



Half Yearly Report 2006

 **PIA**
Pakistan International

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C o n t e n t s

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Corporate Profile

Board of Directors

Mr. Tariq Kirmani
Chairman & CEO

Mr. Kamal Afsar

Mr. Ali Raza

Mr. Ghazanfar Mashkooor - Secretary

Executive Management

Mr. Tariq Kirmani
Chairman & CEO

Syed Farooq H. Shah
Deputy Managing Director

Mr. M. Rasheed Hasan
SVP Corporate Planning

Mr. Wasim Bari
SVP Human Resources & Administration

Mr. Umar Ghafoor
SVP Flight Services

Mr. Anwaar Rasul Khan
SVP Co-ordination

Syed Kamran Hasan
SVP Sales

Capt. Javed Khan
SVP Quality Assurance

Mr. Arif Majeed
SVP Finance

Capt. S. M. Athar
SVP Flight Operations

Col. (Retd) Mudasar Asghar
SVP Works

Mr. Shahnawaz Rehman
SVP Financial Monitoring & Appraisal

AVM (Retd) Iftikhar Ahmed Gul
SVP Engineering

Capt. Shahnawaz Dara
SVP Flight Safety & HSE

Mr. Jawaid Daud Shaikh
SVP Procurement & Logistics

Mr. Nadeem Ikram
SVP Information Technology

AVM Muhammad Rafi
SVP Precision Engineering

Mr. Zafar I. Usmani
SVP Commercial

Registered Office

PIA Building
Jinnah International Airport
Karachi - Pakistan
Web site: www.piac.com.pk

Directors' Report to the Shareholders

1. The Directors of Pakistan International Airlines are pleased to present their report along with financial statements for the six months period ended on 30th June, 2006.
2. The Results for the half year ended on 30th June, 2006, are summarized below:

| | 2006 | 2005 | Change |
|---------------------------------|---------------------|---------|--------|
| | (Rupees in million) | | |
| Turnover - net | 33,526 | 29,933 | +12% |
| Cost & Expenditure | | | |
| Aircraft Fuel | 16,442 | 11,193 | +47% |
| Other Operating Expenses | 21,265 | 19,330 | +10% |
| | 37,707 | 30,523 | +23% |
| Financing Cost | 2,088 | 1,306 | +60% |
| Other Income / Provisions - net | (292) | (214) | +36% |
| Total Cost & Expenditure | 39,503 | 31,615 | +25% |
| Loss before Tax | (5,977) | (1,682) | |
| Loss after Tax | (6,144) | (2,070) | |

3. In the Annual Report for 2005 it was reported that aviation industry continued to experience financial constraints globally mainly due to unheard of level of oil prices & lost US\$45 billion collectively since 2001, without any silver lining. A workable /measurable strategy in different scenarios of airline's sustainability/profitability was developed inclusive of vigorous cost cutting measures, financial discipline, enhanced operational efficiency & measures for increased productivity. However, the unprecedented increase of Rs.5.2 billion in oil prices during the half year ended on 30th June, 2006, dented airlines profitability, as compared to corresponding period of 2005. The expense on aircraft fuel increased by 47% in 2006 comparing to 2005, whereas, the increase of 10% in operating expenses was mainly due to inflationary trends, rise in interest rate & currency fluctuation. The Turnover-net in 2nd Quarter April-June 2006, comparing to the corresponding period in 2005, showed an increase of Rs. 2.9 billion, thus, off setting the impact of higher cost of aircraft fuel by Rs. 2.9 billion in 2nd Quarter 2006. The breakeven in 2nd Quarter indicates a positive outlook to attain profitability levels in future.
4. Total revenue of the airline recorded an exceptional growth from Rs.13.8 billion (April - June, 2005) to Rs. 16.7 billion (April - June, 2006) showing 21% increase. During the same period, passenger traffic increased by 17.3%, cargo traffic by 15.3%, the system passenger seat factor to 70% and cargo load factor to 60%. During the 1st half of Financial Year i.e January - June 2006, the growth of 13.4% in passenger traffic and 8.4% in cargo traffic, whereas, the system passenger seat factor to 72.3% and cargo load factor to 59% was achieved. PIA's domestic market share increased from 60.4% to 69.3% (an improvement of 15.6% over the corresponding period) despite a static market and drop of other domestic carriers' share to 22.1%. Similarly, on the international routes, PIA achieved a growth of 11% against market growth ex/to Pakistan of 8.2% with other foreign & private Pakistani carriers combined increase of 5.7%.
5. Finance cost has gone up owing to additional borrowing of US\$266 million and US\$67.7 million respectively for purchase of two Boeing 777LR aircraft, inducted in the fleet in early 2006 and acquisition of additional 49% stake in PIA Investments Limited. In addition, resort to short term borrowing and upward interest rates have also contributed to the increase.
6. The auditors in their review report have drawn attention to note 1.2 of the financial statements that more fully describes the liquidity problem faced by the airline and the mitigating factors due to which these financial statements have been prepared on a going concern basis.
7. To counter the adversities, the airline has adopted a strategy focusing attention on enhancement of revenue through improved services, new selling initiatives, competitiveness and cost curtailment.

