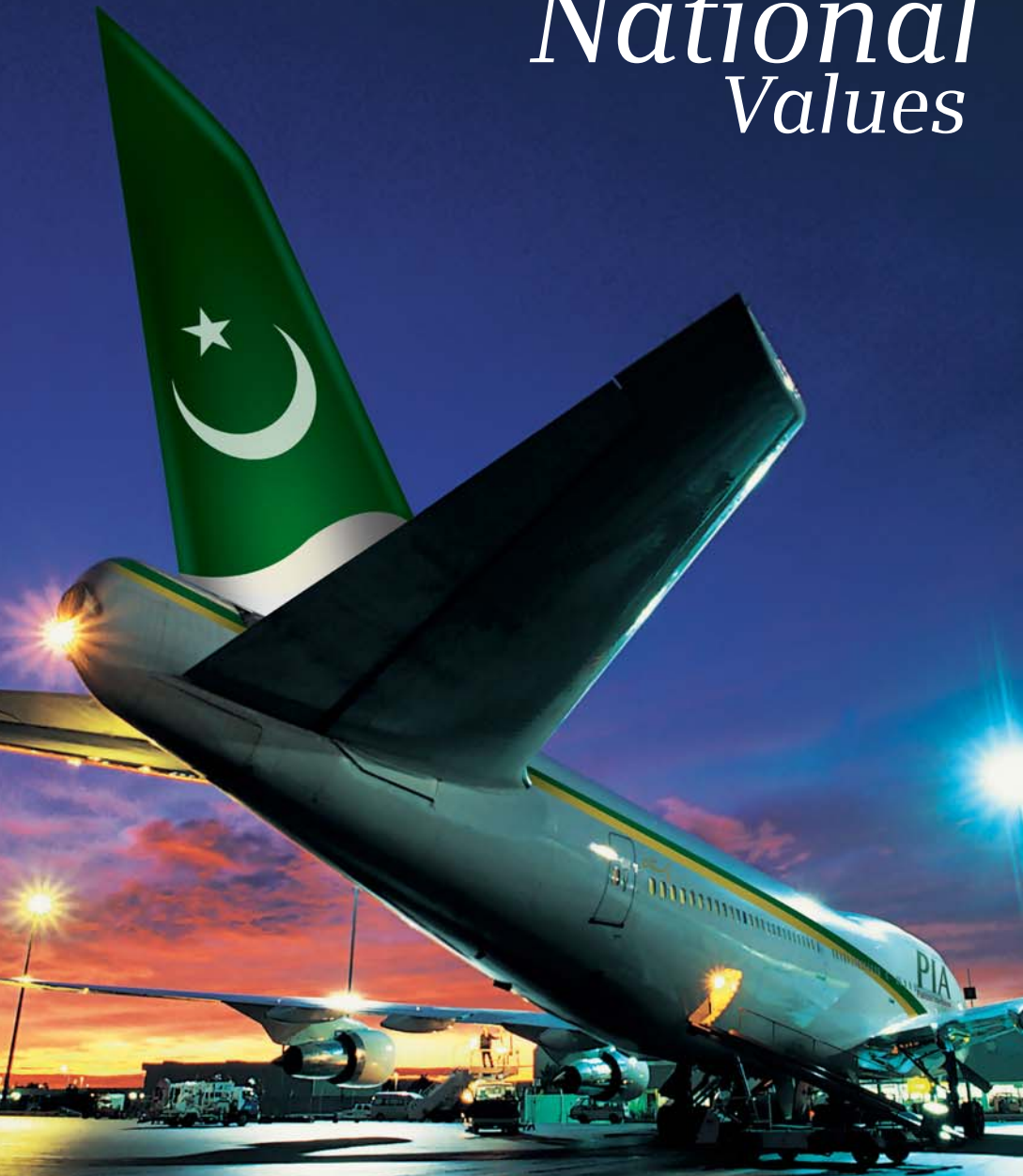


We stand for
*National
Values*



half yearly report 2010

 **PIA**
Pakistan International

Great People to Fly With

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corporate information (as at august 26, 2010)

Board of Directors

Ch. Ahmed Mukhtar

Minister for Defence and Chairman - PIA

Syed Naseer Ahmad

Malik Nazir Ahmed

Mr. Javed Akhtar

Lt. Gen. (Retd.) Syed Athar Ali

Federal Secretary Defence

Capt. Muhammad Aijaz Haroon

Managing Director - PIA

Prof. Mian Ijaz ul Hassan

Mr. Mubashir Iftikhar

Mr. Husain Lawai

Khawaja Jalaluddin Roomi

Mr. Salman Siddique

Federal Secretary Finance

Corporate Secretary

Mr. Muhammad Shuaib

Head of Internal Audit

Mr. Waqar A. Siddiqui

Executive Management

Capt. Muhammad Aijaz Haroon

Managing Director

Mr. M. Salim Sayani

Deputy Managing Director

Mr. Imraan Ahmed Khan

Director – Marketing

Mr. M. Haneef Pathan

Director - Human Resources,
Administration & Coordination

Mr. Shahnawaz Rehman

Director – Corporate Planning

AVM Muhammad Kamal Alam

Director – Precision Engineering Complex

Capt. Shuja Naqvi

Director - Flight Operations

Mr. Dilawar Fareed Beg

Director - Training & Development

Mr. Maqsood Ahmed

Director – Line Maintenance

Mr. Faisal I. H. Malik

Director - Finance & Chief Financial Officer

Mr. S. Kamran Hasan

Director

Auditors

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

Share Registrar

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

Ph: Customer Support Services
(Toll Free) 0800 – CDCPL (23275)
Fax: (92-21) 3432 6053
Email: info@cdcpak.com
Website: www.cdcpakistan.com

Head Office

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

board of directors' committees (as at august 26, 2010)

Audit Committee

Mr. Husain Lawai	Chairman
Mr. Javed Akhtar	Member
Prof. Mian Ijaz ul Hassan	Member
Mr. Mubashir Iftikhar	Member
Khawaja Jalaluddin Roomi	Member
Chief Internal Auditor	Secretary (<i>ex-officio</i>)

Brand and Advertisement Committee

Prof. Mian Ijaz ul Hassan	Chairman
Malik Nazir Ahmed	Member
Capt. Muhammad Aijaz Haroon <i>Managing Director</i>	Member (<i>ex-officio</i>)
Mr. Mubashir Iftikhar	Member
Khawaja Jalaluddin Roomi	Member
General Manager Marketing & Planning	Secretary (<i>ex-officio</i>)

Finance Committee

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

Human Resource Committee

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

Directors' Report to the Shareholders

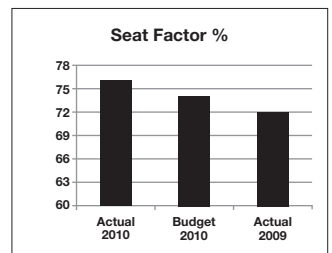
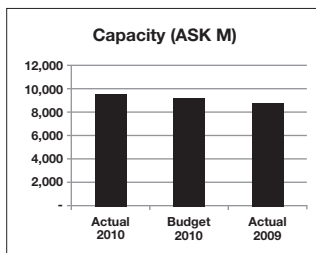
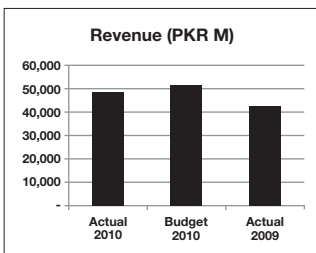
The Directors of Pakistan International Airlines Corporation are pleased to present their report along with the financial statements for the half year period ended June 30, 2010.

The financial results for the period under review are summarized below:

Half Year Ended June 30, 2010	Quarter ended		Half Year ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(Rs. in Million)			
Revenues				
Passenger	23,302	18,327	43,794	35,565
Hajj	-	-	156	1,983
Cargo & Others	3,156	2,346	5,356	4,373
Total Turnover – Net	26,458	20,673	49,306	41,921
Operating Cost & Expenses				
Fuel Cost	10,992	6,335	19,468	12,380
Other Cost of Service	11,947	10,970	23,583	21,771
Distribution & Admin Expenses	3,595	3,386	6,802	5,963
Exchange (Gain)/Loss	1,902	1,149	1,566	3,000
Others Income & Adjustments	(347)	252	(362)	(140)
Financial Cost	2,356	2,370	4,651	4,784
Loss Before Tax	(3,987)	(3,790)	(6,402)	(5,838)
Loss After Tax	(4,372)	(3,346)	(6,901)	(5,395)

The global economic outlook remains uncertain and we are yet to see substantial improvements in underlying business conditions. Many factors are in play that could affect the timing of recovery. Uncertainty is also being created through significant capacity increases, internationally, by PIAC's competitors, some of whom enjoy very favourable taxation and other arrangements, specially the gulf carriers who have absolute advantage when it comes to fuel cost and access to funds. Despite these factors the Corporation continued to deliver good commercial performance in the 1st half with total revenues up by PKR 7.4 billion (17.6%) over the corresponding period last year. Passenger revenues increased by PKR 8 billion (22.7%) resulting from both increased yield and traffic. Total number of passengers grew to 2.85 million as compared to 2.63 million showing an increase of 8.4% whereas yield excluding Hajj operations increased to 6.02 from 5.56 in the corresponding period last year. Seat-factor increased to 76.18% as compared to 72.15% in the corresponding period of 2009. Similarly other revenues also increased by 24.6%. Charter revenue could not keep pace because of a drop in UN Troops movement and decreased to PKR 94 million in the current period from PKR 279 during the corresponding period last year. Revenue from Cargo operations also increased by PKR 915 million despite fragile economic environment. Overall profitability suffered due to increase in fuel cost, unsustainable interest cost and inflationary effect on expenses.

The disruption to European airspace due to eruption of the Eyjafjallajökull volcano had a significant impact on the European operations of the airline during the period. 56 flights were affected impacting nearly 15,377 passengers which resulted in an estimated revenue loss of PKR 527 million.



We increased our capacity by deploying B-777 on major EU & UK routes instead of A310s and by increasing the frequency of flights to dense markets. Deployment of B-777 will not only improve the quality of our service but also help us in meeting EU air safety standards. Frequency was increased on Birmingham, London, Kuala Lumpur, Dhaka, Dubai, Barcelona, New York and Manchester stations. Chicago operations were also re-launched during the period. We have entered into a co-branding agreement with Sialkot International Airport Limited and expanded our operations with additional frequencies/connections from Sialkot to Jeddah, Sharjah, London and Muscat. Similarly to explore the market potential in interior Sindh, flight frequency has been increased on the Islamabad-Hyderabad sector via Sukkur. These initiatives coupled with increase in passenger traffic enabled us to achieve the highest half yearly revenues in the history of PIA.

Measures to control fuel cost remained the focal point of cost control drive. A comprehensive fuel cost control strategy has been devised, based on industry best practices to reduce fuel cost. Beneficial in-the-money fuel hedging transactions also helped to mitigate fuel price volatility in first half of the year.

OPEC has revised upwards, world oil demand growth by 1.2% mainly due to rising demand in China, India, Middle East and Latin America. Therefore oil prices continue to pose a significant threat to passenger and cargo yields. Hedging will be used to manage fuel price volatility and cash flow gyrations in future as well.

Exchange rate during the period remained relatively stable which helped to reduce exchange losses by PKR 1.4 billion. Pak rupee was weaker by nearly 5.43% on June 30th 2010, closing at PKR 85.5/USD as compared to PKR 81.1/USD on June 30th 2009. Financial charges also decreased by PKR 133 million due to decrease in loan balances and historically low LIBOR rates.

Hospitality business witnessed an upturn in the second quarter and PIA Investments Limited (PIAIL) reported after tax profit of USD 4.3million. PIAIL reported revenues of USD 51.8 million compared to USD 49.3 million in the same period last year. However bottom line faltered due to increase in property taxes to augment New York City's income in the wake of economic down turn.

