No. of shares -----	2010 ----- No. of shares -----	Note	2011 ----- Rupees in '000 -----	2010 ----- Rupees in '000 -----
Authorised 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
2,950,750,000	2,950,750,000		29,500,000	29,500,000
50,000,000	50,000,000		500,000	500,000
3,000,750,000	3,000,750,000		30,000,000	30,000,000
Issued, subscribed and paid up share capital				
Ordinary share capital				
'A' class shares of Rs. 10 each				
2,642,351,957	2,341,879,318		26,423,519	23,418,793
931,028	931,028		9,310	9,310
233,934,482	233,934,482		2,339,345	2,339,345
2,877,217,467	2,576,744,828	17.1	28,772,174	25,767,448
'B' class shares of Rs. 5 each				
1,003,374	1,003,374		5,017	5,017
2,625	2,625		13	13
494,000	494,000		2,470	2,470
1,499,999	1,499,999		7,500	7,500
			28,779,674	25,774,948

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

	2011 -----No. of shares-----	2010 -----No. of shares-----
Shares at the beginning of the year	2,576,744,828	2,327,285,584
Issued during the year for cash	300,472,639	249,459,244
Shares at the end of the year	<u>2,877,217,467</u>	<u>2,576,744,828</u>

17.2 At December 31, 2011, the GoP held 2,435,208,439 'A' class ordinary shares and 1,462,515 'B' class ordinary shares respectively (2010: 2,134,735,800 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively).

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

18. RESERVES

	Note	2011 ----- Rupees in '000 -----	2010 ----- Rupees in '000 -----
Capital reserves			
Reserve for replacement of fixed assets	18.1	1,966,779	1,966,779
Capital redemption reserve fund		250,000	250,000
Others		284,259	284,259
		2,501,038	2,501,038
Revenue reserve		1,779,674	1,779,674
		4,280,712	4,280,712
Unrealised gain on remeasurement of investments		22,782	27,900
Accumulated loss		(119,016,727)	(92,327,743)
		(118,993,945)	(92,299,843)
		<u>(114,713,233)</u>	<u>(88,019,131)</u>

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

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

	2011	2010
	-----Rupees in '000-----	
As at January 1	5,827,329	40,190,150
Surplus / (deficit) arising on property, plant and equipment during the year	3,413,962	(32,115,919)
	9,241,291	8,074,231
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	(78,223)	(1,460,486)
- Related deferred tax liability	-	(786,416)
	(78,223)	(2,246,902)
	9,163,068	5,827,329
Less: related deferred tax liability on:		
- Revaluation as at January 1	-	11,908,247
- Surplus / (deficit) arising on property, plant and equipment during the year	1,329,032	(11,121,831)
- Incremental depreciation charged during the year on related assets transferred to profit and loss account	-	(786,416)
	1,329,032	-
As at December 31	7,834,036	5,827,329

20. LONG-TERM FINANCING

Financier	Note	Type of facility	Facility amount (million)	Repayment period	Number of installments/ Mode	Mark-up	2011	2010
							-----Rupees in '000-----	
Secured - from Banking Companies								
Citibank, N.A.	20.1	Demand Finance	82 USD	2006 - 2017	20 Half-yearly	5.28% fixed	3,795,958	4,321,159
Citibank, N.A.	20.2	Islamic Finance	USD 75 & AED 91.825	2011 - 2014	30 Monthly	3 month LIBOR + 4.25% & 3 month EIBOR + 3.75%	8,994,570	-
Faysal Bank Limited	20.3	Term Finance	2,000 PKR	2013 - 2016	36 Monthly	6 month KIBOR + 1.75%	2,000,000	-
HSBC Bank Middle East Limited		Demand Finance	850 PKR	2010 - 2011	17 Monthly	3 month KIBOR + 0.90%	-	450,000
National Bank of Pakistan - Bahrain	20.4	Syndicate Finance	120 USD	2013	Bullet	Note 20.4	10,793,484	10,296,000
National Bank of Pakistan - Bahrain	20.5	Term Finance	70 USD	2010-2012	24 Monthly	1 month LIBOR + 5.50%	2,098,733	4,754,750
National Bank of Pakistan - Bahrain	20.5	Demand Finance	30 USD	2010-2012	24 Monthly	1 month LIBOR + 5.50%	1,124,321	2,359,500
National Bank of Pakistan - Bahrain	20.6	Demand Finance	USD 40 & SAR 75	2011-2013	24 Monthly	1 month LIBOR + 5.25% & 1 month SIBOR + 5.25%	3,282,992	1,287,000
Royal Bank of Scotland - Netherland	20.7	Demand Finance	59.5 USD	2009 - 2013	19 Quarterly	3 month LIBOR + 1.60%	2,131,844	3,078,475
Standard Chartered Bank (Pakistan) Limited		Syndicate Finance	3,600 PKR	2009 - 2011	22 Monthly	1 month KIBOR + 1.25%	-	163,271
Others - unsecured								
Long-term loan - GoP	20.8	Term Finance	8,000 PKR	2011 - 2020	16 Half-yearly	10% fixed	8,000,000	8,000,000
Current maturity shown under current liabilities							42,221,902	34,710,155
							(10,957,001)	(7,363,198)
							31,264,901	27,346,957

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

20.3 The finance is secured by way of unconditional and irrevocable GoP guarantee. The first installment of principal is due in June 2013.

20.4 The following are the participating banks:

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

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

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

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

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

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

20.8 The Corporation has not paid the principal installment due on October 23, 2011 amounting to Rs. 125 million. The overdue amount is included in current maturity.

21. TERM FINANCE AND SUKUK CERTIFICATES

	Note	Security	Repayment period	Number of installments	Mark-up	2011	2010
						-----Rupees in '000-----	
Term finance certificates	21.1	GoP Guarantee	2009-2014	10 half yearly	6 month KIBOR +0.85%	12,789,760	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
						19,589,760	19,592,320
Less: current maturity	21.3					(8,664,107)	(2,135,040)
						<u>10,925,653</u>	<u>17,457,280</u>

21.1 The Corporation has not made payment of principal redemption amount of Rs. 2,132.480 million due on August 20, 2011 as per repayment schedule. The management applied for restructuring of TFCs prior to the due date and the Trustee on behalf of the TFC investors has not notified any event of default to the Corporation. The restructuring process with a consortium of TFC investors is at advanced stage and it will also include restructuring of Sukuks and certain short term borrowings.

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.

21.3 This includes current maturity of the TFC and Sukuk certificates related to the principal redemption including overdue installment as disclosed in note 21.1.

22. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Note	2011	2010
		-----Rupees in '000-----	
Present value of minimum lease payments - aircraft fleet			
A-310-300	22.2	4,148,457	4,678,479
B-777-200 ER	22.3	11,299,637	13,529,684
B-777-200 LR	22.4	13,338,943	14,624,564
B-777-300 ER	22.5	27,606,252	29,492,858
		56,393,289	62,325,585
Less: current maturity		(9,047,988)	(8,596,807)
		<u>47,345,301</u>	<u>53,728,778</u>

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

	2011			2010		
	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	11,046,020	1,998,032	9,047,988	10,728,274	2,131,467	8,596,807
Later than one year but not later than five years	39,902,862	3,894,725	36,008,137	42,037,772	5,303,208	36,734,564
Later than five years	11,652,354	315,190	11,337,164	17,781,957	787,743	16,994,214
	<u>62,601,236</u>	<u>6,207,947</u>	<u>56,393,289</u>	<u>70,548,003</u>	<u>8,222,418</u>	<u>62,325,585</u>

22.2 In 2003, the Corporation entered into aircraft lease agreements with Airbus Leasing Inc. USA, to acquire six A-310-300 aircraft. The lease agreement has an extension option for a period of two additional years, which the Corporation exercised during the year in November 2011 resulting in reduced aggregate lease rentals of USD 60,000 per month recorded as contingent rent. The salient features of the lease are as follows:

	2011	2010
Discount rate	5.2%	5.2%
Lease period	144 months	144 months
Security deposits (Rupees in '000)	291,424	277,992
Contingent rent (Rupees in '000)	(90,525)	(112,161)

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

	2011	2010
Discount rate - two aircraft	4.65%	4.65%
Discount rate - one aircraft and propulsor	Three month LIBOR	Three month LIBOR
Lease period - aircraft	144 months	144 months
Lease period - spare engine and propulsor	96 months	96 months
Security deposits (Rupees in '000)	853,081	813,761
Contingent rent (Rupees in '000)	(36,314)	(43,158)

- 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:

	2011	2010
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)	688,608	656,869
Contingent rent (Rupees in '000)	(702,059)	(779,457)

- 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:

	2011	2010
Discount rate - one aircraft	5.25%	5.25%
Discount rate - two aircraft	Three month LIBOR - 0.04%	Three month LIBOR - 0.04%
Discount rate - spare engine	1.12%	1.12%
Lease period - aircraft	144 months	144 months
Lease period - spare engine	96 months	96 months
Security deposits (Rupees in '000)	1,383,923	1,320,136
Contingent rent (Rupees in '000)	(182,159)	(192,655)

- 22.6 The Corporation has an option to acquire the ownership of the aircraft and engines mentioned in notes 22.2 to 22.5, at the end of lease term.

23. ADVANCE FROM A SUBSIDIARY

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

	Note	2011	2010
		-----Rupees in '000-----	
24. LONG-TERM DEPOSITS			
Deposits from agents		182,250	182,300
Retention money		262,415	201,841
Deposits from employees		20	20
		<u>444,685</u>	<u>384,161</u>
25. DEFERRED LIABILITIES			
Post retirement medical benefits	25.1	4,648,297	3,690,387
Pension obligation	25.2	4,525,892	2,669,520
		<u>9,174,189</u>	<u>6,359,907</u>
25.1 Post retirement medical benefits			
Liability recognised in the balance sheet			
Present value of defined benefit obligation		<u>4,648,297</u>	<u>3,690,387</u>
Movement in liability during the year			
Balance at the beginning of the year		3,690,387	2,437,282
Expense recognised		1,321,617	1,489,773
Payments made during the year		(363,707)	(236,668)
Balance at the end of the year		<u>4,648,297</u>	<u>3,690,387</u>
Expense recognised in profit and loss account			
Current service cost		65,858	52,260
Interest cost		473,652	390,639
Net actuarial loss recognised		782,107	1,046,874
		<u>1,321,617</u>	<u>1,489,773</u>

25.2 Pension obligation

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

	PALPA		FENA		MAIN PENSION		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010
-----Rupees in '000-----								
Liability / (Asset) recognised								
Present value of defined benefit obligation	1,986,809	1,558,479	569,000	518,432	14,923,556	13,123,472	17,479,365	15,200,383
Fair value of plan assets	(1,861,421)	(1,745,383)	(1,018,064)	(877,207)	(10,073,988)	(9,908,273)	(12,953,473)	(12,530,863)
	<u>125,388</u>	<u>(186,904)</u>	<u>(449,064)</u>	<u>(358,775)</u>	<u>4,849,568</u>	<u>3,215,199</u>	<u>4,525,892</u>	<u>2,669,520</u>
Movement in the defined benefit obligation								
Obligation as at January 1	1,558,479	1,798,581	518,432	391,465	13,123,472	11,553,539	15,200,383	13,743,585
Service cost	37,975	31,785	6,819	5,776	355,640	297,672	400,434	335,233
Interest cost	202,635	214,014	67,461	58,006	1,707,955	1,573,159	1,978,051	1,845,179
Benefits paid	(114,958)	(145,761)	(37,445)	(36,512)	(943,904)	(1,046,845)	(1,096,307)	(1,229,118)
Actuarial loss / (gain)	302,678	(340,140)	13,733	99,697	680,393	745,947	996,804	505,504
Obligation as at December 31	<u>1,986,809</u>	<u>1,558,479</u>	<u>569,000</u>	<u>518,432</u>	<u>14,923,556</u>	<u>13,123,472</u>	<u>17,479,365</u>	<u>15,200,383</u>
Movement in fair value of plan assets								
Fair value as at January 1	1,745,383	1,720,493	877,207	691,491	9,908,273	9,656,556	12,530,863	12,068,540
Expected return on plan assets	228,825	220,950	116,165	100,004	1,279,289	1,247,258	1,624,279	1,568,212
Employer contributions	14,199	14,199	3,995	3,995	79,786	79,786	97,980	97,980
Benefits paid	(114,958)	(145,761)	(37,445)	(36,512)	(943,904)	(1,046,845)	(1,096,307)	(1,229,118)
Actuarial (loss) / gain	(12,028)	(64,498)	58,142	118,229	(249,456)	(28,482)	(203,342)	25,249
Fair value as at December 31	<u>1,861,421</u>	<u>1,745,383</u>	<u>1,018,064</u>	<u>877,207</u>	<u>10,073,988</u>	<u>9,908,273</u>	<u>12,953,473</u>	<u>12,530,863</u>
Expense recognised in profit and loss account								
Current service cost	37,975	31,785	6,819	5,776	355,640	297,672	400,434	335,233
Interest cost	202,635	214,014	67,461	58,006	1,707,955	1,573,159	1,978,051	1,845,179
Expected return on plan assets	(228,825)	(220,950)	(116,165)	(100,004)	(1,279,289)	(1,247,258)	(1,624,279)	(1,568,212)
Actuarial loss / (gain) recognised - net	314,706	(275,642)	(44,409)	(18,532)	929,849	774,429	1,200,146	480,255
	<u>326,491</u>	<u>(250,793)</u>	<u>(86,294)</u>	<u>(54,754)</u>	<u>1,714,155</u>	<u>1,398,002</u>	<u>1,954,352</u>	<u>1,092,455</u>
The plan assets comprise of:								
Equity instruments	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%	0.00%	0.00%
Debt instruments	12.85%	13.71%	55.45%	64.36%	8.25%	14.29%	25.52%	30.79%
Others including cash and cash equivalents	87.15%	86.29%	44.55%	35.64%	91.74%	85.70%	74.48%	69.21%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Actual return on plan assets	216,797	156,452	174,307	218,233	1,029,833	1,218,776	1,420,937	1,593,461

Historical Information

	2011	2010	2009	2008	2007
	-----Rupees in '000-----				
Pension Funds					
Present value of defined benefit obligation	17,479,365	15,200,383	13,743,585	11,294,000	10,241,000
Fair value of plan assets	(12,953,473)	(12,530,863)	(12,068,540)	(11,288,000)	(11,524,000)
Deficit / (surplus)	<u>4,525,892</u>	<u>2,669,520</u>	<u>1,675,045</u>	<u>6,000</u>	<u>(1,283,000)</u>
Experience adjustments arising on plan liabilities	5.7%	3.3%	16%	-	3%
Experience adjustments arising on plan assets	1.6%	(0.2)%	(4)%	6%	1%
Medical Scheme					
Present value of defined benefit obligation	4,648,297	3,690,387	2,437,282	1,425,000	1,426,000
Experience adjustments arising on plan liabilities	<u>16.8%</u>	<u>28.4%</u>	<u>39.2%</u>	<u>(5.4)%</u>	<u>0.3%</u>

Actuarial valuations of pension funds, post retirement medical benefit scheme and compensated absences were carried out at December 31, 2011. The valuations have been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2011	2010
Valuation discount rate	12.50%	13.50%
Salary increase rate	10.50%	11.00%
Pension indexation rate	3.00%	3.00%
Medical inflation rate	11.00%	10.00%
Expected rate of return on plan assets	12.50%	13.50%

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

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

	2011	2010
	-----Number-----	
Pension scheme	14,724	15,541
Post retirement medical benefit scheme	16,954	17,029

25.2.2 The fair value of plan assets of pension funds includes investment in the Corporation's shares, amounting to Rs. 1.12 million (2010: Rs. 1.28 million).

25.2.3 The expected pension and medical expense for the next one year from January 1, 2012 amounts to Rs. 976.287 million and Rs. 669.113 million respectively. This is the amount which the Corporation has to contribute for the next one year.

25.2.4 The total expense relating to deferred liabilities has been allocated to cost of services, distribution expenses and administrative expenses in the amount of Rs. 1,684.458 million (2010: Rs. 1,649.753 million), Rs. 797.987 million (2010: Rs. 442.496 million) and Rs. 793.524 million (2010: Rs. 489.979 million) respectively.

26. TRADE AND OTHER PAYABLES	Note	2011	2010
		-----Rupees in '000-----	
Trade creditors		6,190,476	2,573,680
Goods		4,093,180	2,276,707
Services		4,978,793	3,524,083
Airport related charges		<u>15,262,449</u>	<u>8,374,470</u>
Others			
Accrued liabilities		5,528,459	4,265,924
Advance against transportation (unearned revenue)		6,865,903	6,971,694
Obligation for compensated absences	26.1	3,506,407	2,493,033
Unredeemed frequent flyer liabilities	26.2	1,610,507	1,283,440
Advances from customers		683,848	854,933
Payable to employees' provident fund	26.3	3,378,726	2,445,330
Unclaimed dividend - Preference shares		8,494	8,504
Collection on behalf of others		4,187,483	4,093,377
Customs and central excise duty		152,846	522,044
Capital value tax		2,832,283	936,163
Income tax deducted at source		239,180	122,162
Short-term deposits		321,887	255,375
		<u>44,578,472</u>	<u>32,626,449</u>
 26.1 Obligation for compensated absences			
Liability recognised in the balance sheet			
Balance at the beginning of the year		2,493,033	2,072,000
Expense recognised during the year		<u>1,013,374</u>	<u>421,033</u>
		<u>3,506,407</u>	<u>2,493,033</u>
26.1.1	Number of employees covered by the compensated absences are 16,954 (2010: 17,029). The assumptions used to determine the obligation for compensated absences are disclosed in note 25.2.		
26.1.2	The total expense relating to compensated absences has been allocated to cost of services, distribution expenses and administrative expenses in the amount of Rs. 672.676 million (2010: Rs. 268.539 million), Rs. 156.032 million (2010: Rs. 71.834 million) and Rs. 184.666 million (2010: Rs. 80.660 million) respectively.		
26.2	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 12.5% (2010: 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.		
26.3	The amount is payable to Pakistan International Airlines Corporation Provident Fund and carries markup based on the discount rate announced by the State Bank of Pakistan.		

27.	ACCRUED INTEREST	Note		2011	2010	
				-----Rupees in '000-----		
	Mark-up / profit payable on:			2,250,714	1,239,875	
	- long-term financing			667,689	642,462	
	- term finance certificates			186,728	203,456	
	- sukuk certificates			630,289	375,131	
	- short-term borrowings			954,672	611,621	
	- provident fund			<u>4,690,092</u>	<u>3,072,545</u>	
28.	SHORT-TERM BORROWINGS - secured					
	Short-term loans	28.1		21,390,191	14,304,200	
	Running finance under mark-up arrangements	28.2		4,410,836	8,360,909	
				<u>25,801,027</u>	<u>22,665,109</u>	
28.1	Short-term loans - secured					
	Financier	Security	Facility amount (millions)	Repayment period	2011	2010
					-----Rupees in '000-----	
	From Banking Companies					
	Askari Bank Limited	GoP Guarantee	1,500 PKR	12 months	1,500,000	1,500,000
	Faysal Bank Limited	GoP Guarantee and ranking hypothecation charge over all current assets	15 USD	-	-	1,287,000
	KASB Bank Limited	GoP Guarantee	500 PKR	9 months	500,000	500,000
	Habib Bank Limited	GoP Guarantee	2,000 PKR	12 months	2,000,000	2,000,000
	Habib Bank Limited	GoP Guarantee	1,000 PKR	12 months	1,000,000	1,000,000
	Habib Bank Limited	GoP Guarantee	1,600 PKR	12 months	1,600,000	1,600,000
	Habib Bank Limited	GoP Guarantee	2,000 PKR	12 months	2,000,000	2,000,000
	Habib Allied International Bank Limited - London	EURO receivables	9 USD	3 months	809,511	772,200
	National Bank of Pakistan	Hypothecation of entire receivables, book debts, stocks and spares amounting to PKR 2,667 million and lien / specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi	2,000 PKR	12 months	1,880,680	-
	National Bank of Pakistan	GoP Guarantee; ranking charge over current and fixed assets amounting to PKR 6,667 million; lien / specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi; lien over receivables and cargo proceeds from UAE	5,000 PKR	12 months	5,000,000	-
	National Bank of Pakistan	GoP Guarantee	1,500 PKR	12 months	1,500,000	1,500,000
	National Bank of Pakistan	GoP Guarantee; ranking charge over current and fixed assets amounting to PKR 4,800 million; lien / specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi	3,600 PKR	12 months	3,600,000	-
	National Bank of Pakistan - Bahrain	Charge over UK, Saudi Arabia, Bangladesh and Oman receivables	20 USD	-	-	858,000
	National Bank of Pakistan - Bahrain	Charge over UK and Saudi Arabia receivables	60 USD	-	-	1,287,000
					<u>21,390,191</u>	<u>14,304,200</u>

28.1.1 The borrowings in PKR carry mark-up with a spread of 0.85% to 2% over 1 month and 3 months KIBOR (2010: 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 2.25% over 3 months LIBOR (2010: a spread of 2.0% to 5.25% over 1 month and 3 months LIBOR / SIBOR).