For and on behalf of the Board

Tariq Kirmani
Chairman & CEO

August 28, 2006

 **PIA**
Pakistan International

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Auditors Review Report

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

Ford Rhodes Sidat Hyder & Co
Chartered Accountants
Progressive Plaza
Beaumont Road
Karachi

Review Report to the Members

We have reviewed the annexed interim condensed balance sheet of **Pakistan International Airlines Corporation** (the Corporation) as at June 30, 2006 and the related interim condensed profit and loss account, interim condensed cash flow statement and interim condensed statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the "interim condensed financial statements") for the half year then ended. These interim condensed financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these interim condensed financial statements based on our review.

Except for the matter referred in paragraph (a) below, we conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed financial statements are free of material misstatement. A review is limited primarily to inquiries of the Corporation's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

- a) due to lack of adequate audit trail to support the carrying value of inventories at moving average costs as a result of problems with the inventory management system, we could not verify the valuation of capital spares and consumable stores and spares with carrying value of Rs. 3,716 million and Rs. 2,464 million respectively and we consider that there were no alternative procedures that we could apply to confirm the valuation of such inventories;

Based on our review, except for the effects of the matter described in preceding paragraph (a), nothing has come to our attention that causes us to believe that the annexed interim condensed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

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

- i) note 11.1 to the interim condensed financial statements, explaining the difference between the amount due as per the Corporation's records and amount claimed by Civil Aviation Authority for which a reconciliation and settlement exercise is in progress through Ministry of Defence; and
- ii) note 1.2 to the interim condensed financial statements, which states that the Corporation has incurred a gross loss of Rs. 74 million and a net loss of Rs. 6,144 million during the half year ended June 30, 2006, resulting in an accumulated loss of Rs. 17,944 million as of the balance sheet date. Further, as of that date, the Corporation's current liabilities exceeded its current assets by Rs. 20,326 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Corporation's ability to continue as a going concern. However, these interim condensed financial statements have been prepared on a going concern basis. The validity of the said assumption is dependent upon the successful outcome of the measures being taken by the management as described in the aforesaid note.

Anjum Asim Shahid Rahman
Chartered Accountants

Ford Rhodes Sidat Hyder & Co
Chartered Accountants

Karachi: August 28, 2006

Interim Condensed Balance Sheet (Un-audited)