Lingering security issues in the country had an impact on the number of travelers coming to Pakistan and the number of visitors dropped by 3.4%. Despite this SkyRooms (Pvt) Limited managed to report revenue of PKR 138 million as compared to PKR 121 million in the corresponding period last year. However after tax profit decreased to PKR 3.9 million as compared to PKR 4.2 million in the corresponding period of 2009 due to impact of inflation on operating expenses. Rising fuel cost, exchange rate volatility and unfavorable aviation policy will adversely affect the bottom line in the coming periods, however we will continue to campaign for a thorough review of the current aviation policy which is hurting the national flag carrier. Your board and the management are fully alive to the threats facing the Corporation and have prepared a strategic business plan based on a comprehensive business model. The management, as part of the business plan is committing itself to strengthening the culture of ethics and compliance, aggressive revenue growth through efficient marketing plans and implementation of stringent cost control measures resulting in substantial savings over the plan period. Looking ahead, the leadership team is focused on creating a lean and responsive organization. We are working internally, and with suppliers, to lower our cost to serve, and to streamline business processes. We are listening to our customers, and engaging our people to deliver consistently excellent service. In these challenging times, we are seizing the opportunity to transform PIA into a sustainable and viable enterprise.

For and on Behalf of the Board

Ch. Ahmed Mukhtar
Chairman

August 26, 2010

*unconsolidated
financial statements*

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

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

AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of **PAKISTAN INTERNATIONAL AIRLINES CORPORATION** (the Corporation) as at **June 30, 2010** and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim cash flow statement together with the notes forming part thereof for the six months period then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards for interim reporting as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review.

The figures of the condensed interim profit and loss account and the condensed interim statement of comprehensive income for the quarters ended June 30, 2010 and 2009 have not been reviewed, as we are required to review only the cumulative figures for the six months period ended June 30, 2010.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the six months ended June 30, 2010 is not prepared, in all material respects, in accordance with approved accounting standards for interim reporting as applicable in Pakistan.

Without qualifying our review report, we draw attention to the following uncertainties:

- i) note 1.2 to the interim financial information, which states that during the current period, the Corporation incurred a net loss of Rs 6,901.499 million, resulting in accumulated losses of Rs 83,333.473 million as of June 30, 2010, and, as of that date, the Corporation's current liabilities exceeded its current assets by Rs 55,832.069 million. These conditions indicate the existence of a material uncertainty which may cast doubt about the Corporation's ability to continue as a going concern; and
- ii) note 15.1.1 to the interim financial information, which describes the uncertainty related to the difference between the amount due as per the Corporation's records and amounts claimed by the Civil Aviation Authority in respect of which a reconciliation and settlement exercise is currently in progress through Ministry of Defence.

The financial statements of the Corporation for the six months period ended June 30, 2009 and for the year ended December 31, 2009 were reviewed and audited by M. Yousuf Adil Saleem & Co. Chartered Accountants and Anjum Asim Shahid Rahman, Chartered Accountants who through their reports dated August 20, 2009 and March 16, 2010, expressed an unqualified conclusion and opinion thereon. However, their aforementioned reports were modified by adding emphasis of matter paragraphs highlighting matters relating to the going concern situation and the claim by Civil Aviation Authority.

A. F. Ferguson & Co.
Chartered Accountants

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Date: August 26, 2010
Place: Karachi

Unconsolidated

Condensed Interim Balance Sheet (Un-audited)

As at June 30, 2010

		(Un-audited) June 30, 2010	(Audited) December 31, 2009	(Un-audited) June 30, 2010	(Audited) December 31, 2009
Note		Rupees in '000		US\$ in '000	
ASSETS					
NON CURRENT ASSETS					
Fixed assets					
- Property, plant and equipment	4	131,543,420	133,555,560	1,538,520	1,586,171
- Intangibles		80,678	91,962	944	1,092
		<u>131,624,098</u>	<u>133,647,522</u>	<u>1,539,464</u>	<u>1,587,263</u>
Long-term investments	5	4,437,828	4,446,950	51,904	52,814
Long-term deposits and prepayments		4,973,777	5,038,148	58,173	59,835
		<u>141,035,703</u>	<u>143,132,620</u>	<u>1,649,541</u>	<u>1,699,912</u>
CURRENT ASSETS					
Stores and spares	6	3,807,438	3,987,423	44,531	47,357
Trade debts	7	7,746,928	7,978,187	90,607	94,753
Advances	8	1,183,816	2,189,162	13,846	26,000
Trade deposits and prepayments		1,084,820	1,158,497	12,688	13,759
Other receivables		864,122	799,193	10,107	9,492
Short term investments		25,505	25,151	298	299
Cash and bank balances	9	2,390,858	742,945	27,963	8,824
		<u>17,103,487</u>	<u>16,880,558</u>	<u>200,040</u>	<u>200,484</u>
TOTAL ASSETS		<u>158,139,190</u>	<u>160,013,178</u>	<u>1,849,581</u>	<u>1,900,396</u>
EQUITY AND LIABILITIES					
SHARE CAPITAL AND RESERVES					
Share capital		23,280,356	23,280,356	272,285	276,489
Reserves		(79,032,605)	(72,335,101)	(924,358)	(859,087)
		<u>(55,752,249)</u>	<u>(49,054,745)</u>	<u>(652,073)</u>	<u>(582,598)</u>
Advance against equity from Government of Pakistan	10	1,177,679	-	13,774	-
TOTAL EQUITY		<u>(54,574,570)</u>	<u>(49,054,745)</u>	<u>(638,299)</u>	<u>(582,598)</u>
SURPLUS ON REVALUATION OF FIXED ASSETS		28,068,786	28,281,903	328,290	335,890
NON CURRENT LIABILITIES					
Long-term financing	11	26,039,559	24,553,113	304,556	291,605
Term finance and sukuk certificates	12	19,589,760	19,592,320	229,120	232,688
Liabilities against assets subject to finance lease	13	57,949,846	61,272,797	677,776	727,705
Long-term deposits		404,521	365,847	4,731	4,345
Deferred liabilities		7,725,732	6,184,327	90,359	73,448
		<u>111,709,418</u>	<u>111,968,404</u>	<u>1,306,542</u>	<u>1,329,791</u>
CURRENT LIABILITIES					
Trade and other payables		26,866,545	27,184,514	314,229	322,856
Provision against Civil Aviation Authority's claims		1,500,000	1,500,000	17,544	17,815
Accrued interest / mark-up / profit		2,380,842	1,845,592	27,846	21,919
Provision for taxation - net		1,181,253	848,890	13,815	10,084
Short-term borrowings	14	26,329,535	23,982,160	307,948	284,824
Current maturities of:					
- Long-term financing	11	6,313,546	5,328,458	73,843	63,283
- Term finance certificates	12	5,120	5,120	60	61
- Liabilities against assets subject to finance lease	13	8,358,715	8,122,882	97,763	96,471
		<u>72,935,556</u>	<u>68,817,616</u>	<u>853,048</u>	<u>817,313</u>
TOTAL EQUITY AND LIABILITIES		<u>158,139,190</u>	<u>160,013,178</u>	<u>1,849,581</u>	<u>1,900,396</u>
CONTINGENCIES AND COMMITMENTS 15					

The annexed notes 1 to 25 form an integral part of these condensed interim financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated

Condensed Interim Profit And Loss Account (Un-audited)

For the six months period ended June 30, 2010

	Note	Six-months Period Ended		Quarter Ended		Six-months Period Ended	
		June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
		Rs '000				US \$ '000	
REVENUE - net	16	49,306,438	41,920,666	26,458,644	20,673,170	576,683	516,901
COST OF SERVICES							
Aircraft fuel		19,468,502	12,187,636	10,992,253	6,334,864	227,702	150,279
Others	17	23,582,658	21,771,295	11,947,004	10,970,094	275,821	268,450
		43,051,160	33,958,931	22,939,257	17,304,958	503,523	418,729
GROSS PROFIT		6,255,278	7,961,735	3,519,387	3,368,212	73,160	98,172
Distribution costs		3,466,761	2,611,458	1,860,203	1,212,118	40,547	32,200
Administrative expenses		3,334,966	3,351,890	1,735,597	2,173,580	39,005	41,330
Other provisions and adjustments - net	18	197,009	111,885	197,009	111,996	2,304	1,380
Exchange loss - net		1,566,343	2,999,756	1,901,782	1,149,161	18,320	36,988
Other expenses		-	192,725	-	192,725	-	2,376
Other operating income		(558,843)	(251,666)	(543,869)	(51,300)	(6,536)	(3,103)
		8,006,236	9,016,048	5,150,722	4,788,280	93,640	111,171
LOSS FROM OPERATIONS		(1,750,958)	(1,054,313)	(1,631,335)	(1,420,068)	(20,480)	(12,999)
Finance costs	19	4,651,216	4,784,292	2,355,772	2,369,856	54,400	58,993
LOSS BEFORE TAXATION		(6,402,174)	(5,838,605)	(3,987,107)	(3,789,924)	(74,880)	(71,992)
Taxation	20	499,325	(443,412)	385,086	(443,412)	5,840	(5,467)
LOSS FOR THE PERIOD		(6,901,499)	(5,395,193)	(4,372,193)	(3,346,512)	(80,720)	(66,525)
		Rs				US \$	
EARNINGS PER SHARE							
Loss attributable to:							
'A' class Ordinary shares of Rs 10 each	21	2.86	2.52	1.79	1.56	0.03	0.03
'B' class Ordinary shares of Rs 5 each	21	1.43	1.26	0.90	0.78	0.02	0.02

The annexed notes 1 to 25 form an integral part of these condensed interim financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated

Condensed Interim Statement of Comprehensive Income (Un-audited)

For the six months period ended June 30, 2010

	Six-months Period Ended		Quarter Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Rs '000			
Net loss for the period	(6,901,499)	(5,395,193)	(4,372,193)	(3,346,512)
Other comprehensive income				
Unrealised loss on remeasurement of investments	(9,122)	(54,912)	(9,122)	(1,651)
Loss on cash flow hedge arising during the period - net of tax	-	125,271	-	-
Total comprehensive loss for the period transferred to equity	<u>(6,910,621)</u>	<u>(5,324,834)</u>	<u>(4,381,315)</u>	<u>(3,348,163)</u>

The annexed notes 1 to 25 form an integral part of these condensed interim financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated

Condensed Interim Cash Flow Statement (Un-audited)

For the six months period ended June 30, 2010

	Six-months Period Ended		Quarter Ended		
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	
Note	Rupees in '000		US\$ in '000		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations after working capital changes	22	4,024,873	2,781,360	47,074	34,295
Profit on bank deposits received		8,668	15,396	101	190
Finance costs paid		(4,003,912)	(4,675,364)	(46,829)	(57,649)
Taxes paid		(166,962)	(74,739)	(1,952)	(922)
Staff retirement benefits paid		(374,693)	-	(4,382)	-
Deferred custom duty paid		-	(113,554)	-	(1,400)
Long-term deposits and prepayments - net		64,371	-	752	-
Net cash used in operating activities		(447,655)	(2,066,901)	(5,236)	(25,486)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(853,371)	(1,442,507)	(9,980)	(17,787)
Proceeds from sale of property, plant and equipment		16,422	2,829	192	35
Short-term investments - net		(354)	12,106	(4)	149
Net cash used in investing activities		(837,303)	(1,427,572)	(9,792)	(17,603)
CASH FLOWS FROM FINANCING ACTIVITIES					
Advance against equity from Government of Pakistan		1,177,679	933,592	13,774	11,512
Proceeds from long term financing - net		2,471,534	3,154,858	28,906	38,901
Term finance and sukuk certificates - net		(2,560)	369,857	(29)	4,561
Long-term deposits		38,674	-	452	-
Repayment of obligations under finance lease-net		(3,099,831)	(1,597,073)	(36,255)	(19,693)
Net cash generated from financing activities		585,496	2,861,234	6,848	35,281
Decrease in cash and cash equivalents		(699,462)	(633,239)	(8,180)	(7,808)
Cash and cash equivalents at the beginning of the period		(23,239,215)	(29,710,507)	(271,803)	(366,344)
Cash and cash equivalents at the end of the period		(23,938,677)	(30,343,746)	(279,983)	(374,152)
CASH AND CASH EQUIVALENTS					
Cash and bank balances		2,390,858	1,057,635	27,964	13,041
Short-term borrowings		(26,329,535)	(31,401,381)	(307,947)	(387,193)
		(23,938,677)	(30,343,746)	(279,983)	(374,152)