28.2 Running finance under mark-up arrangements

Banks	Security	Facility amount (millions)	Unavailed credit (millions)	Repayment period	2011 -----Rupees in '000-----	2010
Secured						
The Bank of Punjab	Ranking charge on present and future stocks and book debts of Mirpur Azad Jammu Kashmir (AJK) for PKR 1,000 million	550 PKR	4 PKR	On Demand	546,220	-
Habib Bank Limited	Hypothecation charge on all present and future spare parts, accessories of aircraft assets and on domestic receivables	350 PKR	94 PKR	12 months	256,168	95,879
Habib Allied International Bank Limited - London	EURO receivables	3 USD	-	On Demand	271,257	257,287
KASB Bank Limited	First pari passu charge on certain specific receivables amounting to PKR 533.33 million	400 PKR	2 PKR	12 months	397,768	400,000
National Bank of Pakistan	First pari passu hypothecation charge of PKR 767 million on all present and future current assets and lien / specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi	575 PKR	2 PKR	12 months	572,750	1,474,122
Summit Bank Limited	Hypothecation charge on specific receivables of Mirpur Azad Kashmir Region.	300 PKR	-	-	-	163,043
United Bank Limited - Karachi	Hypothecation charge of PKR 3,427 million on all present and future stocks and spares and assignment of receivables from Karachi and Lahore	2570 PKR	553 PKR	12 months	2,017,009	2,876,591
United Bank Limited - Dubai	First pari passu hypothecation, charge on all present and future current assets	22 USD	-	-	-	1,887,415
United Bank Limited - Bahrain	First pari passu hypothecation charge on all present and future current assets	1.3 USD	-	-	-	1,112,192
Un-secured						
Habib American Bank	-	1.5 USD	0.6 USD	On Demand	79,827	94,380
Citibank N.A.	-	3 USD	0.1 USD	On Demand	269,837	-
					<u>4,410,836</u>	<u>8,360,909</u>

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% over 1 month LIBOR and 4% over USD Prime Rate.

29. CONTINGENCIES AND COMMITMENTS

29.1 Contingencies

- a) The tax department had raised demand of Rs. 566.544 million (2010: Rs. 566.544 million) as Federal Excise Duty (FED) along with penalty of Rs. 1 million (2010: Rs. 1 million) and additional duty of Rs. 2,923.005 million (2010: 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 the favour of the Corporation. Accordingly, no provision has been made in these unconsolidated financial statements.
- b) The tax department has also raised demands of Rs. 6.804 million (2010: Rs. 6.804 million) and Rs. 277.621 million (2010: Rs. 277.621 million) as FED and Sales Tax respectively along with penalty of Rs. 1.205 million (2010: Rs. 1.205 million) and additional duty / default surcharge of Rs. 17.91 million (2010: Rs. 17.91 million) during the audit of the Corporation for the periods 2004-2005 and 2005-2006. These demands were raised on the issues of late payment of FED, collection of FED at incorrect rate, incorrect apportionment of input tax and failure to collect FED on carriage of goods / mail of Pakistan Post. The Corporation has paid an amount of Rs. 25 million (2010: Rs. 25 million) in this regard which is considered fully recoverable. The Corporation filed an appeal with the Collector of Customs, Sales Tax and Federal Excise (Appeals), which has been decided partially in its favour, partially against and partially remanded back. The Corporation and the department both have filed appeals at the ATIR level which are pending adjudication. Management believes that the case will be decided in the favour of the Corporation. Accordingly, no provision has been made in these unconsolidated financial statements.
- c) The tax department has also raised demands of Rs. 2.065 million (2010: Rs. 2.065 million) and Rs. 1,319.101 million (2010: Rs. 1,319.101 million) as FED and Sales Tax respectively along with penalty of Rs. 66.058 million (2010: Rs. 66.058 million) and additional duty / default surcharge of Rs. 534.412 million (2010: Rs. 534.412 million) during the audit of the Corporation for the period 2007-2008. These demands have been raised mainly on the issues of collection of FED at incorrect rate and incorrect apportionment of input tax. The Corporation filed appeal at Commissioner Inland Revenue (Appeals) level, which was decided in favour of the department. Currently, the Corporation has filed appeal against this at ATIR level and a rectification application with CIR (A) both of which are pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements.
- d) The tax department has levied penalties of Rs 5,877.351 million (2010: Rs 5,877.351 million), Rs 5,679.110 million (2010: Rs 5,679.110 million), Rs 7,025.270 million (2010: Nil) and Rs 2,000 million (2010: Nil) on account of delayed payment of sales tax and FED for the months of November - December 2008, January - March 2010, November 2010 - January 2011 and April 2011 respectively. In 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, Rs 79.969 million, Rs 74 million and Rs 12.648 million respectively.

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

During the year, CIR(A) has issued orders against appeals filed, whereby the levy of penalties for the months of January - March 2010 and November 2010 - January 2011 amounting to Rs 5,679.110 million and Rs 7,025.270 million respectively were deleted, however, default surcharge and 5% penalty were maintained. The Corporation and the tax department have filed appeals with ATIR against the order of CIR(A) which are pending adjudication. Further, for the months of January - March 2010 the Corporation has filed an application for rectification which is pending before ACIR.

For the month of April 2011 the corporation has filed appeal which is pending adjudication before CIR(A).

Further, the Corporation has also received show cause notices dated October 13, 2011 and January 20, 2012 on account of short payment of sales tax and federal excise duty for the months of May 2011 and July to November 2011 respectively. The Corporation has filed a reply for the month of May 2011.

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

- e) A show cause notice was issued to the Corporation by the Collector of Customs demanding payment of Rs. 87.926 million (2010: 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 (2010: 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 (2010: 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 (2010: 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 reinstatements. However, the liability that may arise in these cases cannot be determined and consequently, no provision has been made in these unconsolidated financial statements.
- i) The Corporation is contesting several litigations mainly relating to suits filed against it for unlawful termination of contracts, breach of contractual rights and obligations, non-performance of servicing stipulations due to negligence or otherwise. 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. 4,700 million (2010: Rs. 3,549 million).
- j) Claims against Corporation not acknowledged as debt amount to Rs. 1,184 million (2010: 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. Nil (2010: Rs. 169.171 million).
- b) Commitments for capital expenditure amounted to Rs. 27.525 million (2010: Rs. 3.118 million).
- c) Outstanding letters of credit amounted to Rs. 402.311 million (2010: Rs. 175.762 million).
- d) Outstanding letters of guarantee amounted to Rs. 531.210 million (2010: Rs. 546.703 million).
- e) The Corporation has entered into an agreement with a vendor for supply of spare parts, materials, consumables, and chemicals and repair / overhaul of rotables for a period of 5 years. According to the terms of the agreement, the Corporation is committed to buy goods and/or services in the amount of USD 40 million annually.
- f) Commitments for purchase of aircraft Rs. 138,193.609 million (2010: Rs. Nil) based on catalogue prices.
- g) The amount of future payments in operating lease arrangement relating to Aircraft 777-200 ER and the period in which these payments will become due is as follows:

	Note	2011	2010
		-----Rupees in '000-----	
Not later than one year		1,132,260	1,104,780
Later than one year but not later than five years		4,508,326	4,305,472
Later than five years		187,847	1,254,322
		<u>5,828,433</u>	<u>6,664,574</u>
30. REVENUE - net			
Passenger		103,505,676	95,743,203
Cargo		6,412,653	6,405,627
Excess baggage		1,147,920	1,071,502
Charter services		1,642,634	460,559
Engineering services		952,100	1,249,785
Handling and related services		674,016	673,301
Mail		471,578	440,014
Others		1,743,999	1,487,599
		<u>116,550,576</u>	<u>107,531,590</u>
31. COST OF SERVICES - others			
Salaries, wages and allowances		10,057,957	9,593,880
Welfare and social security costs		98,833	112,270
Retirement benefits		1,987,115	1,928,933
Compensated absences		672,676	268,539
Legal and professional charges		59,833	8,198
Stores and spares consumed		2,823,684	2,838,255
Maintenance and overhaul		4,622,223	4,685,690
Flight equipment rental		2,072,435	1,253,075
Landing and handling		13,152,367	11,921,701
Passenger services		3,831,521	3,693,937
Crew layover		3,202,575	3,027,500
Staff training		137,225	122,758
Utilities		7,893	7,642
Communication		37,041	56,574
Insurance		1,428,739	1,456,112
Rent, rates and taxes		617,678	498,859
Printing and stationery		188,228	210,594
Depreciation	5.6	6,764,275	5,922,444
Amortisation on intangibles	6.2.1	1,967	2,576
Others		237,365	242,633
		<u>52,001,630</u>	<u>47,852,170</u>

32. DISTRIBUTION COSTS

	Note	2011	2010
-----Rupees in '000-----			
Salaries, wages and allowances		1,708,844	1,731,058
Welfare and social security costs		135,170	101,660
Retirement benefits		845,364	488,351
Compensated absences		156,032	71,834
Distribution and advertising expenses		2,235,977	2,263,775
Legal and professional charges		30,224	28,686
Repairs and maintenance		94,944	106,303
Insurance		25,973	20,123
Printing and stationery		53,782	37,957
Communication		488,527	433,932
Staff training		54,409	51,932
Rent, rates and taxes		338,035	336,316
Utilities		23,901	31,606
Depreciation	5.6	40,723	44,401
Amortisation on intangibles	6.2.1	50	1,110
Others		156,621	138,987
		<u>6,388,576</u>	<u>5,888,031</u>

33. ADMINISTRATIVE EXPENSES

Salaries, wages and allowances		2,153,000	2,134,566
Welfare and social security costs		1,837,938	1,478,504
Retirement benefits		874,356	566,296
Compensated absences		184,666	80,660
Legal and professional charges		226,949	246,107
Repairs and maintenance		368,670	386,145
Insurance		21,793	14,081
Printing and stationery		70,533	70,613
Staff training		70,547	68,051
Rent, rates and taxes		529,647	483,077
Utilities		649,779	635,043
Auditors' remuneration	33.1	14,443	15,442
Communication		1,105,542	978,914
Depreciation	5.6	227,745	224,199
Amortisation on intangibles	6.2.1	17,786	18,832
Donations	33.2	3,925	4,878
Others		434,553	411,000
		<u>8,791,872</u>	<u>7,816,408</u>

33.1 Auditors' remuneration

	2011			2010		
	M. Yousuf Adil Saleem & Co.	A. F. Ferguson & Co.	Total	M. Yousuf Adil Saleem & Co.	A. F. Ferguson & Co.	Total
----- Rupees in '000 -----						
Audit fee	3,867	3,867	7,734	3,363	3,363	6,726
Fee for review of interim financial information	1,159	1,159	2,318	1,008	1,008	2,016
Consolidated financial statements	575	575	1,150	500	500	1,000
Code of Corporate Governance	198	198	396	172	172	344
Tax and other services	-	2,105	2,105	3,500	1,310	4,810
Out of pocket expenses	327	413	740	273	273	546
	<u>6,126</u>	<u>8,317</u>	<u>14,443</u>	<u>8,816</u>	<u>6,626</u>	<u>15,442</u>

33.2 Donations include payments aggregating Rs. 3.325 million to Al-Shifa Trust situated at Terminal-2, Road, Karachi Airport, Pakistan in which the then Managing Director was a Trustee. Besides this, none of the directors or their spouse have any interest in the donees.

34. OTHER PROVISIONS AND ADJUSTMENTS

	Note	2011	2010
-----Rupees in '000-----			
Property, plant and equipment written off		68,872	28,547
Provision for slow moving and obsolete spares	10.1	123,242	173,998
Provision for doubtful debts	11.1	110,208	364,959
Arrears against mandatory retirement		-	4,636
Provision against doubtful other receivables	14.2	-	8,267
Advance given to CAA written off		-	143,835
Provision against doubtful advances	12.2	50,940	-
Others		302,780	1,905
		<u>656,042</u>	<u>726,147</u>

35. OTHER OPERATING INCOME

	Note	2011	2010
-----Rupees in '000-----			
Income from financial assets			
Profit on bank deposits		45,997	20,457
Derivative income		213,882	457,061
		<u>259,879</u>	<u>477,518</u>
Income from assets other than financial assets			
Gain on disposal of property, plant and equipment		3,127	5,785
Insurance claims		108,321	49,080
Reversal of provision no longer required in respect of CAA	35.1	-	1,500,000
Others		174,318	237,569
		<u>285,766</u>	<u>1,792,434</u>
		<u>545,645</u>	<u>2,269,952</u>

35.1 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 ended December 31, 2010, negotiations were concluded between the Corporation and CAA as a result of which, a consensus was reached with respect to the disputed items in favour of the Corporation. This resulted in reversal of the provision in the unconsolidated financial statements for the year ended December 31, 2010.

36. FINANCE COST

	Note	2011	2010
-----Rupees in '000-----			
Mark-up on long-term financing		2,220,627	1,948,429
Mark-up on term finance certificates		1,834,026	1,714,180
Profit on sukuk certificates		1,018,962	976,588
Interest on liabilities against assets subject to finance lease		1,269,871	1,454,607
Mark-up on short-term borrowings		2,811,268	2,414,358
Interest on provident fund		342,897	301,686
Arrangement, agency and commitment fee		333,380	223,105
Amortisation of prepaid exposure fee		224,300	224,491
Bank charges, guarantee commission and other related charges		43,715	42,374
		<u>10,099,046</u>	<u>9,299,818</u>

37. TAXATION

Current - for the year	37.1	582,753	1,077,678
- for prior years		(512,315)	5,872
		<u>70,438</u>	<u>1,083,550</u>
Deferred	37.2	(1,329,032)	11,121,831
		<u>(1,258,594)</u>	<u>12,205,381</u>

37.1 Current

37.1.1 In view of available tax losses for the year, provision for minimum taxation has been made at 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.

Through Finance Act 2010, the rate of turnover tax under section 113 was revised upward from 0.5% to 1% of turnover. Therefore, provision for taxation for financial year 2010 was made at 1% of turnover. Subsequent to the year end, the Federal Board of Revenue (FBR) has issued an S.R.O. 57 (I)/ 2012 dated January 24, 2012 whereby the rate of minimum tax for the Corporation was reduced by 50%. However, the said circular does not prescribe the effective date of its application. Management is of the view that the circular is applicable retrospectively from the tax year 2011 and therefore, the related amount from prior year provision for current taxation has been reversed in the current year.

37.1.2 The Corporation has filed tax returns for tax years up to tax year 2011 of which tax returns from tax years 2003 to 2011 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 with the Sindh High Court in respect of assessment year 2000-01. After decision by High Court on few grounds in favour of the Corporation, the department has filed appeal in Supreme Court. Management believes that this issue will be decided in favour of the Corporation without any additional tax liability.

37.1.3 The Additional Commissioner Inland Revenue (ACIR) has issued an amended order whereby demand in relation to the tax year 2005 has been reduced from Rs. 939.009 million to Rs. 898.177 million. The main contention among others was disallowance of depreciation claimed on leased aircraft. The Corporation claimed the depreciation on the contention that those aircraft were obtained under hire purchase arrangement which has been approved by Ministry of Finance as a financing arrangement. The department did not accept this contention and disallowed depreciation expense as inadmissible. An amount of Rs. 48.235 million was also recovered by FBR in this respect. The Corporation filed appeal at CIT (A) level which was decided partially in favour of the Corporation. Being further aggrieved, both the Corporation and the income tax department have filed appeals at ITAT level which are pending adjudication. The Corporation is confident that this issue will ultimately be decided in its favour and the amount will be recovered. The Corporation has also received show cause notices in respect of tax years 2006 to 2009 mainly on account of disallowance of depreciation on leased aircraft and other provisions. The Corporation has filed its replies in respect of tax years 2006 and 2007, however, replies in respect of tax years 2008 and 2009 are under preparation.

37.2 Deferred taxation

	2011	2010
	-----Rupees in '000-----	
Deferred tax credits:		
Accelerated tax depreciation	23,239,832	23,379,080
Surplus on revaluation of property, plant and equipment	1,329,032	-
	24,568,864	23,379,080
Deferred tax debits:		
Unused tax losses	(19,491,009)	(19,270,487)
Provisions for liabilities and to write down other assets	(5,077,855)	(4,108,593)
	(24,568,864)	(23,379,080)
	-	-

37.2.1 In accordance with the accounting policy of the Corporation (note 4.10), deferred tax asset of Rs. 35,553 million (2010: Rs. 27,093 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, 2010	Recognised in profit and account	Recognised in equity	Balance as at December 31, 2010	Recognised in profit and loss account	Recognised in equity	Balance as at December 31, 2011
-----Rupees in '000-----							
Deferred tax credits:							
Accelerated tax depreciation	23,026,712	352,368	-	23,379,080	(139,248)	-	23,239,832
Surplus on revaluation of property, plant and equipment	11,908,248	(786,417)	(11,121,831)	-	-	1,329,032	1,329,032
	34,934,960	(434,049)	(11,121,831)	23,379,080	(139,248)	1,329,032	24,568,864
Deferred tax debits:							
Unused tax losses	(32,098,071)	12,827,584	-	(19,270,487)	(220,522)	-	(19,491,009)
Provisions for liabilities and to write down other assets	(2,836,889)	(1,271,704)	-	(4,108,593)	(969,262)	-	(5,077,855)
	(34,934,960)	11,555,880	-	(23,379,080)	(1,189,784)	-	(24,568,864)
	-	11,121,831	(11,121,831)	-	(1,329,032)	1,329,032	-

38. EARNINGS PER SHARE - BASIC AND DILUTED

	2011	2010
Loss for the year (Rupees in '000)	(26,767,207)	(20,785,123)
Weighted average number of ordinary shares outstanding	2,751,179,233	2,477,153,436
Earnings per share		
'A' class ordinary share (Rupees)	(9.73)	(8.39)
'B' class ordinary share (Rupees)	(4.87)	(4.20)

38.1 Earnings per share has no dilution effect.

39. CASH GENERATED FROM OPERATIONS

	2011	2010
-----Rupees in '000-----		
Loss before tax	(28,025,801)	(8,579,742)
Adjustments for:		
Depreciation	7,032,743	6,191,044
Gain on disposal of property, plant and equipment	(3,127)	(5,785)
Amortisation of intangibles	19,803	22,518
Provision for slow moving and obsolete spares	123,242	173,998
Provision for doubtful debts	110,208	364,959
Advance given to CAA written off	-	143,835
Property, plant and equipment written off	68,872	28,547
Provision for doubtful advances	50,940	-
Provision for staff retirement benefits	3,275,969	2,582,228
Provision for other receivables	-	8,267
Finance cost	10,099,046	9,299,818
Profit on bank deposits	(45,997)	(20,457)
Reversal of provision against short term investments	(880)	(478)
Reversal of provision no longer required in respect of CAA	-	(1,500,000)
	(7,294,982)	8,708,752
Working capital changes		
Increase in stores and spares	(173,456)	(29,114)
Increase in trade debts	(223,580)	(669,881)
Decrease in advances	97,580	676,647
Decrease in trade deposits and prepayments	331,960	31,072
Increase in other receivables	(1,003,541)	(481,371)
Increase in trade and other payables	11,952,023	4,273,233
	10,980,986	3,800,586
Cash generated from operations	3,686,004	12,509,338

40. REMUNERATION OF MANAGING DIRECTOR AND EXECUTIVES

	Managing Director		Unit Heads		Executives	
	2011	2010	2011	2010	2011	2010
-----Rupees in '000-----						
Managerial remuneration	12,887	14,034	98,127	65,051	2,556,462	2,380,627
Corporation's contribution to provident fund	157	239	1,278	1,091	108,281	101,717
Other perquisites	744	594	12,551	13,146	1,985,211	1,944,768
	<u>13,788</u>	<u>14,867</u>	<u>111,956</u>	<u>79,288</u>	<u>4,649,954</u>	<u>4,427,112</u>
Number	<u>1</u>	<u>1</u>	<u>14</u>	<u>11</u>	<u>1,987</u>	<u>1,865</u>

Aggregate amount charged in the financial statements for fee to directors was Rs. Nil (2010: 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

	2011	2010
-----Rupees in '000-----		
Revenue analysis		
USA / Canada	8,522,014	7,992,618
Europe	21,764,132	19,211,875
Middle East / Africa	22,070,478	20,875,255
Asia (excluding Pakistan)	5,758,446	4,381,339
Pakistan	58,435,506	55,070,503
	<u>116,550,576</u>	<u>107,531,590</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, wherever necessary.