As at June 30, 2006

| | | JUN - 2006 | DEC - 2005 | JUN - 2006 | |
|--------------------------------------|---|----------------------|--------------|--------------------|-----------|
| Note | | (Rupees in thousand) | | (US\$ in thousand) | |
| NON CURRENT ASSETS | | | | | |
| Fixed assets | | | | | |
| | Property, plant and equipment | 4 | 67,694,581 | 51,263,914 | 1,123,562 |
| | Intangibles | | 107,422 | 112,421 | 1,783 |
| | | | 67,802,003 | 51,376,335 | 1,125,345 |
| | Long term investments | 5 | 4,555,614 | 323,705 | 75,612 |
| | Long term advances and other receivable | 6 | 6,033,450 | 6,635,933 | 100,140 |
| | Long term deposits and prepayments | | 2,675,814 | 1,804,977 | 44,412 |
| | | | 81,066,881 | 60,140,950 | 1,345,509 |
| CURRENT ASSETS | | | | | |
| | Stores and spares | 7 | 3,071,828 | 2,790,137 | 50,985 |
| | Trade debts | | 5,925,605 | 5,222,534 | 98,350 |
| | Advances | | 609,892 | 513,917 | 10,122 |
| | Trade deposits and prepayments | | 737,696 | 581,175 | 12,244 |
| | Accrued interest | | 21,919 | 39,708 | 364 |
| | Other receivables | | 675,988 | 481,449 | 11,220 |
| | Short term investments | | 306,250 | 363,855 | 5,083 |
| | Taxation - advance tax net of provision | | - | 149,087 | - |
| | Cash and bank balances | | 3,216,755 | 2,614,691 | 53,390 |
| | | | 14,565,933 | 12,756,553 | 241,758 |
| | | | 95,632,814 | 72,897,503 | 1,587,267 |
| SHARE CAPITAL AND RESERVES | | | | | |
| | Share capital | | 17,980,659 | 17,980,659 | 298,434 |
| | Reserves | | 4,280,712 | 4,280,712 | 71,049 |
| | Unrealized loss on remeasurement of investments | | (55,142) | (15,107) | (915) |
| | Accumulated loss | | (17,944,449) | (11,799,966) | (297,833) |
| | | | 4,261,780 | 10,446,298 | 70,735 |
| NON CURRENT LIABILITIES | | | | | |
| | Advance against equity from GoP | 8 | 1,144,755 | - | 19,000 |
| | Long term finance under mark-up arrangements | | 2,871,798 | 1,621,099 | 47,665 |
| | Term finance certificates | | 13,625,455 | 14,003,940 | 226,149 |
| | Liabilities against assets subject to finance lease | 9 | 35,461,122 | 21,706,064 | 588,566 |
| | Long term murabaha finance | | 351,458 | 768,075 | 5,833 |
| | Long term deposits | | 248,403 | 290,236 | 4,123 |
| | Deferred liabilities | | 2,776,552 | 2,824,690 | 46,084 |
| | | | 56,479,543 | 41,214,104 | 937,420 |
| CURRENT LIABILITIES | | | | | |
| | Trade and other payables | | 13,773,701 | 14,983,921 | 228,609 |
| | Accrued mark-up / interest | | 754,582 | 607,769 | 12,524 |
| | Short term borrowings | 10 | 11,728,603 | 362,075 | 194,666 |
| | Current portion of: | | | | |
| | Long term finance under mark-up arrangements | | 3,799,584 | 1,621,103 | 63,064 |
| | Term finance certificates | | 756,970 | 756,970 | 12,564 |
| | Liabilities against assets subject to finance lease | | 3,223,021 | 2,067,363 | 53,494 |
| | Long term murabaha finance | | 843,500 | 837,900 | 14,000 |
| | Taxation - provision net of advance tax | | 11,530 | - | 191 |
| | | | 34,891,491 | 21,237,101 | 579,112 |
| CONTINGENCIES AND COMMITMENTS | | | | | |
| | | 11 | 95,632,814 | 72,897,503 | 1,587,267 |

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

Tariq Kirmani
Chairman & CEO

Kamal Afsar
Director

 **PIA**
Pakistan International

Interim Condensed Profit and Loss Account (Un-audited)