The annexed notes 1 to 25 form an integral part of these condensed interim financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Unconsolidated

Condensed Interim Statement of Changes In Equity (Un-audited)

For the six months period ended June 30, 2010

	Issued, subscribed, and paid-up capital	Advance against share capital	RESERVES				Total	
			Capital reserves	Revenue reserves	Unrealised loss on re-measurement of investments	Accumulated losses		Other reserves
Rs '000								
Balance as at January 1, 2009 - Restated*	21,423,014	-	2,501,038	1,779,674	73,265	(73,174,143)	(125,271)	(47,522,423)
Total comprehensive loss for the period transferred to equity	-	-	-	-	(54,912)	(5,395,193)	125,271	(5,324,834)
Surplus on revaluation of fixed assets realised during the period on account of incremental depreciation charged thereon - net of tax	-	-	-	-	-	1,212,741	-	1,212,741
Balance as at June 30, 2009 - Restated*	<u>21,423,014</u>	-	<u>2,501,038</u>	<u>1,779,674</u>	<u>18,353</u>	<u>(77,356,595)</u>	-	<u>(51,634,516)</u>
Balance as at January 1, 2010	23,280,356	-	2,501,038	1,779,674	29,278	(76,645,091)	-	(49,054,745)
Total comprehensive income for the period transferred to equity	-	-	-	-	(9,122)	(6,901,499)	-	(6,910,621)
Advance against equity from Government of Pakistan	-	1,177,679	-	-	-	-	-	1,177,679
Surplus on revaluation of fixed assets realised during the period on account of incremental depreciation charged thereon - net of tax	-	-	-	-	-	213,117	-	213,117
Balance as at June 30, 2010	<u>23,280,356</u>	<u>1,177,679</u>	<u>2,501,038</u>	<u>1,779,674</u>	<u>20,156</u>	<u>(83,333,473)</u>	-	<u>(54,574,570)</u>

*Effect of change in accounting policy for customer loyalty programme as disclosed in note 4.1.4 to the financial statements for the year ended December 31, 2009

The annexed notes 1 to 25 form an integral part of these condensed interim financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Notes to the Interim Condensed Financial Statements (Un-audited)

For the six months period ended June 30, 2010

1. THE CORPORATION AND ITS OPERATIONS

- 1.1 Pakistan International Airlines Corporation (the Corporation) was incorporated on January 10, 1955 under PIAC Ordinance, 1955, which was subsequently repealed and replaced by the Pakistan International Airlines Corporation Act, 1956 (the PIAC Act). The shares of the Corporation are quoted on all stock exchanges of Pakistan. The principal activity of the Corporation is to provide air transport services. Other activities of the Corporation include provision of engineering and other allied services. The head office of the Corporation is situated at PIA Building, Jinnah International Airport, Karachi.
- 1.2 During the current period, the Corporation incurred a net loss of Rs 6,901.499 million (June 30, 2009: Rs 5,395.193 million), resulting in accumulated losses of Rs 83,333.473 million as of June 30, 2010 (December 31, 2009: Rs 77,356.595 million). Further, as of June 30, 2010 current liabilities of the Corporation exceeded its current assets by Rs 55,832.069 million (December 31, 2009: Rs 51,937.058 million). Although material uncertainty exists which may cast doubt on the Corporation's ability to continue as a going concern, however, the management of the Corporation is confident that the going concern assumption is appropriate for the reasons explained in the ensuing paragraphs and has, as such prepared these condensed interim financial statements on 'going concern' basis.

During the period, the Corporation has prepared its five years business plan which has also been approved by the Board. Through such business plan the Corporation has devised a turn-around strategy which entails operational restructuring and assumes Government of Pakistan's (GoP's) support in terms of providing necessary funding for recapitalization. The management believes that the business plan which has been sent to the GoP will be approved by it (the GoP) and accordingly significant financial support will be provided to the Corporation in coming years to ensure its long term sustainability.

Historically, the GoP, as a majority shareholder, has expressed its commitment to extend maximum support in order to maintain the going concern status of the Corporation. This support is evident by the fact that GoP had in the past issued guarantees to secure certain long term finances and term finance certificates. Further, during the current period the GoP has provided an additional fixed rate loan of Rs 1,000 million and has contributed advance against ordinary share capital of the Corporation in the amount of Rs 1,178 million.

2. BASIS OF PREPARATION

- 2.1 These condensed interim financial statements of the Corporation for the six months period ended June 30, 2010 have been prepared in accordance with the requirements of the International Accounting Standard 34 - Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where requirements differ, the provisions of or directives issued under the Ordinance have been followed.
- 2.2 The comparative condensed interim profit and loss account and condensed interim statement of comprehensive income and notes thereto for the quarters ended June 30, 2010 and 2009 are also included in these condensed interim financial statements which were not subjected to review.
- 2.3 These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Corporation's December 2009 financial statements.
- 2.4 The US \$ amount reported in the condensed interim balance sheet, condensed interim profit and loss account and condensed interim cash flow statement are stated as additional information, solely for the convenience of the user of these condensed interim financial statements. The US \$ amounts in the condensed interim

balance sheet have been translated into US \$ at the rate of Rs 85.50 = US \$ 1 (December 31, 2009: Rs 84.20 = US \$ 1). The US \$ amounts in condensed interim profit and loss account and condensed interim cash flow statement have been translated into US \$ at the rate of Rs 85.50 = US \$ 1 (June 30, 2009: Rs 81.10 = US \$ 1)

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 The accounting policies, estimates, judgments and methods of computation adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the December 2009 financial statements of the Corporation, except for the adoption of amendments to existing standards as noted below:

3.2 Standards, interpretations and amendments effective January 1, 2010:

3.2.1 Amendments to IFRS 2 'Group cash-settled share-based payment transactions' are effective for annual periods beginning on or after January 1, 2010. The International Accounting Standards Board issued amended IFRS 2 to require an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its unconsolidated financial statements.

Until the above amendment, there was no specific guidance on the attribution of cash-settled share-based payments to the entity receiving goods or services where the entity had no obligation to settle the transaction.

In view of the aforementioned amendments, it may be argued that the financial impact of the 'Benazir Employee Share Option Scheme' (BESOS or 'the Scheme') introduced by the GoP during the year ended December 31, 2009 may need to be accounted for in these condensed interim financial statements on a retrospective basis.

However, management contends that in view of the peculiar nature of the Scheme, the requirements of Amended IFRS 2 are not applicable to the Scheme and accordingly, the management has sought an opinion in respect of the subject matter from the Technical Committee of the Institute of Chartered Accountants of Pakistan, being a recognised professional body, the reply to which is, at present, awaited. Nevertheless, if the effects of BESOS were to be accounted for in these condensed interim financial statements, the management is of the view that there would not have been any material impact on these enclosed condensed interim financial statements.

3.2.2 Certain other standards, amendments and interpretations to the approved accounting standards were mandatory for accounting periods beginning on or before January 1, 2010 but were considered not to be relevant or did not have any significant effect on the Corporation's operations and are therefore not detailed in these condensed interim financial statements.

3.3 Standards, amendments and interpretations that are not yet effective:

Certain standards, amendments and interpretation to approved accounting standards are effective for accounting periods beginning after January 1, 2010 but are considered not to be relevant or have any significant effect on the Corporation's operations and are therefore not detailed in these condensed interim financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets
Capital work-in-progress

	(Un-audited) June 30, 2010	(Audited) December 31, 2009
	Rupees in '000	
	130,268,448	132,790,938
	1,274,972	764,622
	<u>131,543,420</u>	<u>133,555,560</u>

4.1 Following are the additions / transfers and deletions during the period:

	(Un-audited) June 30, 2010	(Un-audited) June 30, 2009
	Rupees in '000	
Additions / Transfers		
Owned		
Buildings on leasehold land	16,363	360
Workshops and hangers	-	39,702
Renovation and improvements	11,947	32,633
Aircraft fleet / Engines overhauling	283,754	143,311
Operating ground equipment, catering, communication and meteorological equipment	40,616	3,828
Engineering equipment and tools	33,482	11,573
Motor transport	14,832	17,353
Traffic equipment	100,669	7,509
Furniture, fixture and fittings	15,756	11,446
Office equipment	116	167
Computers and office automation	11,087	21,915
Precision engineering equipment	36	-
Other equipment	6,119	2,986
Capital spares	91,998	154,671
	<u>626,775</u>	<u>447,454</u>
Leased		
Aircraft fleet / Engines overhauling	-	749,956
	<u>626,775</u>	<u>1,197,410</u>
Deletions / Transfers - net book value		
Owned		
Buildings on leasehold land	6,423	-
Aircraft fleet / Engines overhauling	4,017	-
Motor transport	1,058	3,306
Traffic equipment	117	3,866
Furniture, fixture and fittings	89	98
Computers and office automation	8	190
Office equipment	2	-
Other equipment	19	-
	<u>11,733</u>	<u>7,460</u>
Leased		
Aircraft fleet	283,754	-
Vehicles	356	1,530
	<u>284,110</u>	<u>1,530</u>
	<u>295,843</u>	<u>8,990</u>

4.2 Change in estimates

As a result of revaluation exercise conducted by an independent valuer as of December 31, 2009, the useful lives of airframes and engines increased on average by 5 years and 3.5 years respectively which had an impact on depreciation expense for the current period. Had there been no change in useful lives of airframes and engines, depreciation expense on aircraft fleet and capital spares for the period would have been higher by Rs 879 million and Rs 206 million respectively, whereas the effect on future periods is impracticable to ascertain considering subsequent measurement of property, plant and equipment under the revaluation model and inherent uncertainties attached thereto.

5. LONG-TERM INVESTMENTS

Investments in related parties - unquoted - at cost

	(Un-audited) June 30, 2010	(Audited) December 31, 2009
Rupees in '000		
- Subsidiaries	4,415,712	4,415,712
- Associates	396	396
- Joint venture	2	2
	<u>4,416,110</u>	<u>4,416,110</u>
Other investments	21,718	30,840
	<u>4,437,828</u>	<u>4,446,950</u>

6. STORES AND SPARES

Stores	745,389	792,769
Spares	5,403,467	5,280,298
Inventory held for disposal - adjusted to net realisable value	252,859	252,859
	<u>6,401,715</u>	<u>6,325,926</u>
Provision for slow moving and obsolete spares	(2,755,865)	(2,662,295)
	3,645,850	3,663,631
Stores and spares - in-transit	161,588	323,792
	<u>3,807,438</u>	<u>3,987,423</u>

7. TRADE DEBTS

Considered good	7,746,928	7,978,187
Considered doubtful	667,585	623,200
Provision for doubtful debts	(667,585)	(623,200)
	-	-
	<u>7,746,928</u>	<u>7,978,187</u>

7.1 Movement in provision is as follows:

Balance at the beginning of the period / year	623,200	740,330
Written off during the period / year	(59,054)	(3,179)
Provision / (reversal) during the period / year	103,439	(113,951)
	<u>667,585</u>	<u>623,200</u>

	(Un-audited) June 30, 2010	(Audited) December 31, 2009
	Rupees in '000	
8. ADVANCES		
Considered good		
Subsidiary - Skyrooms (Private) Limited	10,702	46,402
Others		
- Executives and employees	191,977	169,701
- Suppliers	831,377	1,823,247
- Civil Aviation Authority	143,835	143,835
- Others	5,925	5,977
	1,173,114	2,142,760
	1,183,816	2,189,162
Considered doubtful		
Subsidiary - Skyrooms (Private) Limited	108,672	108,672
Others	31,915	31,915
Provision for doubtful advances	(140,587)	(140,587)
	-	-
	1,183,816	2,189,162
9. CASH AND BANK BALANCES		
In hand	11,823	10,457
In transit	61,883	42,254
	73,706	52,711
With banks		
- in current accounts	1,976,099	545,844
- in short term deposit accounts	341,053	144,390
	2,317,152	690,234
	2,390,858	742,945
10. ADVANCE AGAINST EQUITY FROM GOVERNMENT OF PAKISTAN		

This represents advance received from the Government of Pakistan as reimbursement of mark up payments on term finance and sukuk certificates. Ordinary shares @ Rs 10 each shall be issued thereagainst shortly.