42.1 Market risk

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

a) Fuel price risk

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

b) Currency risk

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

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

	2011	2010	2011	2010
	-----Rupees in '000-----			
Change in USD rate	+5%		(5%)	
Effect on loss before tax	<u>(4,174,569)</u>	<u>(4,664,913)</u>	<u>4,174,569</u>	<u>4,664,913</u>
Change in SAR rate	+5%		(5%)	
Effect on loss before tax	<u>(51,566)</u>	<u>42,106</u>	<u>51,566</u>	<u>(42,106)</u>
Change in AED rate	+5%		(5%)	
Effect on loss before tax	<u>(112,210)</u>	<u>-</u>	<u>112,210</u>	<u>-</u>
Change in GBP rate	+5%		(5%)	
Effect on loss before tax	<u>(5,330)</u>	<u>60,407</u>	<u>5,330</u>	<u>(60,407)</u>

c) Interest rate risk

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

	2011	2010
	-----Rupees in '000-----	
Variable rate instruments at carrying amount:		
Long-term financing	<u>30,425,944</u>	<u>22,388,996</u>
Term finance and sukuk certificates	<u>19,589,760</u>	<u>19,592,320</u>
Liabilities against assets subject to finance lease	<u>36,258,178</u>	<u>39,826,692</u>
Short-term borrowings	<u>25,721,200</u>	<u>22,570,729</u>
	<u>111,995,082</u>	<u>104,378,737</u>
Fixed rate instruments at carrying amount		
Long-term financing	<u>11,795,958</u>	<u>12,321,159</u>
Liabilities against assets subject to finance lease	<u>20,135,111</u>	<u>22,498,893</u>
Short-term borrowings	<u>79,827</u>	<u>94,380</u>
Bank deposits	<u>(179,350)</u>	<u>(579,497)</u>
	<u>31,831,546</u>	<u>34,334,935</u>

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	KIBOR		LIBOR	
	2011	2010	2011	2010
	-----Rupees in '000-----			
Change in interest rate	+1%		+0.25%	
Effect on loss before tax	<u>(464,326)</u>	<u>(353,152)</u>	<u>(81,432)</u>	<u>(172,659)</u>
Change in interest rate	(1%)		(0.25%)	
Effect on loss before tax	<u>464,326</u>	<u>353,152</u>	<u>81,432</u>	<u>172,659</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 effecting all similar financial instruments traded in the market. The Corporation is not significantly exposed to equity securities price risk as majority of its investments are in subsidiaries and associated companies which are stated at cost.

42.2 Liquidity risk

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

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

	Less than 1 year	1 - 5 years	More than 5 years	Total
-----Rupees in '000-----				
2011				
Long-term financing	14,861,319	31,613,682	3,547,071	50,022,072
Term finance and sukuk certificates	11,043,567	12,614,374	-	23,657,941
Liabilities against assets subject to finance lease	11,046,020	39,902,862	11,652,354	62,601,236
Advance from a subsidiary	-	-	989,403	989,403
Trade and other payables	21,121,289	-	-	21,121,289
Accrued interest / mark-up / profit	4,690,092	-	-	4,690,092
Short-term borrowings	27,956,096	-	-	27,956,096
	<u>90,718,383</u>	<u>84,130,918</u>	<u>16,188,828</u>	<u>191,038,129</u>
2010				
Long-term financing	8,526,439	27,705,349	5,677,977	41,909,765
Term finance and sukuk certificates	4,826,227	21,314,360	-	26,140,587
Liabilities against assets subject to finance lease	10,728,274	42,037,772	17,781,957	70,548,003
Advance from a subsidiary	-	-	-	-
Trade and other payables	12,904,273	-	-	12,904,273
Accrued interest / mark-up / profit	3,072,545	-	-	3,072,545
Short-term borrowings	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>

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, 2011 represents the maximum credit exposure, which is as follows:

	2011	2010
-----Rupees in '000-----		
Long-term deposits	8,136,943	8,061,881
Trade debts	8,396,481	8,283,109
Advances	184,269	282,357
Trade deposits	41,731	130,705
Other receivables	580,748	711,307
Bank balances	887,208	1,381,566
	<u>18,227,380</u>	<u>18,850,925</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 and in certain circumstances such exposure is partially protected by bank guarantees. Trade debtors mainly represent passenger and freight sales due from agents and government organizations. The majority of the agents are connected to the settlement systems operated by the International Air Transport Association (IATA) who is responsible for checking the credit worthiness of such agents and collecting bank guarantees or other monetary collateral according to local industry practice. In most cases amounts due from airlines are settled on net basis via an IATA clearing house. The credit risk with regard to individual agents and airlines is relatively low.

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

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

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

42.4 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in 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, 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:

	2011	2010
	-----Rupees in '000-----	
Skyrooms (Private) Limited – Subsidiary		
Payments made against in-transit passengers	260,760	226,729
Sale of motor vehicle	-	750
Salaries paid	7,840	1,366
PIA Investments Limited - Subsidiary		
Management fee expense	59,547	-
Finance cost on advance	15,017	-
Retirement funds		
Contribution to Provident Fund and others	508,303	494,138
Profit oriented state-controlled entities - common ownership		
Purchase of fuel	19,676,705	17,682,000
Insurance premium	1,400,000	1,422,575
Mark-up paid	1,485,650	1,527,593
GoP - Major shareholder		
Loan installment received	-	1,000,000
Finance cost	800,000	789,041
Shares issued during the year	3,004,726	2,494,592
Hajj revenue	4,558,708	3,955,037

- 43.1 Transactions with the directors, chief executive 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 respective notes.
- 43.3 The Corporation's sales of transportation services to subsidiaries, associates, 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		
Deferred liabilities - Compensated absences	Trade and other payables - Compensated absences	2,493,033

As the reclassification is considered not to be material in the overall context of the balance sheet and does not have any significant impact on the unconsolidated financial statements for the year ended December 31, 2009, therefore the Corporation has not presented the balance sheet as at the earliest comparative period presented, and the related notes have also not been presented as of the beginning of that earliest period presented. The related figure for reclassification in 2009 is Rs. 2,072 million. The aforesaid reclassification has no impact on the total liabilities as of December 31, 2009 and 2010.

45. BENAZIR EMPLOYEE STOCK OPTION SCHEME (BESOS)

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

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

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

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

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

46. AUTHORISATION OF FINANCIAL STATEMENTS

These unconsolidated financial statements were authorised for issue by the Board of Directors in their meeting held on April 30, 2012.

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director



Consolidated

financial statements

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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, 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed a separate opinion on the financial statements of the Holding company. The consolidated financial statements of a subsidiary company were audited by one of the joint auditors, whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for such company, is based solely on the report of that joint auditor. These consolidated financial statements are the responsibility of the Holding company's management. Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit.

2. Except as stated in paragraph 3 below, our audit was conducted in accordance with the auditing standards as applicable in Pakistan and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

3. The auditors of PIA Investments Limited (PIAIL) - a subsidiary company have qualified their opinion as follows:

"As more fully explained in note 8 to the consolidated financial statements, the receivable aggregating Rs. 679.487 million represents PIAIL's share of net assets of its joint venture as of April 21, 1997, the date when that joint venture period expired. The share was recognised based on joint venture's management accounts as of April 21, 1997 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 and various arbitration hearings have been held during the year, wherein, parties have made submissions. As the outcome of the arbitration proceedings is pending to date, it is not possible to determine with any degree of certainty, the amount of joint venture assets which are available for distribution to joint venture partners and the consequential receivable that is to be recognised in the enclosed consolidated financial statements as at December 31, 2011."

4. In our opinion, except for the possible effect of the matter stated in paragraph 3 above, the consolidated financial statements present fairly the financial position of the Holding company and its subsidiary companies as at December 31, 2011 and the results of their operations for the year then ended.

5. We draw attention to note 1.2 to the consolidated financial statements, which states that the Holding company incurred a loss of Rs. 26,767.207 million during the year ended December 31, 2011, resulting in accumulated loss of Rs. 119,016.727 million as of December 31, 2011, and, as of that date, the Holding company's current liabilities exceeded its current assets by Rs. 88,221.403 million. These conditions indicate existence of a material uncertainty which may cast doubt about the Holding company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter

Chartered Accountants
Audit Engagement Partner: Khurshid Hasan

Chartered Accountants
Audit Engagement Partner: Syed Asad Ali Shah

Karachi: April 30, 2012

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2011

	Note	2011	2010	2011	2010
		----- Rupees in '000-----		----- US\$ in '000-----	
ASSETS					
NON CURRENT ASSETS					
Fixed assets					
- Property, plant and equipment	5	146,214,419	146,188,607	1,625,585	1,703,830
- Intangibles	6	2,973,990	2,856,379	33,064	33,291
		149,188,409	149,044,986	1,658,649	1,737,121
Long-term investments	7	86,088	89,715	957	1,046
Receivable from Centre Hotel	8	679,487	648,116	7,554	7,554
Long-term loans and advances	9	15,407	14,107	171	164
Long-term deposits and prepayments	10	9,278,981	9,409,373	103,162	109,666
		159,248,372	159,206,297	1,770,493	1,855,551
CURRENT ASSETS					
Stores and spares	11	3,895,832	3,873,673	43,313	45,148
Trade debts	12	8,936,690	8,788,214	99,357	102,427
Short-term loans and advances	13	329,433	456,714	3,663	5,323
Trade deposits and prepayments	14	1,305,268	1,596,800	14,512	18,611
Other receivables	15	2,423,473	1,438,007	26,944	16,760
Short-term investments	16	594,749	1,306,037	6,612	15,222
Taxation - net		93,680	96,577	1,042	1,126
Cash and bank balances	17	3,239,943	5,575,572	36,021	64,983
		20,819,068	23,131,594	231,464	269,600
TOTAL ASSETS		180,067,440	182,337,891	2,001,957	2,125,151

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2011

	Note	2011	2010	2011	2010
		----- Rupees in '000-----		----- US\$ in '000 -----	
EQUITY AND LIABILITIES					
SHARE CAPITAL AND RESERVES					
Share capital	18	28,779,674	25,774,948	319,967	300,407
Reserves	19	(107,420,680)	(82,306,920)	(1,194,284)	(959,288)
Attributable to the Holding company's shareholders		(78,641,006)	(56,531,972)	(874,317)	(658,881)
Non-controlling interest		1,081,405	1,224,376	12,023	14,270
TOTAL EQUITY		(77,559,601)	(55,307,596)	(862,294)	(644,611)
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET OF TAX	20	22,854,589	21,059,425	254,093	245,448
NON-CURRENT LIABILITIES					
Long-term financing	21	44,633,808	29,454,413	496,231	343,292
Term finance and sukuk certificates	22	10,925,653	17,457,280	121,469	203,465
Liabilities against assets subject to finance lease	23	47,351,568	53,757,595	526,446	626,546
Long-term deposits	24	444,817	384,293	4,945	4,479
Advance rent		4,831	-	54	-
Deferred taxation	25	15,189,571	15,381,025	168,875	179,266
Deferred liabilities	26	9,228,697	6,408,140	102,603	74,687
		127,778,945	122,842,746	1,420,623	1,431,735
CURRENT LIABILITIES					
Trade and other payables	27	46,336,731	34,392,732	515,163	400,848
Accrued interest	28	4,727,025	3,096,164	52,554	36,086
Provision for taxation		1,072,935	1,640,243	11,929	19,117
Short-term borrowings	29	25,801,027	22,685,884	286,851	264,404
Current maturities of:					
- Long-term financing	21	11,317,288	21,176,940	125,824	246,817
- Term finance and sukuk certificates	22	8,664,107	2,135,040	96,326	24,884
- Advance rent		4,392	-	49	-
- Liabilities against assets subject to finance lease	23	9,070,002	8,616,313	100,839	100,423
		106,993,507	93,743,316	1,189,535	1,092,579
TOTAL EQUITY AND LIABILITIES		180,067,440	182,337,891	2,001,957	2,125,151
CONTINGENCIES AND COMMITMENTS	30				

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

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011 ----- Rupees in '000 -----	2010	2011 ----- US\$ in '000 -----	2010
REVENUE - net	31	127,476,192	117,602,938	1,417,257	1,370,664
COST OF SERVICES					
Aircraft fuel		(62,965,435)	(44,707,004)	(700,038)	(521,061)
Others	32	(58,692,933)	(54,048,189)	(652,537)	(629,932)
		(121,658,368)	(98,755,193)	(1,352,575)	(1,150,993)
GROSS PROFIT		5,817,824	18,847,745	64,682	219,671
Distribution costs	33	(6,830,850)	(6,301,504)	(75,944)	(73,444)
Administrative expenses	34	(11,009,338)	(9,979,295)	(122,400)	(116,309)
Other provisions and adjustments	35	(652,950)	(726,222)	(7,259)	(8,464)
Exchange loss - net		(4,220,191)	(2,091,706)	(46,919)	(24,379)
Other operating income	36	525,563	2,289,179	5,843	26,680
		(22,187,766)	(16,809,548)	(246,679)	(195,916)
(LOSS) / PROFIT FROM OPERATIONS		(16,369,942)	2,038,197	(181,997)	23,755
Finance costs	37	(10,487,413)	(9,622,520)	(116,597)	(112,151)
Share of loss from associated company	7.1	(790)	(486)	(9)	(6)
LOSS BEFORE TAXATION		(26,858,145)	(7,584,809)	(298,603)	(88,402)
Taxation	38	934,790	(12,476,148)	10,393	(145,410)
LOSS FOR THE YEAR		(25,923,355)	(20,060,957)	(288,210)	(233,812)
Attributable to:					
Equity holders of the Holding company		(25,970,801)	(20,105,871)	(288,738)	(234,336)
Non-controlling interest		47,446	44,914	528	524
		(25,923,355)	(20,060,957)	(288,210)	(233,812)
		----- Rupees -----		----- US\$ -----	
EARNINGS PER SHARE - BASIC AND DILUTED					
Loss attributable to:					
'A' class Ordinary shares of Rs 10 each	39	(9.42)	(8.10)	(0.10)	(0.09)
'B' class Ordinary shares of Rs 5 each	39	(4.71)	(4.05)	(0.05)	(0.05)

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

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2011

	2011	2010	2011	2010
	----- Rupees in '000 -----		----- US\$ in '000 -----	
Loss for the year	(25,923,355)	(20,060,957)	(288,210)	(233,812)
Other comprehensive income				
Unrealised loss on re-measurement of available for sale investments	(5,118)	(1,379)	(57)	(16)
Exchange differences on translation of foreign operations	425,917	(105,437)	4,735	(1,229)
Total comprehensive income	<u>(25,502,556)</u>	<u>(20,167,773)</u>	<u>(283,532)</u>	<u>(235,057)</u>
Attributable to:				
Equity holders of the Holding company	(25,573,071)	(20,201,221)	(284,316)	(235,447)
Non-controlling interest	70,515	33,448	784	390
	<u>(25,502,556)</u>	<u>(20,167,773)</u>	<u>(283,532)</u>	<u>(235,057)</u>

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

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

Ch. Ahmed Mukhtar
Chairman

Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011	2010	2011	2010
		-----Rupees in '000-----		-----US\$ in '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	40	6,409,616	15,027,280	71,260	175,143
Profit on bank deposits received		45,997	20,459	511	238
Finance costs paid		(8,856,552)	(8,395,785)	(98,466)	(97,853)
Taxes paid		(1,210,031)	(882,920)	(13,453)	(10,290)
Staff retirement benefits paid		(467,188)	(334,648)	(5,194)	(3,900)
Long-term deposits and prepayments - net		130,392	(544,893)	1,450	(6,351)
Net cash (used in) / generated from operating activities		<u>(3,947,766)</u>	<u>4,889,493</u>	<u>(43,892)</u>	<u>56,987</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(4,131,561)	(1,624,548)	(45,934)	(18,934)
Proceeds from sale of operating fixed assets		10,791	22,363	119	261
Purchase of intangibles		(137,437)	(52,474)	(1,528)	(612)
Payments against long term loans		(1,300)	(2,056)	(14)	(24)
Investment in securities		-	(1,161,636)	-	(13,539)
Proceeds from sale of short-term investments		712,168	-	7,918	-
Currency translation differences		(365,005)	(4,506)	(4,058)	(52)
Net cash used in investing activities		<u>(3,912,344)</u>	<u>(2,822,857)</u>	<u>(43,497)</u>	<u>(32,900)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		3,004,726	2,494,593	33,406	29,075
Repayment of long-term financing		(10,019,574)	(6,854,666)	(111,396)	(79,891)
Proceeds from long-term financing		15,339,317	11,466,154	170,540	133,638
Redemption of term finance certificates		(2,560)	(5,120)	(28)	(60)
Receipt / (payment) of advance rent		9,223	(3,486)	103	(41)
Proceeds from long-term deposits		60,524	18,314	673	213
Payment of dividend to non-controlling interest		(29,980)	-	(333)	-
Repayment of obligations under finance lease - net		(5,952,338)	(7,088,650)	(66,177)	(82,618)
Net cash generated from financing activities		<u>2,409,338</u>	<u>27,139</u>	<u>26,788</u>	<u>316</u>
(Decrease) / increase in cash and cash equivalents		<u>(5,450,772)</u>	<u>2,093,775</u>	<u>(60,601)</u>	<u>24,403</u>
Cash and cash equivalents at the beginning of the year		<u>(17,110,312)</u>	<u>(19,204,087)</u>	<u>(190,229)</u>	<u>(223,824)</u>
Cash and cash equivalents at the end of the year		<u>(22,561,084)</u>	<u>(17,110,312)</u>	<u>(250,830)</u>	<u>(199,421)</u>
CASH AND CASH EQUIVALENTS					
Cash and bank balances	17	3,239,943	5,575,572	36,021	64,983
Short-term borrowings	29	(25,801,027)	(22,685,884)	(286,851)	(264,404)
		<u>(22,561,084)</u>	<u>(17,110,312)</u>	<u>(250,830)</u>	<u>(199,421)</u>

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

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2011

	Attributable to the Holding company's shareholders							Total	Non-controlling interest	Total
	Issued, subscribed and paid-up capital	Capital reserves	Revenue reserves	Unrealised loss on re-measurement of investments	Foreign currency translation reserves	Accumulated losses	Other reserves			
	-----Rupees in '000-----									
Balance as at January 1, 2010	23,280,356	2,501,038	1,779,674	29,278	2,662,017	(70,773,836)	2,950	(40,518,523)	1,004,713	(39,513,810)
Total comprehensive income for the year ended December 31, 2010:										
- (Loss) / profit for the year	-	-	-	-	-	(20,105,871)	-	(20,105,871)	44,914	(20,060,957)
- Other comprehensive income for the year:										
- 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)	(20,105,871)	(2,377)	(20,201,221)	33,448	(20,167,773)
Surplus on revaluation - net of tax	-	-	-	-	-	-	-	-	202,829	202,829
Surplus on revaluation of property, plant and equipment realised 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
Acquisition of non-controlling interest	-	-	-	-	-	16,614	-	16,614	(16,614)	-
Balance as at December 31, 2010	<u>25,774,948</u>	<u>2,501,038</u>	<u>1,779,674</u>	<u>27,899</u>	<u>2,570,423</u>	<u>(89,186,527)</u>	<u>573</u>	<u>(56,531,972)</u>	<u>1,224,376</u>	<u>(55,307,596)</u>
Balance as at January 1, 2011	25,774,948	2,501,038	1,779,674	27,899	2,570,423	(89,186,527)	573	(56,531,972)	1,224,376	(55,307,596)
Total comprehensive income for the year ended December 31, 2011:										
- (Loss) / profit for the year	-	-	-	-	-	(25,970,801)	-	(25,970,801)	47,446	(25,923,355)
- Other comprehensive income for the year:										
- Currency translation differences	-	-	-	-	403,854	-	(1,006)	402,848	23,069	425,917
- Unrealised loss on re-measurement of investments	-	-	-	(5,118)	-	-	-	(5,118)	-	(5,118)
Total comprehensive income for the year transferred to equity	-	-	-	(5,118)	403,854	(25,970,801)	(1,006)	(25,573,071)	70,515	(25,502,556)
Surplus on revaluation - net of tax	-	-	-	-	-	-	-	-	35,342	35,342
Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	-	-	-	-	-	407,733	-	407,733	-	407,733
Transactions with owners:										
Issue of share capital 'A' class ordinary shares	3,004,726	-	-	-	-	-	-	3,004,726	-	3,004,726
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	(29,980)	(29,980)
Redemption of non-controlling interest (note 20)	-	-	-	-	13,021	26,875	11,682	51,578	(218,848)	(167,270)
Balance as at December 31, 2011	<u>28,779,674</u>	<u>2,501,038</u>	<u>1,779,674</u>	<u>22,781</u>	<u>2,987,298</u>	<u>(114,722,720)</u>	<u>11,249</u>	<u>(78,641,006)</u>	<u>1,081,405</u>	<u>(77,559,601)</u>

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

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

1. THE GROUP AND ITS OPERATIONS

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

Pakistan International Airlines Corporation

Pakistan International Airlines Corporation (the Holding company) was incorporated on January 10, 1955 under 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. In 1986 PIAIL was registered in British Virgin Islands under International Business Companies Ordinance, 1984 (now BVI Business Companies Act, 2004) as a company limited by shares. The principal activity is to carry on business as promoters of and investors in projects related to construction, development and operation of hotels, motels and restaurants throughout the world. The Holding company's controlling interest in PIAIL is 100% (2010: 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.	Netherlands - Antilles	See note (B) below	100	100
• RHC Operating LLC	State of Delaware, USA	Owner of Roosevelt Hotel, New York	100	100
• Minhal France S.a.r.l	Luxembourg	See note (A)	100	100
• Minhal France B.V.	Netherlands	See note (A)	100	100
• Minhal France S.A. (MFSA)	France	Owner of Scribe Hotel, Paris	90	90
• PIA Fuel Management Limited	British Virgin Islands	See note (A)	100	100

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

Note (B): Roosevelt Hotel Corporation N.V. (RHC) is the intermediary holding company and a sole member of RHC Operating LLC, a company which owns the Roosevelt Hotel. In 2004, to comply with the requirement of loan (note 21.9), RHC transferred the net operating assets of the Hotel to RHC Operating LLC.