For the half year ended June 30, 2006

| | Note | —Half year ended— | | —Quarter ended— | | Half year ended |
|--|------|----------------------|--------------|---------------------|--------------|--------------------|
| | | JUN - 2006 | JUN - 2005 | JUN - 2006 | JUN - 2005 | JUN - 2006 |
| | | (Rupees in thousand) | | | | (US\$ in thousand) |
| Turnover - net | 12 | 33,526,172 | 29,933,553 | 16,686,469 | 13,806,401 | 556,451 |
| Cost of services | | | | | | |
| Aircraft fuel | | (16,441,597) | (11,192,827) | (8,405,276) | (5,478,675) | (272,890) |
| Others | 13 | (17,158,536) | (15,723,896) | (8,194,447) | (7,600,426) | (284,789) |
| | | (33,600,133) | (26,916,723) | (16,599,723) | (13,079,101) | (557,679) |
| Gross (loss) / profit | | (73,961) | 3,016,830 | 86,746 | 727,300 | (1,228) |
| Other operating income | | 423,628 | 347,610 | 291,510 | 191,600 | 7,031 |
| Marketing and distribution costs | | (2,079,118) | (1,778,057) | (914,798) | (872,014) | (34,508) |
| Administrative expenses | | (2,027,246) | (1,828,492) | (1,240,773) | (1,078,170) | (33,647) |
| | | (3,682,736) | (3,258,939) | (1,864,061) | (1,758,584) | (61,124) |
| Loss from operations | | (3,756,697) | (242,109) | (1,777,315) | (1,031,284) | (62,352) |
| Finance cost | 14 | (2,087,938) | (1,305,620) | (1,181,829) | (674,278) | (34,655) |
| Other provisions and adjustments - net | | (132,217) | (133,951) | (21,472) | (164,377) | (2,194) |
| | | (2,220,155) | (1,439,571) | (1,203,301) | (838,655) | (36,849) |
| Loss before tax | | (5,976,852) | (1,681,680) | (2,980,616) | (1,869,939) | (99,201) |
| Taxation | 15 | (167,631) | (388,231) | (83,432) | (219,397) | (2,782) |
| Net loss for the period | | (6,144,483) | (2,069,911) | (3,064,048) | (2,089,336) | (101,983) |
| Loss per share | | | | | | |
| 'A' class ordinary shares of Rs.10 each (Rupees/US\$) | | (3.42) | (1.25) | (1.70) | (1.24) | (0.06) |
| 'B' class ordinary shares of Rs. 5 each (Rupees/US\$) | | (1.71) | (0.62) | (0.85) | (0.62) | (0.03) |

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

Tariq Kirmani
Chairman & CEO

Kamal Afsar
Director

 **PIA**
Pakistan International

Interim Condensed Cash Flow Statement (Un-audited)

For the six months period ended June 30, 2006

| Note | JUN - 2006 | JUN - 2005 | JUN - 2006 |
|---|----------------------|-------------|--------------------|
| | (Rupees in thousand) | | (US\$ in thousand) |
| Cash flows from operating activities | | | |
| Cash (utilised in)/generated from operations | 16 (4,983,022) | 410,518 | (82,706) |
| Profit on bank deposits received | 103,775 | 90,560 | 1,722 |
| Deferred custom duty paid | (23,859) | (323,350) | (396) |
| Finance cost paid | (1,941,125) | (1,305,797) | (32,218) |
| Taxes paid | (7,014) | (121,945) | (116) |
| Dividend paid | - | (5,255) | - |
| Staff retirement benefits paid | (193,266) | (199,098) | (3,207) |
| Compensated absences paid | (60,781) | - | (1,009) |
| Long term deposits - net | (912,670) | 106,849 | (15,148) |
| Net cash used in operating activities | (8,017,962) | (1,347,518) | (133,078) |
| Cash flows from investing activities | | | |
| Fixed capital expenditure | (1,248,290) | (3,176,882) | (20,719) |
| Proceeds from sale of fixed assets | 85,173 | 91,182 | 1,414 |
| Investments - net | (4,073,326) | 38,019 | (67,607) |
| Long term advances and other receivable - net | 584,826 | 521,639 | 9,707 |
| Net cash used in investing activities | (4,651,617) | (2,526,042) | (77,205) |
| Cash flows from financing activities | | | |
| Advance against equity from GoP | 1,144,755 | 1,065,931 | 19,000 |
| Long term finance under markup arrangements - net | 3,429,180 | (6) | 56,916 |
| Redemption of term finance certificates | (378,485) | (150) | (6,282) |
| Repayment of obligations under finance lease | (1,879,318) | (930,972) | (31,192) |
| Repayment of long term murahaba finance | (411,017) | (405,672) | (6,822) |
| Net cash inflow from/(used in) financing activities | 1,905,115 | (270,869) | 31,620 |
| Decrease in cash and cash equivalents | (10,764,464) | (4,144,429) | (178,663) |
| Cash and cash equivalents at the beginning of the period | 2,252,616 | 10,838,898 | 37,388 |
| Cash and cash equivalents at the end of the period | (8,511,848) | 6,694,469 | (141,275) |
| CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 3,216,755 | 6,694,469 | 53,390 |
| Short term borrowings | (11,728,603) | - | (194,666) |
| | (8,511,848) | 6,694,469 | (141,276) |