11. LONG-TERM FINANCING

Financier	Type of facility	Limit (million)	Repayment period	Number of installments / mode	Mark-up (%)	June 30, 2010 (unaudited)	December 31, 2009 (audited)
						Rs '000	
From Banking Companies - secured							
United Bank Limited	Syndicate finance	Rs 1,650	2007 - 2010	6 half yearly	6 month KIBOR + 0.79%	-	135,092
Citibank, N.A.	Demand finance	US \$ 82	2006 - 2017	20 half yearly	5.28% fixed	4,660,351	4,927,683
Royal Bank of Scotland	Demand finance	US \$ 59.50	2009 - 2013	19 quarterly	3 month LIBOR + 1.60%	3,592,527	4,022,278
National Bank of Pakistan	Syndicate finance	US \$ 120	2013	Bullet	3 month LIBOR + 3.25 to 3.60%	10,272,000	10,104,000
Standard Chartered Bank	Demand finance	US \$ 50	2007 - 2010	12 quarterly	3 month LIBOR + 1.325%	-	350,833
National Bank of Pakistan	Term finance	Rs 500	2007 - 2010	12 quarterly	3 month KIBOR + 1.50%	83,333	166,667
National Bank of Pakistan - Bahrain	Demand finance	US \$ 50	2008 - 2010	24 monthly	6 month LIBOR + 2.55%	-	1,052,500
Standard Chartered Bank	Syndicate finance	Rs 3,592	2009 - 2011	22 monthly	1 month KIBOR + 1.25%	1,142,894	2,122,518
National Bank of Pakistan - Bahrain	Demand finance	US \$ 70	2010 - 2012	24 monthly	1 month LIBOR + 5.50%	3,852,000	-
Hong Kong Shanghai Banking Corporation	Demand finance	Rs 850	2010 - 2011	17 monthly	3 month KIBOR + 0.90%	750,000	-
Others - unsecured							
Long term loan - GoP	Term loan	Rs 8,000	2011 - 2020	16 half yearly	10% fixed	8,000,000	7,000,000
						32,353,105	29,881,571
Current maturity shown under current liabilities						(6,313,546)	(5,328,458)
						26,039,559	24,553,113

11.1. There has been no change in the securities for the above loans as disclosed in note 20 to the annual financial statement for the year ended December 31, 2009.

12. TERM FINANCE AND SUKUK CERTIFICATES

	Repayment period	Number of installments / mode	Mark-up (%)	June 30, 2010 (unaudited)	December 31, 2009 (audited)
				Rs '000	
Term finance certificates	2009- 2014	10 half yearly	6 month KIBOR + 0.85%	12,794,880	12,797,440
	Less: Current portion			(5,120)	(5,120)
				12,789,760	12,792,320
Sukuk certificates	2012 - 2014	6 half yearly	6 month KIBOR + 1.75%	6,800,000	6,800,000
				19,589,760	19,592,320

(Un-audited) (Audited)
June 30, **December 31,**
2010 **2009**

Note ————— Rupees in '000 —————

13. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Present value of future rental obligations - aircraft fleet

A-310 - 300	5,037,651	5,504,821
B-777 - 200 ER	14,824,430	15,859,793
B-777 - 200 LR	15,498,781	16,122,513
B-777 - 300 ER	30,947,699	31,907,001
	<u>66,308,561</u>	<u>69,394,128</u>
Present value of future rental obligations - vehicles	-	1,551
	<u>66,308,561</u>	<u>69,395,679</u>
Current maturity shown under current liabilities	(8,358,715)	(8,122,882)
	<u>57,949,846</u>	<u>61,272,797</u>

14. SHORT-TERM BORROWINGS - secured

Short term loans	14.1	18,423,334	16,796,238
Running finance under mark up arrangements	14.2	7,906,201	7,185,922
		<u>26,329,535</u>	<u>23,982,160</u>

14.1 Short term loans - secured

Financier	Security	Facility amount (million)	Repayment period	Mark-up (%)	June	December
					30, 2010	31, 2009
Rs '000						
From Banking Companies						
Habib Bank Limited	GoP guarantee	Rs 2,000	3 months	3 month KIBOR + 0.90%	2,000,000	2,000,000
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs 2,230 million	Rs 1,600	1 Year	1 month KIBOR + 0.90%	1,600,000	1,600,000
Habib Allied International Bank Limited - London	Euro receivables	US \$ 9	1 Year	1 month LIBOR + 3.00%	770,400	757,800
National Bank - Bahrain	Charge over UK and Saudi Arabia receivables	US \$ 60	1 Year	1 month LIBOR + 5.25%	3,852,000	-
National Bank - Bahrain	Charge over Saudi Arabia, Bangladesh, & Oman receivables	US \$ 20	1 Year	1 month LIBOR + 5.25%	1,712,000	-
National Bank - Bahrain	UK receivables	GBP 20	1 Year	1 month LIBOR + 5.00%	214,934	1,803,191
National Bank - Bahrain	Charge over Saudi Arabia, Bangladesh & Oman receivables	SAR 75	6 months	1 month SIBOR + 5.00%	-	1,122,247
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs 2,400 million	Rs 2000	1 Year	1 month KIBOR + 0.85%	2,000,000	2,000,000
Carried forward on next page					<u>12,149,334</u>	<u>9,283,238</u>

Financier	Security	Facility amount (million)	Repayment period	Mark-up (%)	June 30, 2010	December 31, 2009
					Rs '000	
					12,149,334	9,283,238
	Brought forward from previous page					
National Bank of Pakistan	GoP Guarantee	Rs 1,500	1 Year	3 month KIBOR + 0.90%	1,500,000	1,500,000
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs 1,346 million	Rs 1,000	1 Year	3 month KIBOR + 0.90%	1,000,000	1,000,000
Hong Kong Shanghai Banking Corporation	GoP guarantee, promissory note amounting to Rs 1,600 million	Rs 1,000	3 months	3 month KIBOR + 0.90%	-	1,000,000
Barclays PLC	GoP Guarantee	Rs 690	6 months	3 month KIBOR + 0.90%	490,000	750,000
Askari Bank Limited	GoP Guarantee	Rs 1,500	1 Year	3 month KIBOR + 0.90%	1,500,000	1,500,000
KASB Bank Limited	GoP guarantee, promissory note amounting to Rs 595 million	Rs 500	1 Year	3 month KIBOR + 0.90%	500,000	500,000
Faysal Bank Limited	GoP guarantee and ranking hypothecation charge over all current assets	US \$ 15	1 Year	3 month LIBOR + 2.00%	1,284,000	1,263,000
					18,423,334	16,796,238

14.2 Running finance under mark-up arrangements - secured

Financier	Security	Facility amount (million)	Repayment period	Mark-up (%)	June 30, 2010	December 31, 2009
					Rs '000	
United Bank Limited	Domestic receivables	Rs 2,870	1 Year	1 month KIBOR + 2.50%	2,751,378	2,439,718
Habib Bank Limited - NYC	EURO receivables	US \$ 3	1 Year	3 month LIBOR + 4.50%	-	240,974
National Bank of Pakistan	First pari passu hypothecation charge on all present and future current assets	Rs 1,000	1 Year	1 month KIBOR + 2.00%	998,814	575,017
Habib Allied International Bank Limited - London	EURO receivables	US \$ 3	1 Year	1 month LIBOR + 3%	171,909	251,931
KASB Bank Limited	Domestic receivables	Rs 400	1 Year	3 month KIBOR + 2.5%	400,000	400,000
United Bank Limited - Dubai	First pari passu hypothecation charge on all present and future current assets	US \$ 22	1 Year	1 month LIBOR + 5.00%	1,891,610	1,859,507
					6,213,711	5,767,147
			Carried forward on next page			

Financier	Security	Facility amount (million)	Repayment period	Mark-up (%)	June 30, 2010	December 31, 2009
					Rs '000	
Brought forward from previous page					6,213,711	5,767,147
Arif Habib Bank	Domestic receivables	Rs 300	1 Year	3 month KIBOR + 2.50%	298,398	123,936
United Bank Limited - Bahrain	First pari passu hypothecation charge on all present and future current assets	US \$ 13	1 Year	1 month LIBOR + 5.00%	1,117,576	1,092,752
Habib Bank Limited	Hypothecation charge over all present and future spare parts, accessories of aircraft and domestic receivables	Rs 350	1 Year	1 month KIBOR + 2.00%	276,516	202,087
					<u>7,906,201</u>	<u>7,185,922</u>

15. CONTINGENCIES AND COMMITMENTS

15.1 Contingencies

- 15.1.1 The Civil Aviation Authority (CAA), has claimed additional amounts aggregating Rs 4,146 million (December 31, 2009: Rs 4,114 million) in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest / surcharge etc. The matter has been referred to Ministry of Defence through which a reconciliation and settlement exercise is currently in progress. The management considers that no additional liability of material amount is likely to arise as a result of such exercise. However, as a matter of prudence, the Corporation has made a provision of Rs 1,500 million thereagainst.
- 15.1.2 The Collector Central Excise has raised demands of Rs 690 million (December 31, 2009: Rs 690 million) and penalty of Rs 2,923.005 million in respect of duties levied on tickets provided by the Corporation to its staff either free of charge or at concessional rates, repairs or replacement of reimported aircraft engines, non-availability of invoices, import related to miscellaneous consignments, printed material sent at its various stations abroad for utilisation, late / short payment of sales tax and Central Excise Duty (CED) and excess baggage tickets. On this account, the Corporation has already paid an amount of Rs 100 million which is considered fully recoverable by it. The Corporation has filed appeals with the Customs, Central Excise and Sales Tax Appellate Tribunal which are pending adjudication. The Corporation is confident that the decision of the subject appeals would be made in its favor. Consequently, no provision has been made in these condensed interim financial statements.
- 15.1.3 A show cause notice was served to the Corporation by Additional Collector, LTU Karachi, as a result of findings during the audit of the Corporation's records pertaining to 2004 - 2005 and 2005 - 2006. The Collector has raised demands of Rs 6.804 million (December 31, 2009: Rs 6.804 million) for Federal Excise Duty (FED), Rs 277.621 million (December 31, 2009: Rs 277.621 million) for sales tax, Rs 1.205 million as penalty, Rs 2.911 million as additional duty and Rs 14.999 million as additional tax in respect of late filing of monthly returns of excise duty, sales tax of various taxable activities and incorrect rate of duty charged and paid along with input tax paid on various utilities. The Corporation has filed an appeal with the Additional Collector (Adjudication), which is currently pending for adjudication. The Corporation is confident that the decision of the subject appeal would be made in its favor. Consequently, no provision has been made in these condensed interim financial statements.

- 15.1.4 A show cause notice was served to the Corporation by Additional Collector, LTU for claim of Rs 1,319.101 million (December 31, 2009: Rs 1,319.101 million) as sales tax, Rs 2.065 million (December 31, 2009: Rs 2.065 million) as FED, Rs 66.058 million as penalty, Rs 0.835 million as additional duty and Rs 533.576 million as additional tax on the basis of investigation conducted by Directorate General Intelligence, Federal Board of Revenue. The amount was claimed against incorrect / inadmissible adjustment on exempt activity and incorrect charging of rates on FED and sales tax. The Corporation has filed an appeal with the Additional Collector (Adjudication), which is currently pending for adjudication. The Corporation is confident that the decision of the subject appeal would be made in its favor. Consequently, no provision has been made in these condensed interim financial statements.
- 15.1.5 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 condensed interim financial statements against these claims amounting to Rs 3,638.347 million (December 31, 2009: Rs 2,049.367 million).
- 15.1.6 The additional collector - LTU has raised demand for additional duty amounting to Rs 11.436 million, additional tax amounting to Rs 6.338 million and penalty amounting to Rs 5,877.351 million in respect of late submission of sales tax and FED returns for the months of November 2008 and December 2008. The Corporation has applied for waiver of additional duty, additional tax and penalty with Federal Board of Revenue, Ministry of Finance and Ministry of Defence. The Corporation is confident that this matter will be decided in its favor. Consequently, no provision has been made in these condensed interim financial statements.
- 15.1.7 There has been no change in the status of other contingencies as disclosed in the note 28.1 (d, e, h, j, k and l) to annual financial statements of the Corporation for the year ended December 31, 2009. Contingencies relating to income tax matters are disclosed in note 20.1 and 20.2.