PIAIL has been consolidated in these consolidated financial statements on the basis of its audited consolidated financial statements for the year ended December 31, 2011.

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

Abacus Distribution Systems Pakistan (Private) Limited (Abacus) was incorporated in Pakistan on October 12, 2004 as a private company limited by shares under the Companies Ordinance, 1984. The registered office of Abacus is situated at Karachi. Abacus markets and distributes 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 2013. Abacus has been consolidated on the basis of its unaudited financial statements as the same is not considered to be material to these consolidated financial statements.

The other subsidiaries of the Holding company, PIA Holding (Private) Limited, PIA Shaver Poultry Breeding Farms (Private) Limited and PIA 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, have not been consolidated in these financial statements.

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

Associate

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

- 1.2 During the current year, the Holding company incurred a net loss of Rs 26,767.207 million (2010: Rs 20,785.123 million) resulting in accumulated loss of Rs 119,016.727 million as of December 31, 2011 (2010: Rs 92,327.743 million). Further, as of December 31, 2011 current liabilities of the Holding company exceeded its current assets by Rs 88,221.403 million (2010: Rs 61,589.993 million).

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

- Reimbursement of financial charges on term finance and sukuk certificates payable by the Holding company. In this respect, amounts aggregating Rs 7,902 million have been provided to the Holding company towards equity during the years ended December 31, 2008 to 2011;
- During the years ended December 31, 2009 and 2010, the GoP has provided long-term financing aggregating to Rs 8,000 million to meet working capital requirements of the Holding company; and
- Issuance / renewal of guarantees to financial institutions, both local and foreign, so as to enable the Holding company to raise funds.

During the current year, the Holding company continued to pursue approval of its business plan with the GoP at various levels. Presentations on the business plan were made to the President and Prime Minister of Pakistan during meetings held with them and the business plan was amended based on the guidelines given during those meetings. The business plan has now been approved by the Economic Reforms Unit of the Ministry of Finance and has been submitted to the Economic Coordination Committee of the Cabinet for approval.

The business plan includes GoP's support in terms of providing necessary funding for recapitalisation, restructuring of existing loans and issuing GoP guarantees as and when required. The objectives of the business plan, among other measures, include improving the governance structure and achieving operational efficiency through upgrading of aircraft fleet, enhancing revenues and controlling costs.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the requirements of 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 operating fixed assets are stated at revalued amounts;
- certain financial assets are carried at fair values;
- liability on account of frequent flyer programme is recognised at fair value; and
- defined benefit obligations are stated at present value in accordance with International Accounting Standard (IAS) - 19 'Employee Benefits'.

2.3 Functional and presentation currency

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

The US Dollar amounts reported in the consolidated balance sheet, consolidated profit and loss account, consolidated statement of comprehensive income and consolidated cash flow statement are stated as additional information, solely for the convenience of the users of these consolidated financial statements. The US Dollar amounts in the consolidated balance sheet, consolidated profit and loss account, consolidated statement of comprehensive income and consolidated cash flow statement have been translated into US Dollar at the rate of Rs 89.9457 = US \$ 1 (2010: Rs 85.80 = 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. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are derecognised from the date control ceases.

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the consideration transferred and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in case of a bargain purchase, the difference is recognised in profit and loss account. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The assets and liabilities of subsidiary companies have been consolidated on a line by line basis and the carrying value of investments held by the Holding company is eliminated against the subsidiaries' shareholders' equity in the consolidated financial statements.

All material intra-group transactions and balances are eliminated in full.

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

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

2.4.2 Associates

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

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

2.5 Adoption of new / revised and amended standards and interpretations to published accounting standards

During the year, following interpretations including amendments to existing standards and interpretations became effective, however, these are either not relevant to the Group or their application did not have material impact on these consolidated financial statements of the Group:

- IFRS 3 - 'Business Combinations' (Amendments)
- IFRS 7 - 'Financial Instruments: Disclosures' (Amendments)
- IAS 1 - 'Presentation of Financial Statements' (Amendments)
- IAS 27 - 'Consolidated and Separate Financial Statements' (Amendments)
- IAS 32 - 'Financial Instruments: Presentation' (Amendments)
- IAS 34 - 'Interim Financial Reporting' (Amendments)
- IFRIC 13 - 'Customer Loyalty Programmes' (Amendments)
- IFRIC 14 - 'Prepayments of a Minimum Funding Requirement' (Amendments)
- IFRIC 19 - 'Extinguishing Financial Liabilities with Equity Instruments'

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

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

- IFRS 7 - 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after July 1, 2011) - The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

- IAS 1 - 'Presentation of Financial Statements' (effective for annual periods beginning on or after July 1, 2012) - retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.
- IAS 12 - 'Income taxes' - (effective for annual periods beginning on or after January 1, 2012) - IAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- IAS 19 - 'Employee Benefits' (effective for annual periods beginning on or after January 1, 2013) - These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.
- IFRIC 20 - 'Stripping Costs in the Production Phase of a Surface Mine' applies to all types of natural resources that are extracted using a surface mine activity process, and addresses the issues pertaining to the recognition of production stripping cost as an asset, initial measurement of stripping activity at cost and subsequent measurement of stripping activity asset at depreciated or amortised cost based on a systematic basis over the expected useful life of the identified component of ore body.

The above mentioned amendments to published standards and new interpretation to existing standard are either not relevant to the Group's operations or are not expected to have significant impact on these consolidated financial statements other than increase in disclosure in certain cases.

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 these consolidated financial statements:

3.1 Property, plant and equipment

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

Change in accounting estimate

As a result of revaluation exercise conducted by an independent valuer as of December 31, 2010, the useful lives of aircraft fleet of the Holding company have decreased. 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 lower by Rs 2,496.075 million, 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 26 to these consolidated financial statements.

3.3 Stores and spares

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

3.4 Taxation

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

3.5 Trade debts

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

3.6 Liability on account of frequent flyer programme

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

3.7 Revenue recognition

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Fixed assets

4.1.1 Property, plant and equipment

Operating fixed assets - owned

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

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of operating fixed assets is capitalised and the asset so replaced is derecognised.

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

Normal repairs and maintenance costs on other items of operating fixed assets are charged to the consolidated profit and loss account as and when incurred. Major renewals and improvements, if any, are capitalised when it is probable that respective future economic benefits will flow to the Group and the cost can be measured reliably.

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

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

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

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

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

Gains and losses on disposal of assets are taken to consolidated profit and loss account. When revalued assets are sold, the relevant remaining surplus is transferred directly by the Group to accumulated loss.

Operating fixed assets - 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 costs are added to the amount of the asset. Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged on leased assets on a basis similar to that of owned assets.

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 consolidated profit and loss account on a straight-line basis over the lease term.

Capital spares

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

Capital work-in-progress

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

4.1.2 Intangibles

Goodwill

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

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

Other intangible assets

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

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

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

4.2 Investments

At fair value through profit or loss - held for trading

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

Available for sale

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

Held to maturity

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as 'at fair value through profit or loss'.

4.3 Stores and spares

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

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

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

4.4 Trade debts and other receivables

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

4.5 Cash and cash equivalents

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

4.6 Trade and other payables

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

4.7 Loans and borrowings

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

4.8 Employee benefits

The Holding company

Provident fund

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

Pension funds

For all the permanent employees hired prior to July 1, 2008 the Holding company operates a funded benefit pension scheme for its three categories of employees. Pension scheme is a final salary pension scheme and is invested through three funds namely Pakistan Airline Pilot Association (PALPA), Flight Engineering Association (FENA) and Employees' Pension Funds. Under PALPA and FENA, employees are entitled to basic salary and flight allowance whereas under Employees' Pension Fund, employees are entitled to basic salary and certain other allowances. Contributions are made to the scheme on the basis of actuarial valuation that is carried out annually. 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, 2011 on the basis of the projected unit credit method.

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

Actuarial gains / losses at the beginning of the year are amortised over average future service lives of the employees.

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

Roosevelt Hotel Corporation N.V. (RHC)

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

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

Minhal France S.A.

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

Abacus Distribution Systems Pakistan (Private) Limited (Abacus)

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

4.9 Taxation

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

Current

The Holding company

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

PIAIL

Current tax is the expected tax payable on taxable income for the year using tax rates enacted or substantively enacted at the reporting date in the respective country of operation and any adjustment to tax payable in respect of previous years.

SRL and Abacus

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

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

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

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

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

4.10 Revenue recognition

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

Passenger and cargo revenue

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

Room, food and beverages

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

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

Engineering and other services

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

Frequent flyer programme revenue

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

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

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

Interest / mark-up and dividend income

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

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

4.11 Borrowing Costs

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

4.12 Provisions

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

4.13 Impairment

Financial assets

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

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

4.14 Foreign currency

Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the 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 consolidated profit and loss account currently.

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

Foreign operations

Assets and liabilities of foreign entities 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 consolidated profit and loss account immediately.

4.16 Derivative financial instruments

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

4.17 Offsetting of financial assets and financial liabilities

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

5. PROPERTY, PLANT AND EQUIPMENT

	Note	2011	2010
		-----Rupees in '000-----	
Operating fixed assets:			
- owned	5.1	75,173,153	78,226,408
- leased	5.2	69,644,560	66,833,053
Capital work-in-progress	5.9	1,396,706	1,129,146
		<u>146,214,419</u>	<u>146,188,607</u>

5.1 Operating fixed assets - owned

	Land		Buildings on:		Hotel property (note 5.5)	Workshops and hangars	Renovation and improvements	Aircraft fleet (note 5.4)	Operating ground equipment, catering, communication and meteorological equipment	Engineering equipment and tools
	Leasehold (notes 5.1.1 and 5.3)	Others (note 5.1.2)	Leasehold land (notes 5.1.1 and 5.3)	Other land (note 5.1.2)						
As at December 31, 2009										
Cost or revalued amount	5,461,964	22,854	1,368,847	829,261	45,878,239	895,940	697,475	35,414,216	635,380	1,367,577
Accumulated depreciation	-	-	(263,995)	(287,876)	(5,943,754)	(732,696)	(564,453)	(17,436,596)	(444,608)	(1,066,645)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>1,104,852</u>	<u>541,385</u>	<u>39,934,485</u>	<u>163,244</u>	<u>133,022</u>	<u>17,977,620</u>	<u>190,772</u>	<u>300,932</u>
Year ended December 31, 2010										
Opening net book value	5,461,964	22,854	1,104,852	541,385	39,934,485	163,244	133,022	17,977,620	190,772	300,932
Additions / transfers	-	-	14,738	-	65,271	2,971	32,851	476,593	58,929	205,851
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	-	-	-	-	-
Accumulated depreciation	-	-	-	-	69,115	-	-	-	-	-
					199,574					
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)	(782)
Accumulated depreciation	-	-	(819)	-	-	-	7,537	32,505	78	782
			(819)					(4,017)	(2)	
Depreciation charge for the year	-	-	(137,824)	(3,922)	(755,298)	(15,898)	(56,723)	(1,719,606)	(46,693)	(79,034)
Closing net book value	<u>5,461,964</u>	<u>22,854</u>	<u>980,947</u>	<u>537,463</u>	<u>47,745,629</u>	<u>150,317</u>	<u>109,150</u>	<u>14,900,885</u>	<u>232,439</u>	<u>427,749</u>
As at December 31, 2010										
Cost or revalued amount	5,461,964	22,854	1,383,585	829,261	54,375,566	898,911	722,789	34,052,048	777,874	1,572,646
Accumulated depreciation	-	-	(402,638)	(291,798)	(6,629,937)	(748,594)	(613,639)	(19,151,163)	(545,435)	(1,144,897)
Net book value	<u>5,461,964</u>	<u>22,854</u>	<u>980,947</u>	<u>537,463</u>	<u>47,745,629</u>	<u>150,317</u>	<u>109,150</u>	<u>14,900,885</u>	<u>232,439</u>	<u>427,749</u>

Traffic equipment	Furniture, fixtures and fittings	Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Heat ventilation and air conditioning	Kitchen and bar equipment	Television / dish / stand	Other equipment	Capital spares	Total
-----Rupees in '000-----													
1,765,348	6,418,193	271,453	86,110	1,635,855	819,626	15,039	12,395	10,693	5,897	2,761	514,455	8,669,667	112,799,245
<u>(1,326,514)</u>	<u>(4,234,752)</u>	<u>(201,237)</u>	<u>(78,510)</u>	<u>(1,316,834)</u>	<u>(805,434)</u>	<u>(14,694)</u>	<u>(12,394)</u>	<u>(6,130)</u>	<u>(3,765)</u>	<u>(2,594)</u>	<u>(406,082)</u>	<u>(3,596,701)</u>	<u>(38,746,264)</u>
438,834	2,183,441	70,216	7,600	319,021	14,192	345	1	4,563	2,132	167	108,373	5,072,966	74,052,981
438,834	2,183,441	70,216	7,600	319,021	14,192	345	1	4,563	2,132	167	108,373	5,072,966	74,052,981
124,160	138,078	39,940	1,245	35,154	161	-	-	175	-	-	8,177	133,803	1,338,097
-	-	-	-	-	-	-	-	-	-	-	-	-	6,188,138
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	6,188,138
-	(126,484)	135	-	-	-	-	-	-	-	-	-	-	4,110
-	32,464	(61)	-	-	-	-	-	-	-	-	-	-	101,518
-	(94,020)	74	-	-	-	-	-	-	-	-	-	-	105,628
-	-	99,612	-	-	-	-	-	-	-	-	-	(19,224)	476,038
-	-	(93,546)	-	-	-	-	-	-	-	-	-	-	(176,009)
-	-	6,066	-	-	-	-	-	-	-	-	-	(19,224)	300,029
(1,527)	(86,037)	(15,792)	(150)	-	-	-	-	-	-	-	-	-	(104,291)
1,410	75,953	10,036	138	-	-	-	-	-	-	-	-	-	88,322
(117)	(10,084)	(5,756)	(12)	-	-	-	-	-	-	-	-	-	(15,969)
(26)	(2,225)	(839)	(896)	(3,057)	-	-	(487)	-	-	-	(374)	(49,508)	(102,333)
26	2,076	755	894	3,049	-	-	487	-	-	-	356	25,181	72,907
-	(149)	(84)	(2)	(8)	-	-	-	-	-	-	(18)	(24,327)	(29,426)
(63,022)	(361,606)	(27,104)	(2,686)	(85,428)	(1,432)	(345)	(1)	(911)	(292)	(72)	(15,779)	(339,394)	(3,713,070)
499,855	1,855,660	83,352	6,145	268,739	12,921	-	-	3,827	1,840	95	100,753	4,823,824	78,226,408
1,887,955	6,341,525	394,509	86,309	1,667,952	819,787	15,039	11,908	10,868	5,897	2,761	522,258	8,734,738	120,599,004
<u>(1,388,100)</u>	<u>(4,485,865)</u>	<u>(311,157)</u>	<u>(80,164)</u>	<u>(1,399,213)</u>	<u>(806,866)</u>	<u>(15,039)</u>	<u>(11,908)</u>	<u>(7,041)</u>	<u>(4,057)</u>	<u>(2,666)</u>	<u>(421,505)</u>	<u>(3,910,914)</u>	<u>(42,372,596)</u>
499,855	1,855,660	83,352	6,145	268,739	12,921	-	-	3,827	1,840	95	100,753	4,823,824	78,226,408

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

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

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

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

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

5.2 Operating fixed assets - leased

	Aircraft fleet (note 5.4)	Vehicles - motor transport	Vehicles - technical ground support	Total
----- Rupees in '000 -----				
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>
Year ended December 31, 2010				
Opening net book value	100,685,518	6,672	37,032	100,729,222
Additions	-	-	-	-
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	(3,566,251)	-	(7,599)	(3,573,850)
Net book value	<u>66,833,053</u>	<u>-</u>	<u>-</u>	<u>66,833,053</u>
Year ended December 31, 2011				
Opening net book value	66,833,053	-	-	66,833,053
Additions	2,408,105	-	-	2,408,105
Revaluation				
Cost or revalued amount	-	-	-	-
Accumulated depreciation	3,968,247	-	-	3,968,247
	3,968,247	-	-	3,968,247
Transfer to owned				
Cost or revalued amount	-	-	-	-
Accumulated depreciation	-	-	-	-
	-	-	-	-
Disposals				
Cost or revalued amount	-	-	-	-
Accumulated depreciation	-	-	-	-
	-	-	-	-
Depreciation charge for the year	(3,564,845)	-	-	(3,564,845)
Closing net book value	<u>69,644,560</u>	<u>-</u>	<u>-</u>	<u>69,644,560</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>
As at December 31, 2011				
Cost or revalued amount	72,779,943	-	-	72,779,943
Accumulated depreciation	(3,135,383)	-	-	(3,135,383)
Net book value	<u>69,644,560</u>	<u>-</u>	<u>-</u>	<u>69,644,560</u>
Annual depreciation rate (%)	<u>4 - 11</u>	<u>25</u>	<u>10 - 20</u>	

5.3 Leasehold land and buildings on leasehold land

During the year, a revaluation exercise was organised by the Holding company, which was carried out by the following independent valuers:

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

The fair values were determined with reference to market based evidence, based on active market prices, and adjusted for any difference in nature, location or condition of specific property.

5.4 Aircraft fleet

During the year, the aircraft fleet of the Holding company was revalued by an independent valuer, Ascend Worldwide Limited (2010: Ascend Worldwide Limited), on the basis of professional assessment of current market values as of December 31, 2011. The current market value represents the value that an aircraft could best achieve under today's open market conditions and, therefore, takes into account a thorough review of market activity and known transaction data involving the subject aircraft types, covering 'open' market and financial sales. It additionally considers the perceived demand for each type, its availability in the market and further takes into account the expressed views of informed industry sources.

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

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

5.5 Hotel property

Roosevelt Hotel Corporation N. V.

The latest valuation of Roosevelt Hotel was carried out on October 3, 2011 by an independent appraiser, HVS (2010: PKF Consulting). The appraiser determined that the market value of the combined fee simple and leased fee interest in Roosevelt Hotel (excluding any unused development air rights) is Rs 30,222 million (US\$ 336,000,000). This valuation includes land, buildings and improvements and furniture and equipment. However, fair value of furniture and equipment approximates its carrying value i.e. Rs 251 million (US\$ 2,785,087) resulting in the entire revaluation surplus allocated to land, buildings and improvements. Before revaluation the carrying value of land, building and improvements at December 31, 2011 amounted to Rs 31,700 million (US\$ 352,432,405) and accordingly during the year a deficit of Rs 1,729 million (US\$ 19,217,492) has been debited 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, 2011 by an independent appraiser, In Extenso (2010: Deloitte France). The appraiser determined that the market value of the freehold interest in Hotel Scribe as on December 31, 2011 amounted to Rs 18,854 million (US\$ 209,611,800) using Discounted Cashflow (DCF) method with a 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 i.e. Rs 1,451 million (US\$ 16,120,690) 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, 2011 amounted to Rs 16,784 million (US\$ 186,603,923) and accordingly during the year a surplus of Rs 619 million (US\$ 6,887,187) has been credited to revaluation reserve.