	(Un-audited) June 30, 2010	(Audited) December 31, 2009
————— Rupees in '000 —————		
15.2 Commitments		
Commitments for purchase of simulator	289,209	1,128,130
Commitments for other capital expenditure	12,449	103,150
Outstanding letters of credit	125,642	187,992
Outstanding letters of guarantee	576,244	587,039

	Six-months period ended		Quarter ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Rs '000			
16. REVENUE - net				
Passenger	43,794,410	37,547,673	23,301,799	18,326,629
Cargo	3,114,219	2,199,382	1,835,654	1,162,506
Excess baggage	482,962	449,178	213,273	216,295
Charter	93,578	278,994	14,878	208,677
Engineering services	541,242	446,401	383,163	274,218
Handling and related services	293,257	266,853	164,966	156,063
Mail	210,614	140,788	120,502	75,658
Others	776,156	591,397	424,409	253,124
	<u>49,306,438</u>	<u>41,920,666</u>	<u>26,458,644</u>	<u>20,673,170</u>
17. COST OF SERVICES - Others				
Salaries, wages and allowances	4,808,558	4,153,940	2,386,358	2,088,717
Welfare and social security costs	207,546	196,071	19,601	15,232
Retirement benefits	1,102,854	562,255	749,366	322,959
Compensated absences	48,904	59,455	23,153	34,455
Legal and professional charges	39,650	43,313	29,003	31,079
Stores and spares consumed	1,482,234	876,124	789,649	375,022
Maintenance and overhaul	2,663,173	2,144,509	1,278,789	1,107,377
Flight equipment rental	602,052	593,315	304,891	291,187
Landing and handling	5,383,932	4,803,796	2,724,440	2,416,757
Passenger services	1,704,771	1,308,924	883,181	680,022
Crew layover	1,394,396	1,233,886	742,398	630,148
Staff training	48,059	32,340	32,383	13,460
Utilities	10,213	10,512	5,175	6,203
Communication	28,459	26,702	13,802	9,184
Insurance	696,743	656,080	298,645	341,553
Rent, rates and taxes	343,287	267,381	121,402	109,820
Printing and stationery	111,658	113,543	77,148	78,234
Amortisation	1,288	1,288	457	560
Depreciation	2,731,374	4,521,029	1,358,211	2,322,466
Others	173,507	166,832	108,952	95,659
	<u>23,582,658</u>	<u>21,771,295</u>	<u>11,947,004</u>	<u>10,970,094</u>
18. OTHER PROVISION AND ADJUSTMENTS - net				
Provision for slow moving stores and spares	93,570	203,993	93,570	160,838
Provision / (write back) against doubtful debts	103,439	(92,108)	103,439	(48,842)
	<u>197,009</u>	<u>111,885</u>	<u>197,009</u>	<u>111,996</u>

	Six-months period ended		Quarter ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Rs '000				
19. FINANCE COSTS				
Mark-up on:				
- long term financing	884,197	802,097	454,527	406,161
- murabaha financing	2,957	3,723	2,957	3,723
- short term borrowings	1,259,727	1,712,065	662,413	858,183
	<u>2,146,881</u>	<u>2,517,885</u>	<u>1,119,897</u>	<u>1,268,067</u>
Return on term finance certificates	840,183	921,228	421,693	492,906
Profit on sukuk certificates	481,552	-	240,105	-
Interest on liabilities against assets subject to finance leases	731,255	1,029,634	362,105	470,739
Interest to pension / provident fund	125,600	100,039	70,013	-
Arrangement, agency and commitment fee	194,626	90,322	20,769	128,029
Bank charges, guarantee commission and other related charges	131,119	125,184	121,190	10,115
	<u>4,651,216</u>	<u>4,784,292</u>	<u>2,355,772</u>	<u>2,369,856</u>

20. TAXATION

Current - for the period	494,498	209,603	380,259	209,603
- for prior period	4,827	-	4,827	-
Deferred	-	(653,015)	-	(653,015)
	<u>499,325</u>	<u>(443,412)</u>	<u>385,086</u>	<u>(443,412)</u>

20.1 During the period, the Commissioner Income Tax (CIT) issued an amended assessment order for tax year 2005 under section 122 (5A) raising an additional tax demand of Rs 1,146 million. The addition was primarily due to disallowance of tax depreciation on assets acquired on finance lease which are being considered depreciable assets for tax purposes. Management, based on tax advisor's opinion, considers the transaction as a financing agreement between EXIM Bank and the Corporation and not that of finance lease from a Special Purpose Vehicle (SPV). The Corporation has filed an appeal with the CIT - Appeals and currently, the case is pending for hearing.

20.2 There is no change in the status of tax contingency as set out in note 36.1 to the December 2009 financial statements.

	Six-months period ended		Quarter ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Rs '000				
Loss for the period after taxation	6,901,499	5,395,193	4,372,193	3,346,512
No. of ordinary shares				
Weighted average number of ordinary shares outstanding	2,414,472,900	2,142,060,245	2,445,053,525	2,142,060,245
Rs				
Loss per share – basic (class A)	2.86	2.52	1.79	1.56
Loss per share – basic (class B)	1.43	1.26	0.90	0.78

21.1 Since the 'advance against share capital' is to be mandatory converted into ordinary share capital of the Corporation, the impact has been taken into account while calculating 'loss per share - basic (class A)'.

21.2 There were no dilutive potential ordinary shares outstanding as at June 30, 2009 and 2010.

	Six months period ended	
	June 30, 2010	June 30, 2009
	—Rs '000—	
22. CASH GENERATED FROM OPERATIONS AFTER WORKING CAPITAL CHANGES		
Loss before taxation	(6,402,174)	(5,838,605)
Adjustments for non cash items:		
Depreciation	2,866,135	4,855,162
Gain on disposal of property, plant and equipment	(4,333)	(1,362)
Amortisation of intangibles	11,284	11,224
Provision for slow moving stores and spares	93,570	203,845
Provision for employees' benefits	1,916,098	470,626
Provision for doubtful debts	103,439	(95,330)
Liability written back	(178,436)	-
Finance costs	4,651,216	4,784,292
Profit on bank deposits	(8,668)	(14,071)
Cash generated from operations before working capital changes	3,048,131	4,375,781
Working capital changes:		
Decrease / (increase) in stores and spare parts	86,415	(449,586)
Decrease / (increase) in trade debts	127,820	(601,911)
Decrease in advances	1,005,346	104,959
Decrease in trade deposits and prepayments	(38,377)	534,219
Increase in other receivables	(64,929)	(134,844)
Increase / (decrease) in trade and other payables	(139,533)	(1,047,258)
	976,742	(1,594,421)
Cash generated from operations after working capital changes	4,024,873	2,781,360

23. TRANSACTIONS WITH RELATED PARTIES

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

	Six months period ended	
	June 30, 2010	June 30, 2009
	—Rs '000—	
Retirement funds		
Contribution charged	471,730	399,749
Accrual of interest to pension / provident fund	125,600	100,039
Long term loan		
Long term loan - GoP	1,000,000	7,000,000
Share capital		
Advance against share capital from GoP	1,177,679	933,592
Key management personnel		
Salaries, wages and other benefits	50,444	17,518

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

24. CORRESPONDING FIGURES

For better presentation the following reclassifications in the corresponding figures have been made:

Description	Head of account of June 2010	Head of account of December 31, 2009 / June 2009	Amount (Rs '000)
Provision against Civil Aviation Authority's claims	Provision against Civil Aviation Authority's claims	Trade and other payables and provisions	1,500,000
Loss on derivative financial instrument	Other expenses	Aircraft fuel	192,725
Interest to pension / provident fund	Interest to pension / provident fund	Mark up on long term financing	100,039
Mark up on murabaha financing	Mark up on murabaha financing	Interest on liabilities against assets subject to finance leases	3,723
Amortisation of exposure fee	Bank charges, guarantee commission and other related charges	Arrangement, agency and commitment fee	104,353

25. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on August 26, 2010 by the Board of Directors of the Corporation.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Quarterly Summary

		2010		2009			
		1st Quarter	2nd Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Traffic Operations							
Available Seat Kilometers (million)	International	3,789	4,548	3,429	4,164	4,087	3,494
	Domestic	571	625	629	650	666	568
	Hajj	15	-	295	-	-	1,635
	Total	4375	5173	4353	4,814	4,753	5,697
Revenue Passenger Kilometers (million)	International	2,983	3,359	2,589	2,943	2,842	2,824
	Domestic	429	492	416	452	458	413
	Hajj	6	1	143	-	-	783
	Total	3418	3852	3148	3,395	3,300	4,020
Seat Factor (%)	International	78.73	73.86	75.50	70.68	69.54	80.82
	Domestic	75.13	78.72	66.14	69.54	68.77	72.71
	Hajj	40.00	0.00	48.47	0.00	0.00	47.89
	Total	78.13	74.46	72.32	70.52	69.43	70.56
Available Freight Tonne Kilometers (million)	International	96	109	109	124	121	116
	Domestic	15	15	17	18	18	15
	Total	111	124	126	142	139	131
Revenue Freight Tonne Kilometers (million)	International	60	75	45	56	74	61
	Domestic	5	8	5	7	7	5
	Total	65	83	50	63	81	66
Load Factor (%)	International	62.50	68.81	41.28	45.16	61.16	52.59
	Domestic	33.33	53.33	29.41	38.89	38.89	33.33
	Total	58.56	66.94	39.68	44.37	58.27	50.38
Financial							
Rupees in million							
Operating Revenue	22,848	26,459	21,247	20,673	22,018	30,625	
Operating Expenses	23,318	26,535	19,275	20,883	23,068	28,539	
Operating profit/(loss)	(470)	(76)	1,972	(210)	(1,050)	2,086	
Profit/(loss) before taxation	(2,415)	(3,987)	(2,049)	(5,839)	(5,565)	(1,906)	
Profit/(loss) after taxation	(2,529)	(4,372)	(2,049)	(5,395)	(5,376)	(4,949)	
Fixed Assets	132,648	131,624	113,395	111,698	109,960	133,648	
Current Assets	19,575	17,103	15,256	16,198	15,595	16,881	
Current Liabilities	72,269	72,936	70,140	83,418	83,349	68,818	
Long-term Debts	104,410	103,580	97,580	86,925	88,485	105,418	
Net Worth	(51,483)	(54,575)	(48,028)	(50,814)	(55,625)	(49,055)	
Jet Fuel Prices (Rs. Per US Gallon)	183.2	194.22	122.53	126.64	162.67	176.91	

*consolidated
financial statements*

Consolidated

Condensed Interim Balance Sheet (Un-audited)

As at June 30, 2010

		(Un-audited) June 30, 2010	(Audited) December 31, 2009	(Un-audited) June 30, 2010	(Audited) December 31, 2009
	Note	Rupees in '000		US\$ in '000	
ASSETS					
NON CURRENT ASSETS					
Fixed assets					
- Property, plant and equipment	4	172,632,824	175,531,555	2,019,097	2,084,698
- Intangibles		2,927,568	2,903,518	34,241	34,484
		175,560,392	178,435,073	2,053,338	2,119,182
Long-term investments	5	85,254	93,021	997	1,105
Receivable from Centre Hotel		645,885	636,064	7,554	7,554
Long-term loans		14,860	12,051	174	143
Long-term deposits and prepayments		5,053,977	5,199,986	59,111	61,758
		181,360,368	184,376,195	2,121,174	2,189,742
CURRENT ASSETS					
Stores and spares	6	3,840,380	4,017,865	44,917	47,718
Trade debts	7	8,164,653	8,335,142	95,493	98,992
Short-term loans and advances	8	1,107,070	2,187,319	12,948	25,978
Trade deposits and prepayments		1,551,094	1,672,701	18,141	19,866
Other receivables		1,106,030	1,003,640	12,936	11,920
Short term investments		259,669	144,060	3,037	1,711
Taxation - net		76,347	70,628	893	839
Cash and bank balances		6,475,605	4,691,221	75,738	55,715
		22,580,848	22,122,576	264,103	262,739
TOTAL ASSETS		203,941,216	206,498,771	2,385,277	2,452,481
EQUITY AND LIABILITIES					
SHARE CAPITAL AND RESERVES					
Share capital		23,280,356	23,280,356	272,285	276,489
Reserves		(77,396,449)	(70,568,745)	(905,222)	(838,109)
Attributable to the Holding company's shareholders		(54,116,093)	(47,288,389)	(632,937)	(561,620)
Advance against equity from Government of Pakistan	9	1,177,679	-	13,774	-
Non-controlling interest		861,181	760,764	10,072	9,035
TOTAL EQUITY		(52,077,233)	(46,527,625)	(609,091)	(552,585)
SURPLUS ON REVALUATION OF FIXED ASSETS		41,898,807	42,212,154	490,045	501,332
NON CURRENT LIABILITIES					
Long-term financing	10	41,497,398	40,300,378	485,350	478,627
Term finance and sukuk certificates	11	19,589,760	19,592,320	229,120	232,688
Liabilities against assets subject to finance lease	12	57,989,328	61,321,895	678,238	728,289
Long-term deposits		404,653	365,979	4,733	4,347
Deferred liabilities		19,749,089	18,307,683	230,983	217,431
		139,230,228	139,888,255	1,628,424	1,661,382
CURRENT LIABILITIES					
Trade and other payables		28,508,906	28,918,267	333,437	343,447
Provision against Civil Aviation Authority's claims		1,500,000	1,500,000	17,544	17,815
Accrued interest / mark-up / profit		2,380,842	1,845,592	27,846	21,919
Provision for taxation - net		1,181,254	874,887	13,815	10,393
Short-term borrowings	13	26,329,535	23,982,160	307,948	284,824
Current maturities of:					
- Long-term financing	10	6,604,622	5,655,812	77,247	67,171
- Term finance certificates	11	5,120	5,120	60	61
- Advance rent		1,686	3,486	20	42
- Liabilities against assets subject to finance lease	12	8,377,449	8,140,663	97,982	96,682
		74,889,414	70,925,987	875,899	842,352
TOTAL EQUITY AND LIABILITIES		203,941,216	206,498,771	2,385,277	2,452,481
CONTINGENCIES AND COMMITMENTS 14					

The annexed notes 1 to 21 form an integral part of these consolidated condensed interim financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated

Condensed Interim Profit And Loss Account (Un-audited)

For the six months period ended June 30, 2010

	Note	Six-months Period Ended		Quarter Ended		Six-months Period Ended	
		June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
		Rs '000				US \$ '000	
REVENUE - net	15	53,877,639	45,972,766	29,178,246	23,033,918	630,148	566,865
COST OF SERVICES							
Aircraft fuel		19,468,502	12,187,636	10,992,253	6,334,864	227,702	150,279
Others	16	26,560,887	24,574,120	13,253,438	12,250,391	310,654	303,010
		46,029,389	36,761,756	24,245,691	18,585,255	538,356	453,289
GROSS PROFIT		7,848,250	9,211,010	4,932,555	4,448,663	91,792	113,576
Distribution costs		3,850,762	2,832,611	2,200,470	1,397,046	45,038	34,927
Administrative expenses		3,871,709	3,753,736	2,184,022	2,544,922	45,283	46,285
Other provisions and adjustments - net	17	197,009	111,885	197,009	111,996	2,304	1,380
Exchange loss - net		1,566,343	2,999,756	1,901,782	1,149,161	18,320	36,988
Other expenses		-	192,725	-	192,725	-	2,376
Other operating income		(560,593)	(261,552)	(544,873)	(60,798)	(6,557)	(3,225)
		8,925,230	9,629,161	5,938,410	5,335,052	104,388	118,731
LOSS FROM OPERATIONS		(1,076,980)	(418,151)	(1,005,855)	(886,389)	(12,596)	(5,155)
Finance costs	18	4,810,395	4,971,116	2,437,384	2,457,796	56,262	61,296
LOSS BEFORE TAXATION		(5,887,375)	(5,389,267)	(3,443,239)	(3,344,185)	(68,858)	(66,451)
Taxation		(641,102)	368,224	(501,646)	371,206	(7,498)	4,540
LOSS FOR THE PERIOD		(6,528,477)	(5,021,043)	(3,944,885)	(2,972,979)	(76,356)	(61,911)
		Rs				US \$	
EARNINGS PER SHARE							
Loss attributable to:							
'A' class Ordinary shares of Rs 10 each		2.70	2.52	1.08	1.56	0.03	0.03
'B' class Ordinary shares of Rs 5 each		1.35	1.26	0.54	0.78	0.02	0.02

The annexed notes 1 to 21 form an integral part of these consolidated condensed interim financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated

Condensed Interim Statement of Comprehensive Income (Un-audited)

For the six months period ended June 30, 2010

	Six-months Period Ended		Quarter Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Rs '000			
Net loss for the period	(6,528,477)	(5,021,043)	(3,944,885)	(2,972,979)
Other comprehensive income				
Unrealised loss on remeasurement of investments	(9,122)	(180,183)	(9,122)	(1,651)
Exchange difference on translation of foreign operation	(503,222)	-	(67,880)	
Loss on cash flow hedge arising during the period - net of tax	-	125,271	-	-
Total comprehensive loss for the period transferred to equity	<u>(7,040,821)</u>	<u>(5,075,955)</u>	<u>(4,021,887)</u>	<u>(2,974,630)</u>

The annexed notes 1 to 21 form an integral part of these consolidated condensed interim financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated

Condensed Interim Cash Flow Statement (Un-audited)

For the six months period ended June 30, 2010

	Six-months Period Ended June 30, 2010		Six-months Period Ended June 30, 2009	
Note	Rupees in '000		US\$ in '000	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations				
after working capital changes	19	4,979,953	3,343,702	58,245
Profit on bank deposits received		8,668	15,396	101
Finance costs paid		(4,164,791)	(4,885,973)	(48,711)
Taxes paid		(618,714)	(196,761)	(7,236)
Staff retirement benefits paid		(374,693)	(685)	(4,382)
Deferred Custom duty paid		-	(113,554)	-
Gratuity paid		(3,573)	-	(41)
Long-term deposits and prepayments - net		64,371	(425)	752
Net cash used in operating activities		(108,779)	(1,838,300)	(1,272)
				(22,666)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(972,715)	(1,532,198)	(11,376)
Proceeds from sale of property, plant and equipment		24,145	2,829	282
Short-term investments - net		(354)	12,106	(4)
Long term receivable		84,100	3,270	983
(Increase)/Decrease in marketable securities		(26,627)	152,522	(311)
Translation adjustments		626,303	(227,380)	7,325
Net cash used in investing activities		(265,148)	(1,588,851)	(3,101)
				(19,592)
CASH FLOWS FROM FINANCING ACTIVITIES				
Advance against equity from Government of Pakistan		1,177,679	933,592	13,774
Proceeds from long term financing - net		1,897,647	3,044,841	22,194
Term finance and sukuk certificates - net		(2,560)	369,857	(29)
Long-term deposits		38,674	-	452
Repayment of obligations under finance lease-net		(3,109,528)	(1,605,617)	(36,369)
Net cash generated from financing activities		1,912	2,742,673	22
Decrease in cash and cash equivalents		(372,015)	(684,478)	(4,351)
Cash and cash equivalents at the beginning of the period		(19,481,916)	(26,584,355)	(227,859)
Cash and cash equivalents at the end of the period		(19,853,930)	(27,268,833)	(232,210)
CASH AND CASH EQUIVALENTS				
Cash and bank balances		6,475,605	4,132,548	75,738
Short-term borrowings		(26,329,535)	(31,401,381)	(307,948)
		(19,853,930)	(27,268,833)	(232,210)
				(336,236)

The annexed notes 1 to 21 form an integral part of these consolidated condensed interim financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated

Condensed Interim Statement of Changes In Equity (Un-audited)

For the six months period ended June 30, 2010

	Issued, subscribed, and paid-up capital	Advance against share Capital	Reserves					Total	Minority interest	Total	
			Capital reserves	Revenue reserves	Unrealised loss on remeasurement of investments	Foreign Exchange translation reserves	Accumulated losses				Other reserves
Rs '000											
Balance as at January 1, 2009 - Restated*	21,423,014	-	2,501,038	1,779,674	73,265	(602,014)	(71,016,296)	(85,139)	(45,936,458)	743,935	(45,192,523)
Total comprehensive loss for the period transferred to equity	-	-	-	-	(180,183)	-	(3,741,704)	95,139	(3,826,748)	-	(3,826,748)
Surplus on revaluation of fixed assets realised during the period on account of incremental depreciation charged thereon - net of tax	-	-	-	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	(411,983)	-	-	(411,983)	-	(411,983)
Minority interest	-	-	-	-	-	-	-	-	-	50,857	50,857
Balance as at June 30, 2009 - Restated*	21,423,014	-	2,501,038	1,779,674	(106,918)	(1,013,997)	(74,758,000)	-	(50,175,189)	794,792	(49,380,397)
Balance as at January 1, 2010	23,280,356	-	2,501,038	1,779,674	29,278	(454,869)	(74,455,128)	31,262	(47,288,389)	760,764	(46,527,625)
Total comprehensive income for the period transferred to equity	-	-	-	-	(9,122)	(503,222)	(6,528,477)	-	(7,040,821)	100,417	(6,940,404)
Advance against equity from Government of Pakistan	-	1,177,679	-	-	-	-	-	-	1,177,679	-	1,177,679
Surplus on revaluation of fixed assets realised during the period on account of incremental depreciation charged thereon - net of tax	-	-	-	-	-	-	213,117	-	213,117	-	213,117
Balance as at June 30, 2010	23,280,356	1,177,679	2,501,038	1,779,674	20,156	(958,091)	(80,770,488)	31,262	(52,938,414)	861,181	(52,077,233)

*Effect of change in accounting policy for customer loyalty programme as disclosed in note 4.1.4 to the financial statements for the year ended December 31, 2009

The annexed notes 1 to 21 form an integral part of these consolidated condensed interim financial statements.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Notes to and Forming Part of the Consolidated Condensed Interim Financial Statements (Un-audited)

For the six months period ended June 30, 2010

1. THE GROUP AND ITS OPERATIONS

1.1 The Group consists of:

Pakistan International Airlines Corporation (the Holding company)

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

1.2 Following Subsidiaries companies have been consolidated in the Financial Statements of Pakistan International Airlines Corporation.

Subsidiary Companies	Nature of Business
PIA Investments Ltd. (PIA-IL)	Promoters of and investors in projects related to construction, development and operations of hotels, motels and restaurant throughout the world.
Skyrooms (Private) Limited (SRL)	To manage Airport Hotel at Karachi.

1.3 During the period, the holding company has prepared its five year business plan which has also been approved by the Board. Through such business plan the holding company has devised a turn-around strategy which entails operations restructuring and assumes Government of Pakistan's (GoP's) support in terms of providing necessary funding for recapitalization. The management of holding company believes that the business plan which has been sent to the GoP will be approved by it (the GoP) and accordingly significant financial support will be provided to the holding company during coming years to ensure its long term sustainability.

Historically, the GoP, as a majority shareholder, has expressed its commitment to extend maximum support in order to maintain the going concern status of the holding company. This support is evident by the fact that GoP had in the past issued guarantees to secure certain long term finances and term finance certificates. Further, during the current period the GoP has provided an additional fixed rate loan of Rs. 1,000 million and has contributed advance against ordinary share capital of the holding company in the amount of Rs. 1,178 million.