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

	Cost	Accumulated Depreciation	Book value
	----- Rupees in '000 -----		
December 31, 2011			
Leasehold land	44,166	-	44,166
Buildings on leasehold land	338,422	164,058	174,364
Hotel property	21,548,062	7,738,867	13,809,195
Aircraft fleet	121,935,050	43,394,508	78,540,542
	<u>143,865,700</u>	<u>51,297,433</u>	<u>92,568,267</u>
December 31, 2010			
Leasehold land	44,166	-	44,166
Buildings on leasehold land	338,422	161,544	176,878
Hotel property	20,852,636	7,140,197	13,712,439
Aircraft fleet	119,372,103	37,290,078	82,082,025
	<u>140,607,327</u>	<u>44,591,819</u>	<u>96,015,508</u>

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

	Note	2011	2010
		----- Rupees in '000 -----	
Cost of services - others	32	8,004,205	7,015,906
Distribution costs	33	41,085	44,906
Administrative expenses	34	229,990	226,108
		<u>8,275,280</u>	<u>7,286,920</u>

5.8 Following fixed assets were disposed off during the year:

Description	Sold to	Method of disposal	Cost	Accumulated Depreciation	Net book value	Sale proceeds
-----Rupees in '000-----						
Motor vehicles to employees						
Toyota Corolla	Mr. M F Ansari	As per Group policy	1,000	900	100	1
Honda City	Mr. Abdul Qadir	-----do-----	846	761	85	85
Honda City	Mrs. Ghazala Rashid	-----do-----	846	761	85	85
Honda City	Mr. Sher M Jamali	-----do-----	846	761	85	85
Toyota Corolla	Mr. M Kamal Alam Siddiqui	-----do-----	887	532	355	900
Honda City	Mr. Syed Jawed Kamran	-----do-----	858	467	391	435
Toyota Corolla	Mr. L.T. Col. Moen Rauf	-----do-----	1,094	386	708	720
Toyota Corolla	Mr. Ali Gul Kalhoro	-----do-----	1,094	451	643	830
Toyota Corolla	Mr. M Haneef Pathan	-----do-----	1,197	359	838	694
Toyota Corolla	Mr. Sohail Mahmood	-----do-----	1,068	160	908	619
Honda City	Mr. Mazhar Zaidi Kayani	-----do-----	795	716	79	79
Honda City	Mr. Asad Afridi	-----do-----	885	797	88	88
			<u>11,416</u>	<u>7,051</u>	<u>4,365</u>	<u>4,621</u>
Aggregate value of other items where NBV is above Rs 50,000 - Various*			5,401	4,805	596	3,122
Aggregate value of items where NBV is less than Rs 50,000 - Various			41,008	38,309	2,699	3,048
Total		2011	<u>57,825</u>	<u>50,165</u>	<u>7,660</u>	<u>10,791</u>
		2010	<u>110,352</u>	<u>93,777</u>	<u>16,575</u>	<u>22,363</u>

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

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

5.9 Capital work-in-progress

	Buildings	Other equipment	Advance to suppliers	Total
-----Rupees in '000-----				
Year ended December 31, 2010				
Balance as at January 1, 2010	121,597	358,185	313,494	793,276
Additions during the year	161,909	518,342	119,981	800,232
Transfer to operating assets	(13,488)	(225,211)	(225,663)	(464,362)
Balance as at December 31, 2010	<u>270,018</u>	<u>651,316</u>	<u>207,812</u>	<u>1,129,146</u>
Year ended December 31, 2011				
Balance as at January 1, 2011	270,018	651,316	207,812	1,129,146
Additions during the year	44,788	181,362	1,184,914	1,411,064
Transfer to operating assets	(10,767)	(727,660)	(405,077)	(1,143,504)
Balance as at December 31, 2011	<u>304,039</u>	<u>105,018</u>	<u>987,649</u>	<u>1,396,706</u>

6. INTANGIBLES

	Note	Computer software	Goodwill	Total
-----Rupees in '000 -----				
As at December 31, 2009				
Cost		275,701	2,734,460	3,010,161
Less: accumulated amortisation		(183,693)	-	(183,693)
Net book value		<u>92,008</u>	<u>2,734,460</u>	<u>2,826,468</u>
Year ended December 31, 2010				
Opening net book value		92,008	2,734,460	2,826,468
Additions during the year		-	-	-
Translation adjustment		-	52,474	52,474
Amortisation charge for the year	6.1	(22,563)	-	(22,563)
Net book value		<u>69,445</u>	<u>2,786,934</u>	<u>2,856,379</u>
As at December 31, 2010				
Cost		275,701	2,786,934	3,062,635
Less: accumulated amortisation		(206,256)	-	(206,256)
Net book value		<u>69,445</u>	<u>2,786,934</u>	<u>2,856,379</u>
Year ended December 31, 2011				
Opening net book value		69,445	2,786,934	2,856,379
Additions during the year		3,314	-	3,314
Translation adjustment		-	134,123	134,123
Amortisation charge for the year	6.1	(19,826)	-	(19,826)
Net book value		<u>52,933</u>	<u>2,921,057</u>	<u>2,973,990</u>
As at December 31, 2011				
Cost		279,015	2,921,057	3,200,072
Less: accumulated amortisation		(226,082)	-	(226,082)
Net book value		<u>52,933</u>	<u>2,921,057</u>	<u>2,973,990</u>
Useful Life		<u>3-10 years</u>		
	Note		2011	2010
-----Rupees in '000 -----				
6.1	Amortisation charge for the year has been allocated as under:			
	Cost of services - others	32	1,967	2,576
	Distribution costs	33	50	1,110
	Administrative expenses	34	17,809	18,877
			<u>19,826</u>	<u>22,563</u>

	Note	2011	2010
----- Rupees in '000 -----			
7. LONG-TERM INVESTMENTS			
Associate	7.1 & 7.2	61,744	60,253
Other investments	7.3	24,344	29,462
		<u>86,088</u>	<u>89,715</u>

7.1 Movement in investment in Associate - unquoted			
As at January 1		60,253	59,138
Share of loss during the year		(790)	(486)
		<u>59,463</u>	<u>58,652</u>
Translation adjustment		2,281	1,601
As at December 31		<u>61,744</u>	<u>60,253</u>

7.2 Associate - unquoted

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

	Name of associate	Country of incorporation	Total assets	Total liabilities	Revenue	Loss	Interest held (%)
----- Rupees in '000 -----							
2011	Minhal Incorporated	British Virgin Islands	165,393	3,028	1	(1,609)	40%
2010	Minhal Incorporated	British Virgin Islands	161,407	3,184	7	(1,301)	40%

7.3 Other investments

	Note	2011	2010
----- Rupees in '000 -----			
Available for sale	7.3.1	24,344	29,462
Held to maturity	7.3.2	-	-
		<u>24,344</u>	<u>29,462</u>
7.3.1 Available for sale			
Quoted			
Pakistan Services Limited			
172,913 (2010: 172,913) ordinary shares of Rs 10 each			
having market value per ordinary share of Rs 138.65			
(2010: Rs 168.25) each		23,975	29,093
Unquoted			
Pakistan Tourism Development Corporation Limited			
10,000 (2010: 10,000) ordinary shares of Rs 10 each		100	100
Duty Free Shops (Private) Limited - Pakistan			
87,512 (2010: 87,512) ordinary shares of Rs 100 each		269	269
		<u>24,344</u>	<u>29,462</u>
7.3.2 Held to maturity			
Promissory notes issued by the Nigerian Government		-	7,289
Less: current maturity	16	-	(7,289)
		<u>-</u>	<u>-</u>

This represents two promissory notes, issued by the Nigerian Government on May 8, 1988, amounting to US\$ 1.32 million and US\$ 2.94 million. These were issued in consideration of bank balance of the 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. These promissory notes were redeemed during the year.

	Note	2011	2010
		----- Rupees in '000 -----	
8. RECEIVABLE FROM CENTRE HOTEL			
	8.1	679,487	648,116

8.1 This represents PIAL's share of net current assets of Centre Hotel, Abu Dhabi, a joint venture between the 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 the Holding company under both the agreements were assigned to Shaikh Khalifa and PIAL respectively, however, the assignment to PIAL was not registered.

The joint venture was for a period of 17 1/2 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 Shaikh 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 Shaikh 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 various arbitration hearings have been held during the year, wherein, parties have made submissions. On October 6, 2011, the Arbitrator appointed a panel of three experts from the Ministry of Justice. The experts' panel is currently considering the submissions by both the parties. Subsequent to year end an arbitration hearing was held on March 7, 2012 wherein the experts' panel submitted two reports to the Judge Arbitrator, according to which the panel's chairman and another expert (i.e. two out of three experts) have determined PIAL's claim to be Rs 1,142 million (AED 46.8 million), while the third appraiser has determined PIAL's claim to be Rs 54 million (AED 2.3 million). Upon submission of experts' report the Judge Arbitrator has allowed both the parties to submit their comments by April 11, 2012. The management of PIAL is of the view that the matter will be decided in its 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 statements are not available.

	Note	2011	2010
		----- Rupees in '000 -----	
9. LONG-TERM LOANS AND ADVANCES			
Secured, considered good			
Employees	9.1	23,057	20,821
Current maturity shown under short-term loans and advances	13	(7,650)	(6,714)
		15,407	14,107
Unsecured, considered doubtful			
Midway House (Private) Limited		82,476	82,476
Provision for doubtful advances		(82,476)	(82,476)
		-	-
		15,407	14,107

- 9.1 This represents loans given by SRL to its employees which are secured against gratuity fund balances of respective employees. The loans carry interest rate of 8% to 20% (2010: 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 24.660 million (2010: Rs 22.243 million).

	Note	2011	2010
----- Rupees in '000 -----			
10. LONG-TERM DEPOSITS AND PREPAYMENTS			
Deposits			
Aircraft fleet lease deposits		3,479,587	3,319,214
Maintenance reserve	10.1	4,292,547	4,409,175
Engine maintenance		81,851	72,072
Rent		81,231	67,420
Other lease and utilities		57,414	18,955
Aircraft fuel		11,730	9,240
Guarantee deposit		21,891	21,104
Others		154,500	151,152
		<u>8,180,751</u>	<u>8,068,332</u>
Prepayments			
Finance charges		48,724	60,850
Rental commission		13,816	18,508
Premium on acquisition of leased land	10.2	50,778	50,778
Less: amortisation to date		(18,619)	(16,926)
		32,159	33,852
Exposure fee to support financing	10.3	1,227,831	1,452,131
		1,322,530	1,565,341
Current portion shown under short-term prepayments	14.1	(224,300)	(224,300)
		<u>9,278,981</u>	<u>9,409,373</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. 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.

- 10.2 This represents prepaid lease payments made by SRL to Pakistan CAA for acquisition of the right to use plot of land and hotel building which are amortised over a 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 SRL and Pakistan CAA in their meeting held on January 7, 2008. However, the subject agreement has not yet been registered due to disagreement between the parties over the completion of certain legal formalities. SRL is currently pursuing the subject matter with relevant government authorities and is confident that after resolution of the disputed matter between the parties, the lease agreement will be registered.

Amortisation charge for the year has been allocated as under:

	Note	2011	2010
----- Rupees in '000 -----			
Cost of services - others	32	1,608	1,608
Administrative expenses	34	85	85
		<u>1,693</u>	<u>1,693</u>

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

	Note	2011	2010
----- Rupees in '000 -----			
11. STORES AND SPARES			
Stores		890,835	867,722
Spare parts		5,707,043	5,526,969
Inventory held for disposal - adjusted to net realisable value		<u>252,859</u>	<u>252,859</u>
		6,850,737	6,647,550
Provision for slow moving and obsolete spares	11.1	<u>(2,959,535)</u>	<u>(2,836,293)</u>
		3,891,202	3,811,257
Stores and spares-in-transit		4,630	62,416
		<u>3,895,832</u>	<u>3,873,673</u>
11.1 Movement in provision is as follows:			
Balance at the beginning of the year		2,836,293	2,662,295
Provision for the year	35	123,242	173,998
Balance at the end of the year		<u>2,959,535</u>	<u>2,836,293</u>
12. TRADE DEBTS			
Considered good		8,936,690	8,788,214
Considered doubtful		961,301	942,814
Less: provision for doubtful debts	12.1	<u>(961,301)</u>	<u>(942,814)</u>
		-	-
		<u>8,936,690</u>	<u>8,788,214</u>

The ageing analysis of these trade debts are as follows:

	2011		2010	
	Trade debts gross	Impaired	Trade debts gross	Impaired
-----Rupees in '000-----				
Within current year	8,636,405	43,197	8,523,336	193,166
1 year old	322,065	107,486	485,645	262,788
2 years old	418,864	265,656	43,564	12,226
Over 3 years old	520,657	512,347	678,483	465,767
General provision	-	32,615	-	8,867
	<u>9,897,991</u>	<u>961,301</u>	<u>9,731,028</u>	<u>942,814</u>

	Note	2011	2010
----- Rupees in '000 -----			

- 12.1 Movement in provision is as follows:

Balance at the beginning of the year		942,814	640,326
Written off during the year		(115,421)	(59,353)
Provision for the year - net	35	132,426	361,697
Exchange translation		1,482	144
Balance at the end of the year		<u>961,301</u>	<u>942,814</u>

12.2 Certain portion of trade debt of the Holding company 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	2011	2010
		----- Rupees in '000 -----	
13. SHORT-TERM LOANS AND ADVANCES			
Loans - unsecured			
Current maturity of long-term loans - employees	9	7,650	6,714
Advances - secured			
Due from related parties		4,315	3,924
		<u>11,965</u>	<u>10,638</u>
Others			
Employees		178,888	257,111
Suppliers		132,765	183,025
Others		5,815	5,940
		<u>317,468</u>	<u>446,076</u>
Considered doubtful			
Suppliers		55,339	31,915
Provision for doubtful advances	13.1	(55,339)	(31,915)
		<u>-</u>	<u>-</u>
		<u>329,433</u>	<u>456,714</u>
13.1 Movement in provision is as follows:			
Balance at the beginning of the year		31,915	31,915
Provision for the year	35	23,424	-
Balance at the end of the year		<u>55,339</u>	<u>31,915</u>
14. TRADE DEPOSITS AND PREPAYMENTS			
Trade deposits		44,311	133,121
Prepayments	14.1	1,260,957	1,463,679
		<u>1,305,268</u>	<u>1,596,800</u>
14.1 Prepayments			
Current portion of long-term prepayments	10	224,300	224,300
Real estate taxes		350,511	310,416
Commission		317,775	588,446
Interest on leased aircraft		148,188	142,480
Insurance		116,952	112,932
Rent		34,089	7,312
Others		69,142	77,793
		<u>1,260,957</u>	<u>1,463,679</u>

	Note	2011	2010
		----- Rupees in '000 -----	
15. OTHER RECEIVABLES			
Considered good			
Claims receivable		71,751	319,300
Excise duty	30.1 (a)	100,000	100,000
Sales tax receivable		1,595,090	460,990
Receivables from PCB	15.1	66,002	62,979
Rental income	15.2	61,520	61,687
Receivables from GoP	15.3	332,809	332,809
Others	15.4	196,301	100,242
		<u>2,423,473</u>	<u>1,438,007</u>
Considered doubtful		177,077	177,077
Provision for doubtful other receivables	15.5	(177,077)	(177,077)
		-	-
		<u>2,423,473</u>	<u>1,438,007</u>

15.1 This represents receivable from Pakistan Cricket Board (PCB) on account of various payments made by PIAIL during the calendar years 1980 to 1981 and 2008 in accordance with 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 materialise 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 of the Holding 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 the Holding company. 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 order to settle PIAIL's aforesaid outstanding amount, PCB and PIAIL, in 2007, had entered into a Joint Venture Agreement, whereby, it was agreed that PCB would transfer a parcel of land measuring 5.8 acres to a new company with ownership ratio of 62.5% and 37.5% to be held by PIAIL and PCB respectively. According to the aforesaid joint venture agreement a property appraiser had determined the value of said parcel of land at Rs 3,500 million (US\$ 38.9 million). In accordance with the terms of aforesaid Joint Venture Agreement a NEWCO, Avant Hotels (Private) Limited (Avant) was incorporated as a private limited company on February 11, 2008. A sub-lease agreement dated March 17, 2008 was entered into between PCB and Avant for the said parcel of land for a period of 71 years. However, to date the sub-lease for the land has not been registered. The negotiations with PCB to agree on the transfer of land and other modalities of the project are in process.

The management considers that the project would materialise and the land would be registered in the name of Avant and accordingly amount presently receivable from PCB would eventually be settled.

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:

	2011	2010
	----- Rupees in '000 -----	
Not later than 1 year	207,567	227,724
Later than 1 year but not later than 5 years	646,427	774,921
Later than 5 years	300,820	273,160
	<u>1,154,814</u>	<u>1,275,805</u>

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

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

	Note	2011	2010
		----- Rupees in '000 -----	
15.5	Movement in provision is as follows:		
		177,077	168,810
	35	-	8,267
		<u>177,077</u>	<u>177,077</u>

16. SHORT-TERM INVESTMENTS

At fair value through profit or loss

Bred Institution

34 (2010: 35) Ordinary shares

16.1	157,430	158,050
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Available for sale

Unquoted

SITA INC N.V.

325,491 (2010: 325,491) Ordinary shares

16.2	19,220	19,220
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Provision for diminution in value of investment

16.3	-	(880)
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	19,220	18,340
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Loans and receivables

Certificate of deposits

16.4	418,099	1,122,358
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Held to maturity

Current portion of long-term investment

7.3.2	-	7,289
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	<u>594,749</u>	<u>1,306,037</u>
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16.1 This represents 34 (2010: 35) Bred Institution Shares held by MFSA. The cost of these securities is US\$ 1,742,843 (2010: US\$ 1,839,148).

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

	2011	2010
	----- Rupees in '000 -----	
16.3	Movement in provision is as follows:	
	880	1,222
	(880)	(342)
	<u>-</u>	<u>880</u>

16.4 These carry a mark-up rate of 0.30% to 1.50% per annum and will mature latest by June 3, 2012.

	Note	2011	2010
		----- Rupees in '000 -----	
17. CASH AND BANK BALANCES			
In hand		21,001	24,144
In transit		59,495	11,493
		80,496	35,637
With banks:			
- in current accounts	17.2	1,515,369	1,100,715
- in deposit accounts	17.1 & 17.2	1,644,078	4,439,220
		3,159,447	5,539,935
		<u>3,239,943</u>	<u>5,575,572</u>

17.1 These carry interest ranging from 0.125% to 5% (2010: 0.125% to 12%) per annum.

17.2 These include restricted balances aggregating Rs 700.703 million (2010: 1,181.684 million) maintained in escrow accounts by RHC against the loans of RHC.

18. SHARE CAPITAL

2011	2010	Note	2011	2010
----- No. of shares -----			----- Rupees in '000 -----	
		<u>Authorised capital</u>		
		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
<u>3,000,750,000</u>	<u>3,000,750,000</u>		<u>30,000,000</u>	<u>30,000,000</u>
		<u>Issued, subscribed and paid-up share capital</u>		
		Ordinary share capital		
		'A' class shares of Rs 10 each		
2,642,351,957	2,341,879,318	Issued for consideration in cash	26,423,519	23,418,793
		Issued for consideration other than cash		
931,028	931,028	- for acquisition of shares	9,310	9,310
233,934,482	233,934,482	Issued as bonus shares	2,339,345	2,339,345
<u>2,877,217,467</u>	<u>2,576,744,828</u>		28,772,174	25,767,448
		'B' class shares of Rs 5 each		
1,003,374	1,003,374	Issued for consideration in cash	5,017	5,017
		Issued for consideration other than cash		
2,625	2,625	- for acquisition of shares	13	13
494,000	494,000	Issued as bonus shares	2,470	2,470
<u>1,499,999</u>	<u>1,499,999</u>		7,500	7,500
			<u>28,779,674</u>	<u>25,774,948</u>

	Note	2011	2010
---- No. of Shares ----			
18.1			
Reconciliation of number of 'A' class Ordinary shares of Rs 10 each:			
		2,576,744,828	2,327,285,584
		<u>300,472,639</u>	<u>249,459,244</u>
	18.3	<u>2,877,217,467</u>	<u>2,576,744,828</u>

18.2 At December 31, 2011, the GoP held 2,435,208,439 'A' class ordinary shares and 1,462,515 'B' class ordinary shares respectively (2010: 2,134,735,800 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively).

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

	Note	2011	2010
----- Rupees in '000 -----			
19.			
RESERVES			
Capital reserves			
		1,966,779	1,966,779
		250,000	250,000
		284,259	284,259
		<u>2,501,038</u>	<u>2,501,038</u>
		1,779,674	1,779,674
		<u>4,280,712</u>	<u>4,280,712</u>
		22,781	27,899
		(114,722,720)	(89,186,527)
		2,987,298	2,570,423
		11,249	573
		<u>(111,701,392)</u>	<u>(86,587,632)</u>
		<u>(107,420,680)</u>	<u>(82,306,920)</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 depreciation and excess proceeds over cost of relevant assets are recorded in the consolidated profit and loss account.