2. BASIS OF PREPARATION

2.1 These consolidated condensed interim financial statements of the Group for the six months period ended June 30, 2010 have been prepared in accordance with the requirements of the International Accounting Standard 34 - Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where requirements differ, the provisions of or directives issued under the Ordinance have been followed.

2.2 The comparative consolidated condensed interim profit and loss account and condensed interim statement of comprehensive income and notes thereto for the quarters ended June 30, 2010 and 2009 are also included in these consolidated condensed interim financial statements.

- 2.3 These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the holding company's December 2009 consolidated financial statements.
- 2.4 The US \$ amount reported in the condensed interim balance sheet, condensed interim profit and loss account and condensed interim cash flow statement are stated as additional information, solely for the convenience of the user of these condensed interim financial statements. The US \$ amounts in the condensed interim balance sheet have been translated into US \$ at the rate of Rs 85.50 = US \$ 1 (December 31, 2009: Rs 84.20 = US \$ 1). The US \$ amounts in condensed interim profit and loss account and condensed interim cash flow statement have been translated into US \$ at the rate of Rs 85.50 = US \$ 1 (June 30, 2009: Rs 81.10 = US \$ 1)

3. SIGNIFICANT ACCOUNTING POLICIES

- 3.1 The accounting policies, estimates, judgments and methods of computation adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the December 2009 financial statements of the Group, except for the adoption of amendments to existing standards as noted below:

- 3.2 Standards, interpretations and amendments effective January 1, 2010:

- 3.2.1 Amendments to IFRS 2 'Group cash-settled share-based payment transactions' are effective for annual periods beginning on or after January 1, 2010. The International Accounting Standards Board issued amended IFRS 2 to require an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its unconsolidated financial statements.

Until the above amendment, there was no specific guidance on the attribution of cash-settled share-based payments to the entity receiving goods or services where the entity had no obligation to settle the transaction.

In view of the aforementioned amendments, it may be argued that the financial impact of the 'Benazir Employee Share Option Scheme' (BESOS or 'the Scheme') introduced by the GoP during the year ended December 31, 2009 may need to be accounted for in these condensed interim financial statements on a retrospective basis.

However, management contends that in view of the peculiar nature of the Scheme, the requirements of Amended IFRS 2 are not applicable to the Scheme and accordingly, the management has sought an opinion in respect of the subject matter from the Technical Committee of the Institute of Chartered Accountants of Pakistan, being a recognised professional body, the reply to which is, at present, awaited. Nevertheless, if the effects of BESOS were to be accounted for in these condensed interim financial statements, the management is of the view that there would not have been any material impact on these enclosed condensed interim financial statements.

- 3.2.2 Certain other standards, amendments and interpretations to the approved accounting standards were mandatory for accounting periods beginning on or before January 1, 2010 but were considered not to be relevant or did not have any significant effect on the Group's operations and are therefore not detailed in these condensed interim financial statements.

- 3.3 Standards, amendments and interpretations to that are not yet effective:

Certain standards, amendments and interpretation to approved accounting standards are effective for accounting periods beginning after January 1, 2010 but are considered not to be relevant or have any significant effect on the Group's operations and are therefore not detailed in these condensed interim financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

	(Un-audited) June 30, 2010	(Audited) December 31, 2009
Operating fixed assets	171,357,852	174,765,284
Capital work-in-progress	1,274,972	766,271
	<u>172,632,824</u>	<u>175,531,555</u>

4.1 Following are the additions / transfers and deletions during the period:

	(Un-audited) June 30, 2010	(Audited) June 30, 2009
Rupees in '000		
Additions / Transfers		
Owned		
Buildings on leasehold land	31,183	7,590
Workshops and hangers	-	39,702
Renovation and improvements	11,947	34,623
Aircraft fleet / Engines overhauling	283,754	143,311
Operating ground equipment, catering, communication and meteorological equipment	40,616	3,828
Engineering equipment and tools	33,482	11,573
Motor transport	14,832	18,832
Traffic equipment	100,669	7,509
Furniture, fixture and fittings	111,201	95,573
Office equipment	116	167
Computers and office automation	11,087	21,915
Precision engineering equipment	36	-
Other equipment	6,119	2,986
Capital spares	91,998	154,671
	<u>737,040</u>	<u>542,280</u>
Leased		
Aircraft fleet / Engines overhauling	-	749,956
	<u>737,040</u>	<u>1,292,236</u>
Deletions / Transfers - net book value		
Owned		
Buildings on leasehold land	6,423	-
Aircraft fleet / Engines overhauling	4,017	-
Motor transport	1,058	3,306
Traffic equipment	117	3,866
Furniture, fixture and fittings	7,812	98
Computers and office automation	8	190
Office equipment	2	-
Other equipment	19	-
	<u>19,456</u>	<u>7,460</u>
Leased		
Aircraft fleet	283,754	-
Vehicles	356	1,530
	<u>284,110</u>	<u>1,530</u>
	<u>303,566</u>	<u>8,990</u>

4.2 Change in estimates

As a result of revaluation exercise conducted by an independent valuer as of December 31, 2009, the useful lives of airframes and engines increased on average by 5 years and 3.5 years respectively which had an impact on depreciation expense for the current period. Had there been no change in useful lives of airframes and engines, depreciation expense on aircraft fleet and capital spares for the period would have been higher by Rs 879 million and Rs 206 million respectively, whereas the effect on future periods is impracticable to ascertain considering subsequent measurement of property, plant and equipment under the revaluation model and inherent uncertainties attached thereto.

	(Un-audited) June 30, 2010	(Audited) December 31, 2009
	Rupees in '000	
5. LONG-TERM INVESTMENTS		
Investments in related parties - unquoted - at cost		
- Associates	63,534	62,178
- Joint venture	2	2
	<u>63,536</u>	<u>62,180</u>
Other investments	21,718	30,841
	<u>85,254</u>	<u>93,021</u>
6. STORES AND SPARES		
Stores	778,331	822,709
Spares	5,403,467	5,280,298
Inventory held for disposal - adjusted to net realisable value	252,859	252,859
	<u>6,434,657</u>	<u>6,355,866</u>
Provision for slow moving and obsolete spares	(2,755,865)	(2,662,295)
	<u>3,678,792</u>	<u>3,693,571</u>
Stores and spares - in-transit	161,588	324,294
	<u>3,840,380</u>	<u>4,017,865</u>
7. TRADE DEBTS		
Considered good	8,164,653	8,335,142
Considered doubtful	667,585	624,411
Provision for doubtful debts	(667,585)	(624,411)
	<u>-</u>	<u>-</u>
	<u>8,164,653</u>	<u>8,335,142</u>

	(Un-audited) June 30, 2010	(Audited) December 31, 2009
	Rupees in '000	
8. SHORT-TERM LOANS AND ADVANCES		
Loans - unsecured		
Current maturity of long-term loans-employees	6,698	5,859
Advances - Secured		
Due from related party	39,131	38,537
	45,829	44,396
Others		
- Executives and employees	191,977	169,776
- Suppliers	719,504	1,823,247
- Civil Aviation Authority	143,835	143,835
- Others	5,925	6,065
	1,061,241	2,142,923
Considered doubtful		
Others	31,915	62,895
Provision for doubtful advances	(31,915)	(62,895)
	-	-
	1,107,070	2,187,319

9. ADVANCE AGAINST EQUITY FROM GOVERNMENT OF PAKISTAN

This represents advance received from the Government of Pakistan as reimbursement of mark up payments on term finance and sukuk certificates. Ordinary shares @ Rs 10 each shall be issued there against shortly.

10. LONG-TERM FINANCING

Financier	Type of facility	Limit (million)	Repayment period	Number of installments / mode	Mark-up (%)	June 30, 2010 (unaudited)	December 31, 2009 (audited)
						Rs '000	
From Banking Companies - secured							
United Bank Limited	Syndicate finance	Rs 1,650	2007 - 2010	6 half yearly	6 month KIBOR + 0.79%	-	135,092
Citibank, N.A.	Demand finance	US \$ 82	2006 - 2017	20 half yearly	5.28% fixed	4,660,351	4,927,683
Royal Bank of Scotland	Demand finance	US \$ 59.50	2009 - 2013	19 quarterly	3 month LIBOR + 1.60%	3,592,527	4,022,278
National Bank of Pakistan	Syndicate finance	US \$ 120	2,013	Bullet	3 month LIBOR + 3.6%	10,272,000	10,104,000
Standard Chartered Bank	Demand finance	US \$ 50	2007 - 2010	12 quarterly	3 month LIBOR + 1.325%	-	350,833
National Bank of Pakistan	Term finance	Rs 500	2007 - 2010	12 quarterly	3 month KIBOR + 1.50%	83,333	166,667
National Bank of Pakistan - Bahrain	Demand finance	US \$ 50	2008 - 2010	24 monthly	6 month LIBOR + 2.55%	-	1,052,500
Standard Chartered Bank	Syndicate finance	Rs 3,592	2009 - 2011	22 monthly	1 month KIBOR + 1.25%	1,142,894	2,122,518
National Bank of Pakistan - Bahrain	Demand finance	US \$ 70	2010 - 2012	24 monthly	1 month LIBOR + 5.50%	3,852,000	-
J P Morgan Chase	Loan	-	2006-2009	Variable	6.025%	8,262,775	8,137,142
J P Morgan Chase	Mezzanine Finance	-	2006-2009	Variable	6.025%	5,130,000	5,052,000
Hong Kong Shanghai Banking Corporation	Demand finance	Rs 1,000	2010 - 2011	17 monthly	3 month KIBOR + 0.90%	750,000	-
Hong Kong Shanghai Banking Corporation	Loan	-	2004-2012	Variable	3 month EURIBOR + 0.90%	2,356,140	2,885,477
Others - unsecured							
Long term loan - GoP	Term loan	Rs 9,000	2011 - 2020	16 half yearly	10% fixed	8,000,000	7,000,000
						48,102,020	45,956,190
Current maturity shown under current liabilities						(6,604,622)	(5,655,812)
						41,497,398	40,300,378

10.1. There has been no change in the securities for the above loans as disclosed in note 20 to the annual financial statement for the year ended December 31, 2009.

11. TERM FINANCE AND SUKUK CERTIFICATES

	Repayment period	Number of installments / mode	Mark-up (%)	June 30, 2010 (unaudited)	December 31, 2009 (audited)
				Rs '000	
Term finance certificates	2009- 2014	10 half yearly	6 month KIBOR + 0.85%	12,794,880	12,797,440
	Less: Current portion			(5,120)	(5,120)
				12,789,760	12,792,320
Sukuk certificates	2012 - 2014	6 half yearly	6 month KIBOR + 1.75%	6,800,000	6,800,000
				19,589,760	19,592,320

Financier	Security	Facility amount (million)	Repayment period	Mark-up (%)	June 30, 2010	December 31, 2009
					Rs '000	
	Brought forward from previous page				12,149,334	9,283,238
National Bank of Pakistan	GoP Guarantee	Rs 1,500	1 Year	3 month KIBOR + 0.90%	1,500,000	1,500,000
Habib Bank Limited	GoP guarantee, promissory note amounting to Rs 1,346 million	Rs 1,000	1 Year	3 month KIBOR + 0.90%	1,000,000	1,000,000
Hong Kong Shanghai Banking Corporation	GoP guarantee, promissory note amounting to Rs 1,600 million	Rs 1,000	3 months	3 month KIBOR + 0.90%	-	1,000,000
Barclays PLC	GoP Guarantee	Rs 690	6 months	3 month KIBOR + 0.90%	490,000	750,000
Askari Bank Limited	GoP Guarantee	Rs 1,500	1 Year	3 month KIBOR + 0.90%	1,500,000	1,500,000
KASB Bank Limited	GoP guarantee, promissory note amounting to Rs 595 million	Rs 500	1 Year	3 month KIBOR + 0.90%	500,000	500,000
Faysal Bank Limited	GoP guarantee and ranking hypothecation charge over all current assets	US \$ 15	1 Year	3 month LIBOR + 2.00%	1,284,000	1,263,000
					18,423,334	16,796,238