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

	2011	2010
----- Rupees in '000 -----		
As at January 1	33,904,096	60,281,807
Surplus / (deficit) arising on property, plant and equipment assets during the year"	<u>2,254,667</u>	<u>(24,128,070)</u>
	36,158,763	36,153,737
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"	(407,733)	(1,676,566)
- Related deferred tax liability	(201,721)	(918,409)
	(609,454)	(2,594,975)
Translation and other adjustments	1,085,622	345,334
	<u>36,634,931</u>	<u>33,904,096</u>
Less: related deferred tax liability on:		
- Revaluation as at January 1	12,844,671	21,414,610
Surplus / (deficit) arising on property, plant and equipment assets during the year"	759,597	(7,831,114)
- Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax"	(201,721)	(918,409)
- Translation and other adjustments	545,065	179,584
	<u>13,947,612</u>	<u>12,844,671</u>
	<u>22,687,319</u>	<u>21,059,425</u>
Acquisition of non controlling interest	167,270	-
As at December 31	<u>22,854,589</u>	<u>21,059,425</u>

21. LONG-TERM FINANCING

Financier	Note	Type of facility	Facility amount (million)	Repayment period	Number of installments / mode	Mark-up	2011 ----- Rupees in '000-----	2010 ----- Rupees in '000-----
Secured - from Banking Companies								
Holding Company								
Citibank, N.A.	21.1	Demand Finance	82 USD	2006 - 2017	20 Half-yearly	5.28% fixed	3,795,958	4,321,159
Citibank, N.A.	21.2	Islamic Finance	USD 75 & AED 91.825	2011 - 2014	30 Monthly	3 month LIBOR + 4.25% & 3 month EIBOR + 3.75%	8,994,570	-
Faysal Bank Limited	21.3	Term Finance	2,000 PKR	2013 - 2016	36 Monthly	6 month KIBOR + 1.75%	2,000,000	-
HSBC Bank Middle East Limited		Demand Finance	850 PKR	2010 - 2011	17 Monthly	3 month KIBOR +0.90%	-	450,000
National Bank of Pakistan - Bahrain	21.4	Syndicate Finance	120 USD	2013	Bullet	Note 21.4	10,793,484	10,296,000
National Bank of Pakistan - Bahrain	21.5	Term Finance	70 USD	2010 - 2012	24 Monthly	1 month LIBOR +5.50%	2,098,733	4,754,750
National Bank of Pakistan - Bahrain	21.5	Demand Finance	30 USD	2010 - 2012	24 Monthly	1 month LIBOR +5.50%	1,124,321	2,359,500
National Bank of Pakistan - Bahrain	21.6	Demand Finance	USD 40 & SAR 75	2011 - 2013	24 Monthly	1 month LIBOR + 5.25% & 1 month SIBOR + 5.25%	3,282,992	1,287,000
Royal Bank of Scotland - Netherland	21.7	Demand Finance	59.5 USD	2009 - 2013	19 Quarterly	3 month LIBOR +1.60%	2,131,844	3,078,475
Standard Chartered Bank (Pakistan) Limited		Syndicate Finance	3,600 PKR	2009 - 2011	22 Monthly	1 month KIBOR +1.25%	-	163,271
PIAIL								
JP Morgan Chase	21.8 to 21.10	Loan	75 USD	2011-2014	Variable	1 month LIBOR + 5.85%	6,609,924	8,291,767
JP Morgan Chase	21.8 to 21.10	Mezzanine Finance	56.5 USD	2011-2014	Variable	1 month LIBOR + 5.85%	4,979,476	5,148,000
Hong Kong Banking Shanghai Corporation	21.11 to 21.14	Loan	28.867 Euro	2004-2017	Variable	3 months EURIBOR + 1.15%	2,122,371	2,417,756
Abacus Abacus International (Pte) Ltd (AIPL)	21.15	Loan	0.75 USD	2006 - 2013	Monthly	-	17,423	63,675
Unsecured- Holding Company								
Long-term loan - GoP	21.16	Term Finance	8,000 PKR	2011-2020	16 Half-yearly	10% Fixed	8,000,000	8,000,000
Current maturity shown under current liabilities							55,951,096	50,631,353
							(11,317,288)	(21,176,940)
							44,633,808	29,454,413

- 21.1 The finance is secured by way of:
- Mortgage over each of the seven ATR aircraft purchased; and
 - European Credit Agencies / GoP Guarantee.
- 21.2 The finance is secured against all the present and future receivables of the Holding company generated through sale of tickets in United Arab Emirates and United States of America.
- 21.3 The finance is secured by way of unconditional and irrevocable GoP guarantee. The first installment of principal is due in June 2013.
- 21.4 The following are the participating banks:
- National Bank of Pakistan - Bahrain (NBP); and
 - Habib Bank Limited (HBL).
- This finance is secured by way of GoP Guarantee. Initially it was carrying mark-up at the rate of 3 months LIBOR + 1.325 %. On January 15, 2010, the finance was renegotiated for additional three years at following mark-up rates:
- NBP - 3 months LIBOR + 3.60%; and
 - HBL - 3 months LIBOR + 3.25%
- 21.5 These are secured against all the present and future receivables generated from the sale of tickets in United Kingdom.
- 21.6 The finance is secured against all the present and future receivables generated from the sale of tickets in United Kingdom and Kingdom of Saudi Arabia.
- 21.7 The Holding company has entered into an arrangement with the bank to finance 15% of the purchase price of two B 777-300 aircraft acquired from Boeing Company. The finance is secured by GoP Guarantee.
- 21.8 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 had exercised all three options thereby finally extending the maturity date to November 9, 2011. The security on these loans included RHC's property and equipment and required an annual interest at 1 month LIBOR plus a spread as defined in the agreement (1.65% for 2011 and 2010). During the year, such loans have been settled.
- 21.9 On November 9, 2011, RHC entered into a loan agreement and two mezzanine loan agreements amounting to US\$ 75,000,000 and US\$ 56,500,000 respectively, aggregating to US\$ 131,500,000. The proceeds of these loans were primarily used to settle the then outstanding loans (note 21.8). All loans shall mature on November 9, 2014. These loans are secured by, amongst other things, RHC's property and equipment.
- 21.10 On the same date, RHC entered into an interest rate cap agreement on its new loan with the intent to manage interest rate exposure. This interest rate cap agreement, with an aggregate notional amount of US\$ 131,500,000, expires on November 15, 2014, which caps the variable rate debt at a rate of 4.40% per annum. The cost of the interest rate cap was US\$ 186,120.

- 21.11 This includes original loan amounts of Euro 12,000,000 and Euro 16,267,353. The loan amount of Euro 12,000,000 was obtained on March 8, 2004 for renovation works whereas loan amount of Euro 16,267,353 was refinanced on March 20, 2008 with an additional loan of Euro 600,000 obtained at that time. The refinanced loan was initially obtained to partially finance the acquisition of Scribe Gestion and Canadian National France.
- 21.12 The loans stated in note 21.11 above are secured by mortgage on the building located at 1 rue Scribe amounting to Euro 16,867,353 plus 10% for associated costs and Euro 12,000,000 plus 10% for associated costs. There is a first ranking pledge of MFSA's goodwill 'Fonds de Commerce' for a total amount of Euro 12,000,000 plus 10% related to associated costs and a third ranking pledge of MFSA's goodwill 'Fonds de Commerce' for a total amount of Euro 16,867,353 plus 10% related to associated costs. The Banks also hold a pledge on MFSA's cash account. Further, pooled-receivables bank-factoring guarantees for rental of all or part of the building and general insurance policies (in relation to loss of earnings and damage to properties) have also been granted.
- 21.13 During the year 2007, MFSA had entered into an interest rate cap agreement for the loan amount of Euro 12,000,000 with the intent of managing its exposure to interest rate risk. This interest rate cap agreement, with the same notional amount covered by the loan shall expire on May 13, 2017 and effectively caps the variable rate debt at a maximum rate of 5% per annum. The cost of interest rate cap was Euro 160,072. MFSA entered into this contract with a large financial institution and considers the risk of non-performance to be remote.
- 21.14 Further during the year 2008, MFSA had entered into another interest rate cap agreement for the loan amount of Euro 16,267,353 with the intent of managing its exposure to interest rate risk. This interest rate cap agreement, with the same notional amount covered by the loan shall expire on May 13, 2017 and effectively caps the variable rate debt at a maximum rate of 5% per annum. The cost of interest rate cap was Euro 151,806. MFSA entered into this contract with a large financial institution and considers the risk of non-performance to be remote.
- 21.15 This represents balance amount of interest free loan amounting to US\$ 750,000 given by AIPL. The loan is repayable in monthly installments commencing from October 2006. Abacus shall not be entitled to declare any dividend, so long as any installment of the loan remains outstanding.
- 21.16 The Holding company has not paid the principal installment due on October 23, 2011 amounting to Rs 125 million. The overdue amount is included in current maturity.

22. TERM FINANCE AND SUKUK CERTIFICATES

	Note	Security	Repayment period	Number of installments	Mark-up	2011 -----Rupees in '000-----	2010
Term finance certificates	22.1	GoP Guarantee	2009- 2014	10 half yearly	6 month KIBOR +0.85%	12,789,760	12,792,320
Sukuk certificates	22.2	GoP Guarantee	2012 - 2014	6 half yearly	6 month KIBOR +1.75%	6,800,000	6,800,000
						19,589,760	19,592,320
Less: current maturity	22.3					(8,664,107)	(2,135,040)
						<u>10,925,653</u>	<u>17,457,280</u>

- 22.1 The Holding company has not made payment of principal redemption amount of Rs 2,132.480 million due on August 20, 2011 as per repayment schedule. The management applied for restructuring of TFCs prior to the due date and the Trustee on behalf of the TFC investors has not notified any event of default to the Holding company. The restructuring process with a consortium of TFC investors is at advanced stage and it will also include restructuring of Sukuks and certain short-term borrowings.
- 22.2 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.
- 22.3 This includes current maturity of the TFC and Sukuk certificates related to the principal redemption including an overdue installment as disclosed in note 22.1.

	Note	2011	2010
----- Rupees in '000 -----			
23. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Present value of minimum lease payments - aircraft fleet			
A-310-300	23.2	4,148,457	4,678,479
B-777 -200 ER	23.3	11,299,637	13,529,684
B-777 -200 LR	23.4	13,338,943	14,624,564
B-777 -300 ER	23.5	27,606,252	29,492,858
		<u>56,393,289</u>	<u>62,325,585</u>
Present value of minimum lease payments on equipment		28,281	48,323
		<u>56,421,570</u>	<u>62,373,908</u>
Less: current maturity		(9,070,002)	(8,616,313)
		<u>47,351,568</u>	<u>53,757,595</u>

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

	2011			2010		
	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	11,071,397	2,001,395	9,070,002	10,750,464	2,134,151	8,616,313
Later than one year and not later than five years	39,909,206	3,894,802	36,014,404	42,068,031	5,304,650	36,763,381
Later than five years	11,652,354	315,190	11,337,164	17,781,957	787,743	16,994,214
	<u>62,632,957</u>	<u>6,211,387</u>	<u>56,421,570</u>	<u>70,600,452</u>	<u>8,226,544</u>	<u>62,373,908</u>

23.2 In 2003, the Holding company entered into aircrafts 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 exercised during the year in November 2011 resulting in reduced aggregate lease rentals of US\$ 60,000 per month recorded as contingent rent. The salient features of the lease are as follows:

	2011	2010
Discount rate	5.2%	5.2%
Lease period	144 months	144 months
Security deposits (Rupees in '000)	291,424	277,992
Contingent rent (Rupees in '000)	(90,525)	(112,161)

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

	2011	2010
Discount rate - two aircraft	4.65%	4.65%
Discount rate - one aircraft and propulsor	Three month LIBOR	Three month LIBOR
Lease period - aircraft	144 months	144 months
Lease period - spare engine and propulsor	96 months	96 months
Security deposits (Rupees in '000)	853,081	813,761
Contingent rent (Rupees in '000)	(36,314)	(43,158)

23.4 During the year 2006, the Holding company arranged an Ex-Im Bank guaranteed financing of US\$ 266 million to acquire two Boeing B 777-200 LR 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:

	2011	2010
Discount rate - aircraft and propulsor	Three month LIBOR - 0.02%	Three month LIBOR - 0.02%
Lease period - aircrafts	144 months	144 months
Lease period - propulsor	96 months	96 months
Security deposits (Rupees in '000)	688,608	656,869
Contingent rent (Rupees in '000)	(702,059)	(779,457)

23.5 During the year 2006, the Holding company arranged an Ex-Im Bank guaranteed financing of US\$ 472 million to acquire three Boeing B 777-300 ER 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:

	2011	2010
Discount rate - one aircraft	5.25%	5.25%
Discount rate - two aircraft	Three month LIBOR - 0.04%	Three month LIBOR - 0.04%
Discount rate - spare engine	1.12%	1.12%
Lease period - aircraft	144 months	144 months
Lease period - spare engine	96 months	96 months
Security deposits (Rupees in '000)	1,383,923	1,320,136
Contingent rent (Rupees in '000)	(182,159)	(192,655)

23.6 The Holding company has an option to acquire the ownership of the aircraft and engine mentioned in notes 23.2 to 23.5, at the end of lease term.

	Note	2011	2010	
----- Rupees in '000 -----				
24.	LONG-TERM DEPOSITS			
	Deposits from agents	182,250	182,300	
	Retention money	262,415	201,841	
	Others	152	152	
		<u>444,817</u>	<u>384,293</u>	
25.	DEFERRED TAXATION			
	Roosevelt Hotel Corporation N.V.	25.1	9,221,921	9,639,158
	Minhal France S.A.	25.2	5,965,219	5,735,453
	Skyrooms (Private) Limited	25.3	2,290	5,493
	Abacus Distribution Systems Pakistan (Private) Limited - accelerated depreciation		141	921
	Holding company	25.4	-	-
			<u>15,189,571</u>	<u>15,381,025</u>
	The components of the net deferred tax liability are as follows:			
25.1	Roosevelt Hotel Corporation N.V.			
	Deferred tax credit:			
	Revaluation of hotel property	9,575,688	10,028,088	
	Deferred tax debits:			
	Excess of tax over book depreciation	(232,817)	(295,093)	
	Allowance for doubtful debts	(14,337)	(3,898)	
	Accrued vacation	(106,613)	(89,939)	
		<u>(353,767)</u>	<u>(388,930)</u>	
	Net deferred tax liability	<u>9,221,921</u>	<u>9,639,158</u>	
25.2	Minhal France S.A.			
	Deferred tax credits:			
	Excess of book value over tax depreciation	2,440,337	2,460,566	
	Revaluation of hotel property	3,514,624	3,266,075	
	Provision for major repairs	19,585	19,293	
		<u>5,974,546</u>	<u>5,745,934</u>	
	Deferred tax debit:			
	Employees pension plan	(9,327)	(10,481)	
	Net deferred tax liability	<u>5,965,219</u>	<u>5,735,453</u>	
25.3	Skyrooms (Private) Limited			
	Deferred tax credits:			
	Accelerated tax depreciation	10,844	11,127	
	Lease land acquisition premium	11,256	11,847	
		<u>22,100</u>	<u>22,974</u>	
	Deferred tax debits:			
	Provision against trade debts	(732)	(600)	
	Provision for gratuity	(19,078)	(16,881)	
		<u>(19,810)</u>	<u>(17,481)</u>	
		<u>2,290</u>	<u>5,493</u>	

		2011	2010
		----- Rupees in '000 -----	
25.4	Holding company		
	Deferred tax credits:		
	Accelerated tax depreciation	23,239,832	23,379,080
	Surplus on revaluation of operating fixed assets	1,329,032	-
		<u>24,568,864</u>	<u>23,379,080</u>
	Deferred tax debits:		
	Unused tax losses	(19,491,009)	(19,270,487)
	Provisions for liabilities and to write down other assets	(5,077,855)	(4,108,593)
		<u>(24,568,864)</u>	<u>(23,379,080)</u>
		-	-

25.4.1 In accordance with the accounting policy of the Holding company (note 4.9), deferred tax asset of Rs. 35,553 million (2010: Rs. 27,093 million) has not been recognised in these consolidated financial statements due to uncertainty in availability of sufficient future taxable profits.

25.5 Movement in temporary differences during the year

	Balance as at January 1, 2010	Recognised in profit and loss	Translation and other adjustments	Recognised in equity	Balance as at December 31, 2010	Recognised in profit and loss	Translation and other adjustments	Recognised in equity	Balance as at December 31, 2011
----- Rupees in '000 -----									
Deferred tax credits:									
Accelerated tax depreciation	25,336,251	315,130	(94,781)	-	25,556,600	(152,589)	54,326	-	25,458,337
Surplus on revaluation of operating fixed assets	21,762,653	(934,364)	186,070	(7,720,195)	13,294,164	(214,844)	565,532	774,492	14,419,344
Amortisation of leasehold land acquisition premium	10,663	1,184	-	-	11,847	(591)	-	-	11,256
Provision for major repairs	20,413	-	(1,120)	-	19,293	-	292	-	19,585
	<u>47,129,980</u>	<u>(618,050)</u>	<u>90,169</u>	<u>(7,720,195)</u>	<u>38,881,904</u>	<u>(368,024)</u>	<u>620,150</u>	<u>774,492</u>	<u>39,908,522</u>
Deferred tax debits:									
Unused tax losses	(32,098,071)	12,827,584	-	-	(19,270,487)	(220,522)	-	-	(19,491,009)
Provisions for liabilities and to write down other assets	(2,949,093)	(1,280,049)	(1,250)	-	(4,230,392)	(991,864)	(5,686)	-	(5,227,942)
	<u>(35,047,164)</u>	<u>11,547,535</u>	<u>(1,250)</u>	<u>-</u>	<u>(23,500,879)</u>	<u>(1,212,386)</u>	<u>(5,686)</u>	<u>-</u>	<u>(24,718,951)</u>
	<u>12,082,816</u>	<u>10,929,485</u>	<u>88,919</u>	<u>(7,720,195)</u>	<u>15,381,025</u>	<u>(1,580,410)</u>	<u>614,464</u>	<u>774,492</u>	<u>15,189,571</u>

		Note	2011	2010
			----- Rupees in '000 -----	
26.	DEFERRED LIABILITIES			
	Post retirement medical benefits	26.1	4,648,297	3,690,387
	Pension obligation	26.2	4,525,892	2,669,520
	Unfunded staff retirement gratuity - SRL	26.3	54,508	48,233
			<u>9,228,697</u>	<u>6,408,140</u>
26.1	Post retirement medical benefits - Holding company			
	Liability recognised in the consolidated balance sheet			
	Present value of defined benefit obligation		4,648,297	3,690,387
	Movement in liability during the year			
	Balance at the beginning of the year		3,690,387	2,437,282
	Expense recognised		1,321,617	1,489,773
	Payments made during the year		(363,707)	(236,668)
	Balance at the end of the year		<u>4,648,297</u>	<u>3,690,387</u>
	Expense recognised in the consolidated profit and loss account			
	Current service cost		65,858	52,260
	Interest cost		473,652	390,639
	Net actuarial loss recognised		782,107	1,046,874
			<u>1,321,617</u>	<u>1,489,773</u>

26.2 Pension obligation - Holding company

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

	PALPA		FENA		MAIN PENSION		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010
----- Rupees in '000 -----								
Liability / (Asset) recognised								
Present value of defined benefit obligation	1,986,809	1,558,479	569,000	518,432	14,923,556	13,123,472	17,479,365	15,200,383
Fair value of plan assets	(1,861,421)	(1,745,383)	(1,018,064)	(877,207)	(10,073,988)	(9,908,273)	(12,953,473)	(12,530,863)
	125,388	(186,904)	(449,064)	(358,775)	4,849,568	3,215,199	4,525,892	2,669,520
Movement in the defined benefit obligation								
Obligation as at January 1	1,558,479	1,798,581	518,432	391,465	13,123,472	11,553,539	15,200,383	13,743,585
Service cost	37,975	31,785	6,819	5,776	355,640	297,672	400,434	335,233
Interest cost	202,635	214,014	67,461	58,006	1,707,955	1,573,159	1,978,051	1,845,179
Benefits paid	(114,958)	(145,761)	(37,445)	(36,512)	(943,904)	(1,046,845)	(1,096,307)	(1,229,118)
Actuarial loss / (gain)	302,678	(340,140)	13,733	99,697	680,393	745,947	996,804	505,504
Obligation as at December 31	1,986,809	1,558,479	569,000	518,432	14,923,556	13,123,472	17,479,365	15,200,383
Movement in fair value of plan assets								
Fair value as at January 1	1,745,383	1,720,493	877,207	691,491	9,908,273	9,656,556	12,530,863	12,068,540
Expected return on plan assets	228,825	220,950	116,165	100,004	1,279,289	1,247,258	1,624,279	1,568,212
Employer contributions	14,199	14,199	3,995	3,995	79,786	79,786	97,980	97,980
Benefits paid	(114,958)	(145,761)	(37,445)	(36,512)	(943,904)	(1,046,845)	(1,096,307)	(1,229,118)
Actuarial (loss) / gain	(12,028)	(64,498)	58,142	118,229	(249,456)	(28,482)	(203,342)	25,249
Fair value as at December 31	1,861,421	1,745,383	1,018,064	877,207	10,073,988	9,908,273	12,953,473	12,530,863
Expense recognised in profit and loss account								
Current service cost	37,975	31,785	6,819	5,776	355,640	297,672	400,434	335,233
Interest cost	202,635	214,014	67,461	58,006	1,707,955	1,573,159	1,978,051	1,845,179
Expected return on plan assets	(228,825)	(220,950)	(116,165)	(100,004)	(1,279,289)	(1,247,258)	(1,624,279)	(1,568,212)
Actuarial loss / (gain) recognised - net	314,706	(275,642)	(44,409)	(18,532)	929,849	774,429	1,200,146	480,255
	326,491	(250,793)	(86,294)	(54,754)	1,714,155	1,398,002	1,954,352	1,092,455
The plan assets comprise of:								
Equity instruments	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%	0.00%	0.00%
Debt instruments	12.85%	13.71%	55.45%	64.36%	8.25%	14.29%	25.52%	30.79%
Others including cash and cash equivalents	87.15%	86.29%	44.55%	35.64%	91.74%	85.70%	74.48%	69.21%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Actual return on plan assets	216,797	156,452	174,307	218,233	1,029,833	1,218,776	1,420,937	1,593,461

Historical Information

	2011	2010	2009	2008	2007
	-----Rupees in '000-----				
Pension Funds					
Present value of defined benefit obligation	17,479,365	15,200,383	13,743,585	11,294,000	10,241,000
Fair value of plan assets	(12,953,473)	(12,530,863)	(12,068,540)	(11,288,000)	(11,524,000)
Deficit / (surplus)	<u>4,525,892</u>	<u>2,669,520</u>	<u>1,675,045</u>	<u>6,000</u>	<u>(1,283,000)</u>
Experience adjustments arising on plan liabilities	<u>5.7%</u>	<u>3.3%</u>	<u>16%</u>	<u>-</u>	<u>3%</u>
Experience adjustments arising on plan assets	<u>1.6%</u>	<u>(0.2)%</u>	<u>(4)%</u>	<u>6%</u>	<u>1%</u>
Medical Scheme					
Present value of defined benefit obligation	4,648,297	3,690,387	2,437,282	1,425,000	1,426,000
Experience adjustments arising on plan liabilities	<u>16.8%</u>	<u>28.4%</u>	<u>39.2%</u>	<u>(5.4)%</u>	<u>0.3%</u>

Actuarial valuations of pension funds, post retirement medical benefit scheme and compensated absences were carried out at December 31, 2011. The valuations have been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2011	2010
Valuation discount rate	12.50%	13.50%
Salary increase rate	10.50%	11.00%
Pension indexation rate	3.00%	3.00%
Medical inflation rate	11.00%	10.00%
Expected rate of return on plan assets	12.50%	13.50%

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

	2011	2010
	-----Number-----	
26.2.1 Number of employees covered by the various scheme are as follows:		
Pension scheme	14,724	15,541
Post retirement medical benefit scheme	16,954	17,029
26.2.2 The fair value of plan assets of pension fund includes investment in the Holding company's shares, amounting to Rs 1.12 million (2010: Rs 1.28 million).		
26.2.3 The expected pension and medical expense for the next one year from January 1, 2012 amounts to Rs 976.287 million and Rs 669.113 million respectively. This is the amount which the Holding company has to contribute for the next one year.		
26.2.4 The total expense relating to Holding company's post retirement medical benefit and pension obligation has been allocated to cost of services, distribution expenses and administrative expenses in the amount of Rs 1,684.458 million (2010: Rs 1,649.753 million), Rs 797.987 million (2010: Rs 442.496 million) and Rs 793.524 million (2010: Rs 489.979 million) respectively.		
26.3 The scheme provides for post employee benefits for all permanent employees who complete qualifying period of five years of service with the company and are entitled to one months' last drawn basic salary for each completed year of service. Since the amount is not considered material to these consolidated financial statements, therefore detailed disclosures have not been presented. The expense recognised in consolidated profit and loss account amounts to Rs 11.776 million (2010: Rs 12.282 million).		

	Note	2011	2010
----- Rupees in '000 -----			
27. TRADE AND OTHER PAYABLES			
Trade creditors			
Goods		6,190,476	2,573,680
Services		4,102,748	2,307,048
Airport related charges		4,978,793	3,524,083
Others		347,134	385,039
		<u>15,619,151</u>	<u>8,789,850</u>
Other Liabilities			
Accrued liabilities	27.1	6,555,344	5,277,112
Advance against transportation (unearned revenue)		6,865,903	6,971,694
Obligation for compensated absences - Holding company	27.2	3,506,407	2,493,033
Unredeemed frequent flyer liabilities	27.3	1,610,507	1,283,440
Advance from customers		683,848	854,933
Amount due to associated undertaking	27.4	164,955	158,148
Advances and deposits		169,442	150,970
Earnest money		2,144	2,799
Payable to Holding company's employees' provident fund	27.5	3,378,726	2,445,330
Unclaimed dividend - preference shares		8,494	8,504
Collection on behalf of others		4,187,483	4,093,377
Customs and central excise duty		152,846	522,044
Capital value tax		2,832,283	936,163
Income tax deducted at source		244,433	124,817
Sales tax payable		5,076	3,620
Bed tax		2,432	3,385
Payable to EOBI/SESSI		447	395
Short-term deposits		321,887	255,375
Others		24,923	17,743
		<u>46,336,731</u>	<u>34,392,732</u>

27.1 This includes management fee payable to ACCOR amounting to Rs 31.553 million (2010: 28.171 million).

27.2 Obligation for compensated absences - Holding company

Liability recognised in the balance sheet

Balance at the beginning of the year	2,493,033	2,072,000
Expense recognised during the year	1,013,374	421,033
	<u>3,506,407</u>	<u>2,493,033</u>

27.2.1 Number of employees covered by the compensated absences are 16,954 (2010: 17,029). The assumptions used to determine the obligation for compensated absences are disclosed in note 26.2.1

27.2.2 The total expense relating to compensated absences has been allocated to cost of services, distribution expenses and administrative expenses in the amount of Rs 672.676 million (2010: Rs 268.539 million), Rs 156.032 million (2010: Rs 71.834 million) and Rs 184.666 million (2010: Rs 80.660 million) respectively.

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

- ticket inflation and discount rate at the rate of 12.5% (2010: 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.

27.4 This represents amount payable to Minhal Incorporated by PIAIL.

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

	Note	2011	2010
-----Rupees in '000-----			
28.	ACCRUED INTEREST		
	Mark-up / profit payable on:		
	- Long-term financing	2,303,419	1,247,376
	- Term finance certificates	667,689	642,462
	- Sukuk certificates	186,728	203,456
	- Short-term borrowings	614,517	391,249
	- Provident fund	954,672	611,621
		<u>4,727,025</u>	<u>3,096,164</u>
29.	SHORT-TERM BORROWINGS		
	Short-term loans - secured	21,390,191	14,324,975
	Running finance under mark-up arrangements	4,410,836	8,360,909
		<u>25,801,027</u>	<u>22,685,884</u>

29.1 Short-term loans - secured

Financier	Security	Facility amount (million)	Repayment Period	2011 -----Rupees in '000-----	2010
From Banking Companies					
Askari Bank Limited	GoP Guarantee	1,500 PKR	12 months	1,500,000	1,500,000
Faysal Bank Limited	GoP Guarantee and ranking hypothecation charge over all current assets	15 USD	-	-	1,287,000
KASB Bank Limited	GoP Guarantee	500 PKR	9 months	500,000	500,000
Habib Bank Limited	GoP Guarantee	2,000 PKR	12 months	2,000,000	2,000,000
Habib Bank Limited	GoP Guarantee	1,000 PKR	12 months	1,000,000	1,000,000
Habib Bank Limited	GoP Guarantee	1,600 PKR	12 months	1,600,000	1,600,000
Habib Bank Limited	GoP Guarantee	2,000 PKR	12 months	2,000,000	2,000,000
Habib Allied International Bank Limited - London	EURO receivables	9 USD	3 months	809,511	772,200
National Bank of Pakistan	Hypothecation of entire receivables, book debts, stocks and spares amounting to PKR 2,667 million and lien / specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi	2,000 PKR	12 months	1,880,680	-
National Bank of Pakistan	GoP Guarantee; ranking charge over current and fixed assets amounting to PKR 6,667 million; lien / specific right to set-off over receivables in connection account in NBP Airport Branch, Karachi; lien over receivables and cargo proceeds from UAE	5,000 PKR	12 months	5,000,000	-
National Bank of Pakistan	GoP Guarantee	1,500 PKR	12 months	1,500,000	1,500,000
National Bank of Pakistan	GoP Guarantee; ranking charge over current and fixed assets amounting to PKR 4,800 million; lien / specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi	3,600 PKR	12 months	3,600,000	-
National Bank of Pakistan - Bahrian	Charge over UK, Saudi Arabia, Bangladesh and Oman receivables	20 US\$	-	-	858,000
National Bank of Pakistan - Bahrian	Charge over UK and Saudi Arabia receivables	60 US\$	-	-	1,287,000
Abacus International (Pte) Ltd	-	-	-	-	20,775
				<u>21,390,191</u>	<u>14,324,975</u>

29.1.1 The borrowings in PKR carry mark-up with a spread of 0.85% to 2% over 1 month and 3 months KIBOR (2010: 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 2.25% over 3 months LIBOR (2010: a spread of 2.0% to 5.25% over 1 month and 3 months LIBOR / SIBOR).

29.2 Running finance under mark-up arrangements

Banks	Security	Facility amount (million)	Unavailed Credit (million)	Repayment period	2011 -----Rupees in '000-----	2010
Secured						
The Bank of Punjab	Ranking charge on present and future stocks and book debts of Mirpur Azad Jammu Kashmir (AJK) for PKR 1,000 million	550 PKR	4 PKR	On Demand	546,220	-
Habib Bank Limited	Hypothecation charge on all present and future spare parts, accessories of aircraft assets and on domestic receivables	350 PKR	94 PKR	12 months	256,168	95,879
Habib Allied International Bank Limited - London	EURO receivables	3 USD	-	On Demand	271,257	257,287
KASB Bank Limited	First pari passu charge on certain specific receivables amounting to PKR 533.33 million	400 PKR	2 PKR	12 months	397,768	400,000
National Bank Limited	First pari passu hypothecation charge of PKR 767 million on all present and future current assets and lien / specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi	575 PKR	2 PKR	12 months	572,750	1,474,122
Summit Bank Limited	Hypothecation charge on specific receivables of Mirpur Azad Kashmir Region	300 PKR	-	-	-	163,043
United Bank Limited - Karachi	Hypothecation charge of PKR 3,427 million on all present and future stocks and spares and assignment of receivables from Karachi and Lahore	2570 PKR	553 PKR	12 months	2,017,009	2,876,591
United Bank Limited - Dubai	First pari passu hypothecation, charge on all present and future current assets	22 USD	-	-	-	1,887,415
United Bank Limited - Bahrain	First pari passu hypothecation, charge on all present and future current assets	13 USD	-	-	-	1,112,192
Un-secured						
Habib American Bank	-	1.5 USD	0.6 USD	On Demand	79,827	94,380
Citibank N.A.	-	3 USD	0.1 USD	On Demand	269,837	-
					<u>4,410,836</u>	<u>8,360,909</u>

29.2.1 The borrowings in PKR carry mark-up with a spread of 2.0% to 2.5% over 1 month and 3 months KIBOR. Borrowings in US\$ 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% over 1 month LIBOR and 4% over US\$ Prime Rate.

30. CONTINGENCIES AND COMMITMENTS

30.1 Contingencies

- a) The tax department had raised demand of Rs 566.544 million (2010: Rs 566.544 million) as Federal Excise Duty (FED) along with penalty of Rs 1 million (2010: Rs 1 million) and additional duty of Rs 2,923.005 million (2010: 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 favour of the Holding company. Accordingly, no provision has been made in these consolidated financial statements.
- b) The tax department has also raised demands of Rs 6.804 million (2010: Rs 6.804 million) and Rs 277.621 million (2010: Rs 277.621 million) as FED and Sales Tax respectively along with penalty of Rs 1.205 million (2010: Rs 1.205 million) and additional duty / default surcharge of Rs 17.91 million (2010: Rs 17.91 million) during the audit of the Holding company for the periods 2004-2005 and 2005-2006. These demands were raised on the issues of late payment of FED, collection of FED at incorrect rate, incorrect apportionment of input tax and failure to collect FED on carriage of goods / mail of Pakistan Post. The Holding company has paid an amount of Rs 25 million (2010: Rs 25 million) in this regard which is considered fully recoverable. The Holding company filed an appeal with the Collector of Customs, Sales Tax and Federal Excise (Appeals), which has been decided partially in its favour, partially against and partially remanded back. The Holding company and the department both have filed appeals at the ATIR level which are pending adjudication. Management believes that the case will be decided in the favour of the Holding company. Accordingly, no provision has been made in these consolidated financial statements.
- c) The tax department has also raised demands of Rs 2.065 million (2010: Rs 2.065 million) and Rs 1,319.101 million (2010: Rs 1,319.101 million) as FED and Sales Tax respectively along with penalty of Rs 66.058 million (2010: Rs 66.058 million) and additional duty / default surcharge of Rs 534.412 million (2010: 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) [CIR(A)] level, which was decided in favour of the department. Currently, the Holding company has filed appeal against this at ATIR level and a rectification application with CIR(A) both of which are pending adjudication. Management believes that the case will be decided in its favour. Accordingly, no provision has been made in these consolidated financial statements.
- d) The tax department has levied penalties of Rs 5,877.351 million (2010: Rs 5,877.351 million), Rs 5,679.110 million (2010: Rs 5,679.110 million), Rs 7,025.270 million (2010: Nil) and Rs 2,000 million (2010: Nil) on account of delayed payment of sales tax and FED for the months of November - December 2008, January - March 2010, November 2010 - January 2011 and April 2011 respectively. In 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, Rs 79.969 million, Rs 74 million and Rs 12.648 million respectively.

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

During the year, CIR(A) has issued orders against appeals filed, whereby the levy of penalties for the months of January - March 2010 and November 2010 - January 2011 amounting to Rs 5,679.110 million and Rs 7,025.270 million respectively were deleted, however, default surcharge and 5% penalty were maintained. The Holding company and the tax department have filed appeals with ATIR against the order of CIR(A) which are pending adjudication. Further, for the months of January - March 2010 the Holding company has filed an application for rectification which is pending before the Additional Commissioner Inland Revenue (ACIR).

For the month of April 2011 the Holding company has filed appeal which is pending adjudication before CIR(A).

Further, the Holding company has also received show cause notices dated October 13, 2011 and January 20, 2012 on account of short payment of sales tax and federal excise duty for the months of May 2011 and July to November 2011 respectively. The Holding company has filed a reply for the month of May 2011.

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

- e) A show cause notice was issued to the Holding company by the Collector of Customs demanding payment of Rs 87.926 million (2010: 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 (2010: 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 (2010: 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 (2010: 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 (2010: 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 Hajj fare during the year 2008 as compared to Hajj season 2007. Further, on account of discrimination between Hajj passengers and regular passengers the Holding company was directed to work out an amount of refund to be paid back to Hajjis based on the difference of fare between regular passenger and short duration Hajjis who flew during Hajj season 2008. The total amount of refund estimated by the Holding company is Rs 417 million (2010: 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 reinstatements. However, the liability that may arise in these cases cannot be determined and consequently, no provision has been made in these consolidated financial statements.
- i) The Holding company is contesting several litigations mainly relating to suits filed against it for unlawful termination of contracts, breach of contractual rights and obligations, non-performance of servicing stipulations due to negligence or otherwise. 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 4,700 million (2010: Rs 3,549 million).
- j) Claims against the Holding company not acknowledged as debt amount to Rs 1,184 million (2010: Rs 1,184 million).
- k) Contingencies relating to income tax matters are disclosed in note 38.1.
- l) Certain lawsuits which arose in the normal course of business are pending against RHC. The eventual disposition of these legal actions, in the opinion of management based upon available insurance coverage and the assessment of the merits of such actions by legal counsel, will not have a material adverse effect on the financial position of RHC.

2011 2010
-----Rupees in '000-----

30.2 Commitments

a) Purchase of Simulator	-	169,171
b) Capital expenditure	27,525	3,118
c) Outstanding letters of credit	402,311	175,762
d) Outstanding letters of guarantee	531,210	546,703
e) Financial guarantee - Minhal France S.A.	1,164	275

- f) The Holding company has entered into an agreement with a vendor for supply of spare parts, materials, consumables, chemicals and repair / overhaul of rotables for a period of 5 years. According to the terms of the agreement, the Holding company is committed to buy goods and/or services in the amount of US\$ 40 million annually.
- g) Commitments by the Holding company for purchase of aircraft Rs 138,193.609 million (2010: Rs Nil) based on catalogue prices.
- h) 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:

	2011	2010
	-----Rupees in '000-----	
Not later than one year	1,132,260	1,104,780
Later than one year but not later than five years	4,508,326	4,305,472
Later than five years	187,847	1,254,322
	<u>5,828,433</u>	<u>6,664,574</u>

- i) 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:

	2011	2010
	-----Rupees in '000-----	
Not later than one year	10,156	7,617
Later than one year but not later than five years	50,778	50,778
Later than five years	238,657	248,813
	<u>299,591</u>	<u>307,208</u>

31. REVENUE - net

Passenger	103,505,676	95,743,203
Cargo	6,412,653	6,405,627
Excess baggage	1,147,920	1,071,502
Charter	1,642,634	460,559
Engineering services	952,100	1,249,785
Handling and related services	674,016	673,301
Mail	471,578	440,014
Room, food and beverages sales	9,917,237	9,052,378
Others	2,752,378	2,506,569
	<u>127,476,192</u>	<u>117,602,938</u>

	Note	2011	2010
		-----Rupees in '000-----	
32. COST OF SERVICES - others			
Salaries, wages and allowances		13,801,584	13,063,041
Welfare and social security costs		127,790	150,266
Retirement benefits		1,997,478	1,928,933
Compensated absences		672,676	268,539
Legal and professional charges		59,833	8,198
Stores and spares consumed		2,832,362	2,849,706
Maintenance and overhaul		5,129,543	5,219,170
Flight equipment rental		2,072,435	1,253,075
Landing and handling		13,152,367	11,921,701
Passenger services		3,831,521	3,693,937
Crew layover		3,202,575	3,027,500
Food and beverages		506,744	465,721
Staff training		137,225	122,758
Food cost		37,401	34,826
Utilities		48,988	40,928
Communication		121,134	129,631
Insurance		1,428,932	1,456,320
Rent, rates and taxes		630,851	510,292
Printing and stationery		188,791	211,433
Depreciation	5.7	8,004,205	7,015,906
Amortisation of intangibles and prepayment	6.1 & 10.2	3,575	4,184
Fixed assets written off		-	880
Others		704,923	671,244
		<u>58,692,933</u>	<u>54,048,189</u>
33. DISTRIBUTION COSTS			
Salaries, wages and allowances		1,910,576	1,924,160
Welfare and social security costs		135,170	101,660
Retirement benefits		845,364	488,351
Compensated absences		156,032	71,834
Distribution and advertising expenses		2,238,081	2,265,472
Legal and professional charges		30,224	28,686
Repairs and maintenance		95,970	107,119
Insurance		26,051	20,222
Printing and stationery		53,782	37,957
Communication		489,214	434,708
Staff training		54,409	51,932
Rent, rates and taxes		341,607	339,582
Utilities		24,728	32,404
Amortisation of intangibles	6.1	50	1,110
Depreciation	5.7	41,085	44,906
Others		388,507	351,401
		<u>6,830,850</u>	<u>6,301,504</u>

	Note	2011	2010
-----Rupees in '000-----			
34. ADMINISTRATIVE EXPENSES			
Salaries, wages and allowances		2,851,134	2,777,040
Welfare and social security costs		1,841,968	1,483,773
Retirement benefits		875,769	566,296
Compensated absences		184,666	80,660
Legal and professional charges		229,898	247,176
Repairs and maintenance		369,272	386,585
Insurance		21,824	14,114
Printing and stationery		70,980	71,147
Management fee	34.1	211,072	188,324
Staff training		70,547	68,051
Municipal taxes		658,247	612,503
Rent, rates and taxes		600,928	549,639
Utilities		652,340	637,171
Remuneration of subsidiaries' auditors		11,685	11,660
Auditors' remuneration	34.2	14,443	15,442
Communication		1,106,471	979,796
Amortisation of intangibles and prepayment	6.1 & 10.2	17,894	18,962
Depreciation	5.7	229,990	226,108
Donations	34.3	3,925	4,878
Others		986,285	1,039,970
		<u>11,009,338</u>	<u>9,979,295</u>

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

	Note	2011	2010
-----Rupees in '000-----			
(i) Interstate Hotels and Resorts Corporation (IHC)	34.1.1	88,402	84,159
(ii) ACCOR	34.1.2	122,670	104,165
		<u>211,072</u>	<u>188,324</u>

34.1.1 RHC entered into a contract for management of day-to-day operations of Roosevelt Hotel with IHC. The agreement provides for a base management fee calculated at 1.20% of gross operating revenues per year and an incentive management fee calculated at 14.5% of net operating income as defined in the agreement. This amended agreement will expire on December 31, 2012, unless earlier terminated.