13.2 Running finance under mark-up arrangements - secured

Financier	Security	Facility amount (million)	Repayment period	Mark-up (%)	June 30, 2010	December 31, 2009
					Rs '000	
United Bank Limited	Domestic receivables	Rs 2,870	1 Year	1 month KIBOR + 2.50%	2,751,378	2,439,718
Habib Bank Limited - NYC	EURO receivables	Us \$ 3	1 Year	3 month LIBOR + 4.50%	-	240,974
National Bank of Pakistan	First pari passu hypothecation charge on all present and future current assets	Rs 1,000	1 Year	1 month KIBOR + 2.00%	998,814	575,017
Habib Allied International Bank Limited - London	EURO receivables	US \$ 3	1 Year	1 month LIBOR + 3%	171,909	251,931
KASB Bank Limited	Domestic receivables	Rs 400	1 Year	3 month KIBOR + 2.5%	400,000	400,000
United Bank Limited - Dubai	First pari passu hypothecation charge on all present and future current assets	US \$ 22	1 Year	1 month LIBOR + 5.00%	1,891,610	1,859,507
Carried forward on next page					6,213,711	5,767,147

Financier	Security	Facility amount (million)	Repayment period	Mark-up (%)	June	December
					30, 2010	31, 2009
					Rs '000	
Brought forward from previous page					6,213,711	5,767,147
Arif Habib Bank	Domestic receivables	Rs 300	1 Year	3 month KIBOR + 2.50%	298,398	123,936
United Bank Limited - Bahrain	First pari passu hypothecation charge on all present and future current assets	US \$ 13	1 Year	1 month LIBOR + 5.00%	1,117,576	1,092,752
Habib Bank Limited	Hypothecation charge over all present and future spare parts, accessories of aircraft and domestic receivables	Rs 350	1 Year	1 month KIBOR + 2.00%	276,516	202,087
					<u>7,906,201</u>	<u>7,185,922</u>

14. CONTINGENCIES AND COMMITMENTS

14.1 Contingencies

- 14.1.1 The Civil Aviation Authority (CAA), has claimed additional amounts aggregating Rs 4,146 million (December 31, 2009: Rs 4,114 million) in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest / surcharge etc. The matter has been referred to Ministry of Defence through which a reconciliation and settlement exercise is currently in progress. The management considers that no additional liability of material amount is likely to arise as a result of such exercise. However, as a matter of prudence, the Corporation has made a provision of Rs 1,500 million there against.
- 14.1.2 The Collector Central Excise has raised demands of Rs 690 million (December 31, 2009: Rs 690 million) and penalty of Rs 2,923.005 million in respect of duties levied on tickets provided by the Corporation to its staff either free of charge or at concessional rates, repairs or replacement of reimported aircraft engines, non-availability of invoices, import related to miscellaneous consignments, printed material sent at its various stations abroad for utilisation, late / short payment of sales tax and Central Excise Duty (CED) and excess baggage tickets. On this account, the Corporation has already paid an amount of Rs 100 million which is considered fully recoverable by it. The Corporation has filed appeals with the Customs, Central Excise and Sales Tax Appellate Tribunal which are pending adjudication. The Corporation is confident that the decision of the subject appeals would be made in its favor. Consequently, no provision has been made in these condensed interim financial statements.
- 14.1.3 A show cause notice was served to the Corporation by Additional Collector, LTU Karachi, as a result of findings during the audit of the Corporation's records pertaining to 2004 - 2005 and 2005 - 2006. The Collector has raised demands of Rs 6.804 million (December 31, 2009: Rs 6.804 million) for Federal Excise Duty (FED), Rs 277.621 million (December 31, 2009: Rs 277.621 million) for sales tax, Rs 1.205 million as penalty, Rs 2.911 million as additional duty and Rs 14.999 million as additional tax in respect of late filing of monthly returns of excise duty, sales tax of various taxable activities and incorrect rate of duty charged and paid along with input tax paid on various utilities. The Corporation has filed an appeal with the Additional Collector (Adjudication), which is currently pending for adjudication. The Corporation is confident that the decision of the subject appeal would be made in its favor. Consequently, no provision has been made in these condensed interim financial statements.

- 14.1.4 A show cause notice was served to the Corporation by Additional Collector, LTU for claim of Rs 1,319.101 million (December 31, 2009: Rs 1,319.101 million) as sales tax, Rs 2.065 million (December 31, 2009: Rs 2.065 million) as FED, Rs 66.058 million as penalty, Rs 0.835 million as additional duty and Rs 533.576 million as additional tax on the basis of investigation conducted by Directorate General Intelligence, Federal Board of Revenue. The amount was claimed against incorrect / inadmissible adjustment on exempt activity and incorrect charging of rates on FED and sales tax. The Corporation has filed an appeal with the Additional Collector (Adjudication), which is currently pending for adjudication. The Corporation is confident that the decision of the subject appeal would be made in its favor. Consequently, no provision has been made in these condensed interim financial statements.
- 14.1.5 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 condensed interim financial statements against these claims amounting to Rs 3,638.347 million (December 31, 2009: Rs 2,049.367 million).
- 14.1.6 The additional collector - LTU has raised demand for additional duty amounting to Rs 11.436 million, additional tax amounting to Rs 6.338 million and penalty amounting to Rs 5,877.351 million in respect of late submission of sales tax and FED returns for the months of November 2008 and December 2008. The Corporation has applied for waiver of additional duty, additional tax and penalty with Federal Board of Revenue, Ministry of Finance and Ministry of Defence. The Corporation is confident that this matter will be decided in its favor. Consequently, no provision has been made in these condensed interim financial statements.
- 14.1.7 There has been no change in the status of other contingencies as disclosed in the note 29.1 (d, e, h, j, k m, n, and o) to annual consolidated financial statements of the Group for the year ended December 31, 2009.

	(Un-audited) June 30, 2010	(Audited) December 31, 2009
	————— Rupees in '000 —————	
14.2 Commitments		
Commitments for purchase of simulator	289,209	1,128,130
Commitments for other capital expenditure	12,449	103,150
Outstanding letters of credit	125,642	187,992
Outstanding letters of guarantee	576,244	587,039

	Six-months period ended		Quarter ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Rs '000			
15. REVENUE - net				
Passenger	43,794,410	37,547,673	23,301,799	18,326,629
Cargo	3,114,219	2,199,382	1,835,654	1,162,506
Excess baggage	482,962	449,178	213,273	216,295
Charter	93,578	278,994	14,878	208,677
Engineering services	541,242	446,401	383,163	274,218
Handling and related services	293,257	266,853	164,966	156,063
Mail	210,614	140,788	120,502	75,658
Room, food and beverages sales	4,571,201	4,050,118	2,759,560	2,407,150
Others	776,156	593,379	384,451	206,722
	<u>53,877,639</u>	<u>45,972,766</u>	<u>29,178,246</u>	<u>23,033,918</u>
16. COST OF SERVICES - Others				
Salaries, wages and allowances	4,808,558	4,186,611	2,386,358	2,088,717
Welfare and social security costs	207,546	207,860	19,601	27,021
Retirement benefits	1,102,854	562,255	749,366	322,959
Compensated absences	48,904	59,455	23,153	34,455
Legal and professional charges	39,650	43,313	29,003	31,079
Stores and spares consumed	1,482,234	877,595	789,649	332,718
Maintenance and overhaul	2,663,173	2,161,046	1,278,789	1,167,069
Flight equipment rental	602,052	593,315	304,891	291,187
Landing and handling	5,383,932	4,803,796	2,724,440	2,416,757
Passenger services	1,704,771	1,308,924	883,181	680,022
Crew layover	1,394,396	1,233,886	742,398	634,277
Staff training	48,059	32,340	32,383	13,460
Food Cost	1,108,960	1,012,785	551,605	575,026
Hotel running expense	1,869,269	1,707,156	754,829	789,240
Utilities	10,213	25,321	5,175	16,553
Communication	28,459	26,818	13,802	9,245
Insurance	696,743	656,120	298,645	341,573
Rent, rates and taxes	343,287	271,272	121,402	111,767
Printing and stationery	111,658	113,963	77,148	78,426
Amortisation	1,288	1,288	457	560
Depreciation	2,731,374	4,522,169	1,358,211	2,192,621
Others	173,507	166,832	108,952	95,659
	<u>26,560,887</u>	<u>24,574,120</u>	<u>13,253,438</u>	<u>12,250,391</u>
17. OTHER PROVISION AND ADJUSTMENTS - net				
Provision for slow moving stores and spares	93,570	203,993	93,570	160,838
Provision / (write back) against doubtful debts	103,439	(92,108)	103,439	(48,842)
	<u>197,009</u>	<u>111,885</u>	<u>197,009</u>	<u>111,996</u>

	Six-months period ended		Quarter ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Rs '000				
18. FINANCE COSTS				
Mark-up on:				
- long term financing	1,043,376	1,088,960	536,139	494,101
- murabaha financing	2,957	-	2,957	-
- short term borrowings	1,259,727	1,712,065	662,413	858,183
	<u>2,306,060</u>	<u>2,801,025</u>	<u>1,201,509</u>	<u>1,352,284</u>
Return on term finance certificates	840,183	921,228	421,693	492,906
Profit on sukuk certificates	481,552	-	240,105	-
Interest on liabilities against				
assets subject to finance leases	731,255	1,033,357	362,105	474,462
Interest to pension / provident fund	125,600	-	70,013	-
Arrangement, agency and commitment fee	194,626	194,675	20,769	128,029
Bank charges, guarantee				
commission and other related charges	131,119	20,831	121,190	10,115
	<u>4,810,395</u>	<u>4,971,116</u>	<u>2,437,384</u>	<u>2,457,796</u>
Rs '000				
19. CASH GENERATED FROM OPERATIONS AFTER WORKING CAPITAL CHANGES				
Loss before taxation			(5,887,377)	(5,389,267)
Adjustments for non cash items:				
Depreciation			3,104,222	5,131,506
Gain on disposal of property, plant and equipment			(4,333)	(1,362)
Amortisation on premium			846	846
Interest expense			159,178	-
Provision for gratuity			1,800	2,200
Amortization			11,284	11,224
Provision for slow moving stores and spares			93,570	203,845
Provision for employees' benefits			1,916,098	470,626
Provision for doubtful debts			103,439	(95,330)
Liability written back			(178,436)	-
Finance costs			4,651,216	4,974,229
Profit on bank deposits			(8,668)	(14,071)
Cash generated from operations before working capital changes			<u>3,962,839</u>	<u>5,294,446</u>
Working capital changes:				
Decrease / (increase) in stores and spare parts			86,198	(449,862)
Stock in trade			(473)	(178)
Decrease / (increase) in trade debts			134,933	(605,001)
Decrease in advances			1,001,861	(18,781)
Decrease in trade deposits and prepayments			(112,116)	233,147
Increase in other receivables			(77,439)	(134,977)
Inventories			-	5,313
Amount due to related parties			-	4,426
Increase / (decrease) in trade and other payables			(15,850)	(984,831)
			<u>1,017,114</u>	<u>(1,950,744)</u>
Cash generated from operations after working capital changes			<u>4,979,953</u>	<u>3,343,702</u>

20. CORRESPONDING FIGURES

For better presentation the following reclassifications in the corresponding figures have been made:

Description	Head of account of June 30, 2010	Head of account of December 31, 2009 / June 30, 2009	Amount (Rs '000)
Provision against Civil Aviation Authority's claims	Provision against Civil Aviation Authority's claims	Trade and other payables and provisions	1,500,000
Loss on derivative financial instrument	Other expenses	Aircraft fuel	192,725
Interest to pension / provident fund	Interest to pension / provident fund	Mark up on long term financing	-
Mark up on murabaha financing	Mark up on murabaha financing	Interest on liabilities against assets subject to finance leases	3,723
Amortisation of exposure fee	Bank charges, guarantee commission and other related charges	Arrangement, agency and commitment fee	104,353

21. DATE OF AUTHORISATION FOR ISSUE

These consolidated condensed interim financial statements were authorised for issue on August 26, 2010 by the Board of Directors of the Corporation.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director



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