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

34.2 Auditors' remuneration

	2011			2010		
----- Rupees in '000 -----						
	M. Yousuf Adil Saleem & Co.	A. F. Ferguson & Co.	Total	M. Yousuf Adil Saleem & Co.	A. F. Ferguson & Co.	Total
Audit fee	3,867	3,867	7,734	3,363	3,363	6,726
Fee for review of condensed interim financial statements	1,159	1,159	2,318	1,008	1,008	2,016
Consolidated financial statements	575	575	1,150	500	500	1,000
Code of Corporate Governance	198	198	396	172	172	344
Tax and other services	-	2,105	2,105	3,500	1,310	4,810
Out of pocket expenses	327	413	740	273	273	546
	<u>6,126</u>	<u>8,317</u>	<u>14,443</u>	<u>8,816</u>	<u>6,626</u>	<u>15,442</u>

- 34.3 Donations include payment aggregating Rs 3.325 million to Al-Shifa Trust situated at Terminal-2 Road, Karachi Airport, Pakistan in which the then Managing Director was a Trustee. Besides this, none of the directors or their spouse have any interest in the donees.

	Note	2011	2010
-----Rupees in '000-----			
35. OTHER PROVISIONS AND ADJUSTMENTS			
Loss on disposal of capital spares / assets written off		68,872	28,547
Provision for slow moving and obsolete spares	11.1	123,242	173,998
Provision for doubtful debts	12.1	132,426	361,697
Arrears against mandatory retirement		-	4,635
Provision against doubtful other receivables	15.5	-	8,267
Advance given to CAA written off		-	143,835
Provision against doubtful advances	13.1	23,424	-
Others		304,986	5,243
		<u>652,950</u>	<u>726,222</u>
36. OTHER OPERATING INCOME			
Income from financial assets			
Profit on bank deposits		45,997	20,459
Derivative income		213,882	457,061
Others		1,462	1,266
Income from assets other than financial assets			
Gain on disposal of operating fixed assets		3,131	5,788
Insurance claims		108,321	49,080
Reversal of provision		-	237,569
Reversal of provision no longer required in respect of CAA	36.1	-	1,500,000
Others		152,770	17,956
		<u>525,563</u>	<u>2,289,179</u>
36.1 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 thereagainst. Certain negotiations were concluded between the Holding company and CAA as a result of which, a consensus was reached with respect to the disputed items in favour of the Holding company. This resulted in reversal of the provision in the consolidated financial statements for the year ended December 31, 2010.			
		2011	2010
-----Rupees in '000-----			
37. FINANCE COSTS			
Mark-up on long-term financing		2,608,931	2,271,123
Mark-up on term finance certificates		1,834,026	1,714,180
Profit on sukuk certificates		1,018,962	976,588
Interest on liabilities against assets subject to finance lease		1,269,871	1,454,607
Mark-up on short-term borrowings		2,811,268	2,414,358
Interest on provident fund		342,897	301,686
Arrangement, agency and commitment fee		333,380	223,105
Amortisation of prepaid exposure fee		224,300	224,491
Bank charges, guarantee commission and other related charges		43,778	42,382
		<u>10,487,413</u>	<u>9,622,520</u>

	Note	2011	2010
-----Rupees in '000-----			
38.	TAXATION		
	Current - for the year	1,149,809	1,533,057
	- for prior year	(504,189)	13,606
	Deferred	645,620	1,546,663
		(1,580,410)	10,929,485
		(934,790)	12,476,148

38.1 Current

38.1.1 This includes Rs 582.753 million in respect of minimum tax expense related to the Holding company. In view of available tax losses for the year, provision for minimum taxation has been made 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.

Through Finance Act 2010, the rate of turnover tax in respect of the Holding company under section 113 was revised upward from 0.5% to 1% of turnover. Therefore, provision for taxation for financial year 2010 was made at 1% of turnover. Subsequent to the year end, the Federal Board of Revenue (FBR) has issued an S.R.O. 57 (I)/ 2012 dated January 24, 2012 whereby the rate of minimum tax for the Holding company was reduced by 50%. However, the said circular does not prescribe the effective date of its application. Management is of the view that the circular is applicable retrospectively from the tax year 2011 and therefore, the related amount from prior year provision for current taxation has been reversed in the current year.

38.1.2 The Holding company has filed tax returns for tax years up to tax year 2011 of which tax returns from tax years 2003 to 2011 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 Holding company had filed appeals against it which have been decided in favour of the Holding company at Appellate Tribunal Inland Revenue (ATIR) level. The department has now filed appeal with the Sindh High Court in respect of assessment year 2000-01. After decision by High Court on a few grounds, in favour of the Holding company, the department has filed appeal in Supreme Court. Management believes that this issue will be decided in favour of the Holding company without any additional tax liability.

38.1.3 The Additional Commissioner Inland Revenue (ACIR) has issued an amended order whereby demand in relation to the tax year 2005 has been reduced from Rs 939.009 million to Rs 898.177 million. The main contention among others was disallowance of depreciation claimed on leased aircraft. The Holding company claimed the depreciation on the contention that those aircraft were obtained under hire purchase arrangement which has been approved by Ministry of Finance as a financing arrangement. The department did not accept this contention and disallowed depreciation expense as inadmissible. An amount of Rs 48.235 million was also recovered by FBR in this respect. The Holding company filed appeal at CIT (A) level which was decided partially in favour of the Holding company. Being further aggrieved, both the Holding company and the income tax department have filed appeals at ITAT level which are pending adjudication. The Holding company is confident that this issue will ultimately be decided in its favour and the amount will be recovered. The Holding company has also received show cause notices in respect of tax years 2006 to 2009 mainly on account of disallowance of depreciation on leased aircraft and other provisions. The Holding company has filed its replies in respect of tax years 2006 and 2007, however, replies in respect of tax years 2008 and 2009 are under preparation.

	2011	2010
39. EARNINGS PER SHARE - BASIC AND DILUTED		
Loss for the year (Rupees in '000)	(25,923,355)	(20,060,957)
Weighted average number of ordinary shares outstanding	2,751,179,233	2,477,153,436
Earnings per share		
'A' class Ordinary share (Rupees)	(9.42)	(8.10)
'B' class Ordinary share (Rupees)	(4.71)	(4.05)

39.1 Earnings per share has no dilution effect.

	2011	2010
	-----Rupees in '000-----	
40. CASH GENERATED FROM OPERATIONS		
Loss before tax	(26,858,145)	(7,584,809)
Adjustments for:		
Depreciation	8,275,280	7,286,920
Gain on disposal of operating fixed assets	(3,131)	(5,788)
Loss on disposal of capital spares / assets written off	68,872	28,547
Unrealised exchange loss	-	1,233
Amortisation of intangibles	19,826	22,563
Provision for slow moving stores and obsolete spares	123,242	173,998
Provision for doubtful debts	132,426	361,697
Provision for doubtful other receivables	-	8,267
Arrears of mandatory retirement	-	4,635
Provision against doubtful advances	23,424	-
Advance given to CAA written off	-	143,835
Reversal of provision no longer required in respect of CAA	-	(1,500,000)
Provision for staff retirement benefits	3,287,745	2,983,580
Fixed asset written off	-	29,426
Finance cost	10,487,413	9,622,520
Share of loss from associates	790	486
Profit on bank deposits	(45,997)	(20,459)
Reversal of provision against short term investments	(880)	(342)
Reversal of liabilities no longer payable	-	(237,569)
	<u>(4,489,135)</u>	<u>11,318,740</u>
Working capital changes		
Increase in stores and spares	(174,269)	(29,806)
Increase in trade debts	(280,902)	(768,026)
Decrease in short-term loans and advances	103,857	683,552
Decrease in trade deposits and prepayments	291,532	85,386
Increase in other receivables	(985,466)	(458,255)
Increase in trade and other payables	11,943,999	4,195,689
	<u>10,898,751</u>	<u>3,708,540</u>
Cash generated from operations	<u>6,409,616</u>	<u>15,027,280</u>

41. REMUNERATION OF MANAGING DIRECTOR AND EXECUTIVES

	Key management personnel				Others	
	Managing Director		Unit heads		Executives	
	2011	2010	2011	2010	2011	2010
	-----Rupees in '000-----					
Managerial remuneration	12,887	14,034	98,671	65,051	2,581,387	2,400,179
Contribution to provident fund	157	239	1,278	1,091	116,024	108,154
Other perquisites	744	594	12,551	13,146	1,990,254	1,948,119
	<u>13,788</u>	<u>14,867</u>	<u>112,500</u>	<u>79,288</u>	<u>4,687,665</u>	<u>4,456,452</u>
Number	<u>1</u>	<u>1</u>	<u>15</u>	<u>11</u>	<u>1,993</u>	<u>1,869</u>

Aggregate amount charged in the financial statements for fee to directors was Rs Nil (2010: Rs Nil). Managing Director and certain executives are also provided with the Holding company's maintained cars and facilities as per the Holding company's rules.

42. 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 operations segment provides accommodation and related services in Pakistan, United States and Europe.

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

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

42.1 Revenue Analysis

	Airlines operations		Hotel operations		Others		Eliminations/Adjustments		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
-----Rupees in '000-----										
Revenue										
External sales	116,550,576	107,531,590	10,887,693	10,031,315	298,683	266,762	-	-	127,736,952	117,829,667
Intersegment sales	-	-	-	-	-	-	(260,760)	(226,729)	(260,760)	(226,729)
Total Revenue	116,550,576	107,531,590	10,887,693	10,031,315	298,683	266,762	(260,760)	(226,729)	127,476,192	117,602,938
Results										
Segment results	(17,926,755)	720,076	1,449,696	1,262,254	90,770	61,128	16,347	(5,261)	(16,369,942)	2,038,197
Interest expense	(10,099,046)	(9,299,816)	(403,472)	(322,699)	(2)	(5)	15,107	-	(10,487,413)	(9,622,520)
Interest income	45,997	20,457	-	2	-	-	-	-	45,997	20,459
Share of associate's loss	(790)	(486)	-	-	-	-	-	-	(790)	(486)
Income taxes	1,258,594	(12,205,381)	(289,993)	(248,937)	(33,811)	(21,830)	-	-	934,790	(12,476,148)
Depreciation	(7,032,743)	(6,191,044)	(1,232,966)	(1,087,454)	(9,571)	(8,422)	-	-	(8,275,280)	(7,286,920)
Amortisation	(19,803)	(22,518)	-	-	(23)	(45)	-	-	(19,826)	(22,563)

	Airlines operations		Hotel operations		Others		Eliminations/Adjustments		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
-----Rupees in '000-----										
Assets and Liabilities										
Segment assets	126,828,577	126,860,357	55,652,775	56,906,337	231,475	238,497	(2,645,387)	(1,667,300)	180,067,440	182,337,891
Investment in Associates	396	396	-	-	-	-	61,348	59,857	61,744	60,253
Capital expenditure	3,650,542	1,429,852	473,707	184,121	7,312	10,575	-	-	4,131,561	1,624,548
Segment liabilities	204,928,100	183,277,211	31,127,558	33,382,902	63,756	127,737	(1,346,962)	(201,788)	234,772,452	216,586,062

42.2 Geographical segments - by area of original sale

	2011					2010				
	Pakistan	United States	Europe	Others	Total	Pakistan	United States	Europe	Others	Total
Segment revenue	58,758,248	16,028,049	24,860,971	27,828,924	127,476,192	54,915,282	15,063,972	21,809,136	25,814,548	117,602,938
Carrying amount of assets	124,687,878	35,013,550	18,970,046	1,395,966	180,067,440	126,837,006	35,280,802	19,050,580	1,169,503	182,337,891

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

43. FINANCIAL RISK MANAGEMENT

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

43.1 Market risk

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

a) Fuel price risk

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

b) Currency risk

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

	2011	2010	2011	2010
	-----Rupees in '000-----		-----Rupees in '000-----	
Change in USD rate				
Effect on loss before tax	+5% <u>(4,173,930)</u>	+5% <u>(4,664,913)</u>	(5%) <u>4,173,930</u>	(5%) <u>4,664,913</u>
Change in GBP rate				
Effect on loss before tax	+5% <u>(5,330)</u>	+5% <u>60,407</u>	(5%) <u>5,330</u>	(5%) <u>(60,407)</u>
Change in SAR rate				
Effect on loss before tax	+5% <u>(51,566)</u>	+5% <u>42,106</u>	(5%) <u>51,566</u>	(5%) <u>(42,106)</u>
Change in AED rate				
Effect on loss before tax	+5% <u>(78,236)</u>	+5% <u>32,406</u>	(5%) <u>78,236</u>	(5%) <u>(32,406)</u>
Change in Euro rate				
Effect on loss before tax	+5% <u>(113,133)</u>	+5% <u>(81,943)</u>	(5%) <u>113,133</u>	(5%) <u>81,943</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:

	2011	2010
	-----Rupees in '000-----	
Variable rate instruments at carrying amount:		
Long-term financing	44,137,715	38,246,519
Term finance and sukuk certificates	19,589,760	19,592,320
Liabilities against assets subject to finance lease	36,286,459	39,826,692
Short-term borrowings	25,721,200	22,570,730
	<u>125,735,134</u>	<u>120,236,261</u>
Fixed rate instruments at carrying amount		
Financial Assets		
Bank balances	1,644,078	4,439,220
Short-term investments	418,099	1,122,358
Long term loans	23,057	20,821
	<u>2,085,234</u>	<u>5,582,399</u>
Financial Liabilities		
Long-term financing	11,795,958	12,321,159
Liabilities against assets subject to finance lease	20,135,111	22,547,216
Short-term borrowings	79,827	94,380
	<u>32,010,896</u>	<u>34,962,755</u>

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	KIBOR		LIBOR	
	2011	2010	2011	2010
	-----Rupees in '000-----			
Change in interest rate	-----+1%-----		-----+0.25%-----	
Effect on loss before tax	<u>(464,326)</u>	<u>(353,152)</u>	<u>(110,405)</u>	<u>(212,303)</u>
Change in interest rate	-----(-1%)-----		-----(-0.25%)-----	
Effect on loss before tax	<u>464,326</u>	<u>353,152</u>	<u>110,405</u>	<u>212,303</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 effecting all similar financial instruments traded in the market. The Group is not significantly exposed to equity securities price risk.

43.2 Liquidity risk

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

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

	Less than 1 year	1 - 5 years	More than 5 years	Total
	-----Rupees in '000-----			
2011				
Long-term financing	15,944,356	46,044,499	3,547,071	65,535,926
Term finance and sukuk certificates	11,043,567	12,614,374	-	23,657,941
Liabilities against assets subject to finance lease	11,071,397	39,909,206	11,652,354	62,632,957
Trade and other payables	22,864,196	-	-	22,864,196
Accrued interest / mark-up / profit	4,727,025	-	-	4,727,025
Short-term borrowings	27,956,096	-	-	27,956,096
Long term deposit	-	132	-	132
	<u>93,606,637</u>	<u>98,568,211</u>	<u>15,199,425</u>	<u>207,374,273</u>
2010				
Long-term financing	22,658,519	29,765,521	5,901,177	58,325,217
Term finance and sukuk certificates	4,826,227	21,314,360	-	26,140,587
Liabilities against assets subject to finance lease	10,728,274	42,037,772	17,781,957	70,548,003
Trade and other payables	27,852,584	-	-	27,852,584
Accrued interest / mark-up / profit	3,096,164	-	-	3,096,164
Short-term borrowings	24,085,642	-	-	24,085,642
	<u>93,247,410</u>	<u>93,117,653</u>	<u>23,683,134</u>	<u>210,048,197</u>

43.3 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, 2011 represents the maximum credit exposure, which is as follows:

	2011	2010
	-----Rupees in '000-----	
Long-term investments	24,344	29,462
Receivable from Centre Hotel	679,487	648,116
Long-term loans and advances	15,407	14,107
Long-term deposits	8,180,751	8,068,332
Trade debts	8,936,690	8,788,214
Short-term loans and advances	329,433	456,714
Trade deposits	44,311	133,121
Other receivables	728,383	877,017
Short-term investments	594,749	1,306,037
Bank balances	3,218,942	5,551,428
	<u>22,752,497</u>	<u>25,872,548</u>

Trade debts

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

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

Other financial assets

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

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

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

43.4 Fair value of financial instruments

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

43.5 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.

44. TRANSACTIONS WITH RELATED PARTY

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

	2011	2010
	-----Rupees in '000-----	
Retirement funds		
Contribution to Provident Fund and others	695,806	1,127,599
Profit oriented state-controlled entities		
- common ownership		
Purchase of fuel	19,676,705	17,682,000
Insurance premium	1,400,000	1,422,575
Mark-up paid	1,485,650	1,527,593
GoP - Major shareholder		
Loan installment received	-	1,000,000
Finance cost	800,000	789,041
Shares issued during the year	3,004,726	2,494,592
Hajj revenue	4,558,708	3,955,037

- 44.1 One of the hotels owned by PIAIL, Hotel Scribe Paris, is managed by a related party, ACCOR. The amount of management fee is based on the agreement with the related party.

44.2 Transactions with the directors, chief executives and key management personnel have been disclosed in note 41 to these consolidated financial statements.

44.3 The Holding company's sales of transportation services to subsidiaries, associates, directors and key management personnel are not determinable.

45. 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 '000
Cash and bank balances - Deposit accounts	Short-term Investments - Loans and receivables	458,584
Deferred liabilities - obligation for compensated absences	Trade and other payables - obligation for compensated absences	2,493,033
Deferred liabilities	Deferred taxation	15,381,025
Administrative expenses - Others	Cost of services - Rent, rates and taxes	238

As the reclassification is considered not to be material in the overall context of the balance sheet and does not have any significant impact on the consolidated financial statements for the year ended December 31, 2009, therefore the Holding company has not presented the balance sheet as at the earliest comparative period presented, and the related notes have also not been presented as of the beginning of that earliest period presented. The aforesaid reclassification has no impact on the figures of total liabilities as of December 31, 2009 and 2010.

46. BENAZIR EMPLOYEE STOCK OPTION SCHEME (BESOS)

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

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

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

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

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

47. AUTHORISATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorised for issue by the Board of Directors of the Holding company in their meeting held on April 30, 2012.

Ch. Ahmed Mukhtar
Chairman

Malik Nazir Ahmed
Director

Form of Proxy

55th 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 55th Annual General Meeting of the Corporation to be held on Saturday, May 26, 2012 and at any adjournment thereof.

As witness my/our hand/seal this _____ day of May 2012.

Signed by the said _____ in the presence of

Witnesses

1.

Name: _____

CNIC No: _____

Address: _____

2.

Name: _____

CNIC No: _____

Address: _____

Signature

(Affix Revenue Stamp of Appropriate Value)

NOTES

- (1) This Proxy Form, duly executed, must be lodged at the office of Secretary-PIA, PIA Head Office, Karachi, not less than 48 hours before the time fixed for holding the Meeting i.e. upto 10:00 A.M. Thursday, May 24, 2012.
- (2) 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.
- (3) Proxies without Folio / Participant ID Number and Account / Sub-Account number will not be entertained.
- (4) Signature of the appointer Shareholder should agree with his/her specimen signature registered with the Corporation.
- (5) If a Shareholder appoints more than one proxy and more than one instruments of proxy are deposited by a Shareholder with the Corporation, all such instruments shall be rendered invalid.
- (6) In addition to the above the following requirements have to be met by CDC Account Holders / Corporate Entities:
 - (i) Attested copies of CNIC or Passport of the Beneficial Owner and the Proxy holder shall be furnished with the Proxy Form whereas the Proxy holder shall also show his/her original CNIC or Passport at the Meeting.
 - (ii) In case of corporate entity, the Board of Directors' Resolution / Power of Attorney with specimen signature of the Nominee / Attorney shall be produced at the Meeting unless these documents have already been provided.



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