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

Tariq Kirmani
Chairman & CEO

Kamal Afsar
Director

 **PIA**
Pakistan International

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

For the half year ended June 30, 2006

| | Paid up capital | Capital reserves | Revenue reserves | Unrealized (loss)/gain on re-measurement of investments | Accumulated loss | Total |
|---|----------------------|------------------|------------------|---|---------------------|-------------------|
| | (Rupees in thousand) | | | | | |
| Balance as at January 01, 2005 | 16,529,926 | 2,501,038 | 1,779,674 | 18,863 | (7,388,309) | 13,441,192 |
| Unrealized (loss)/gain on re-measurement of investments | - | - | - | 465 | - | 465 |
| Tax effect on unrealised (loss)/gain on re-measurement of investments | - | - | - | (163) | - | (163) |
| | | | | 302 | | 302 |
| Net loss for the period | - | - | - | - | (2,069,911) | (2,069,911) |
| Balance as at June 30, 2005 | <u>16,529,926</u> | <u>2,501,038</u> | <u>1,779,674</u> | <u>19,165</u> | <u>(9,458,220)</u> | <u>11,371,583</u> |
| Balance as at January 01, 2006 | 17,980,659 | 2,501,038 | 1,779,674 | (15,107) | (11,799,966) | 10,446,298 |
| Unrealized loss on re-measurement of investments | - | - | - | (40,035) | - | (40,035) |
| Net loss for the period | - | - | - | - | (6,144,483) | (6,144,483) |
| Balance as at June 30, 2006 | <u>17,980,659</u> | <u>2,501,038</u> | <u>1,779,674</u> | <u>(55,142)</u> | <u>(17,944,449)</u> | <u>4,261,780</u> |

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

Tariq Kirmani
Chairman & CEO

Kamal Afsar
Director

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

For the six months period ended June 30, 2006

1. CORPORATE INFORMATION

- 1.1 Pakistan International Airlines Corporation (the Corporation) was incorporated on April 18, 1956 under the Pakistan International Airlines Corporation Act, 1956. Its shares are quoted on all stock exchanges of Pakistan. The registered office of the Corporation is situated in Karachi. The principal activity of the Corporation is to provide air transport services. In addition, the Corporation is engaged in providing engineering and other allied services.
- 1.2 During the period, the Corporation has incurred a gross loss of Rs. 74 million and a net loss of Rs. 6,144 million, which according to the management is primarily due to increase in international fuel prices, resulting in an accumulated loss of Rs. 17,944 million as of June 30, 2006. The fuel cost for the half year ended June 30, 2006 amounted to Rs. 16,442 million. Further, as of that date the current liabilities of the Corporation exceeded its current assets by Rs. 20,326 million. The management has initiated corrective measures to improve operating results of the Corporation and in this respect various operational restructuring measures have already been undertaken. Moreover, the Corporation is considering either divestment of its holding in PIA Investments Limited (PIAIL) or disposal of its properties and realise the advances and accumulated interest thereon booked till June 30, 2006, thereby considerably improving its cash flow position. During the current period, the Corporation has received an amount of US\$ 9.746 million (Rs. 585 million) from PIAIL and it has resulted in improvement in cash flows and reduction of advances due from PIAIL. Also, historically support of the Government of Pakistan (GoP) is available to the Corporation as GoP has already issued guarantees to secure certain long term finances and term finance certificates of the Corporation. In the past, GoP had agreed to provide equity contribution to the Corporation equivalent to accumulated loss of the Corporation as at December 31, 2000, to cover interest/profit payments on long term finances and term finance certificates. As part of the financial package, an amount of Rs. 6,575 million has been provided to the Corporation upto June 30, 2006 against which 543,009,081 'A' class ordinary shares of Rs. 10 each were issued to GoP up to that date. The remaining 114,475,500 'A' class ordinary shares are expected to be issued during the current year. Further due to current adverse financial position, the Corporation has approached GoP for its financial restructuring and the Ministry of Finance is examining the proposal submitted by the Corporation for this purpose. Hence, the Corporation expects continued financial support of GoP in future as well. In view of the above, the Corporation has prepared these interim condensed financial statements on a going concern basis.
- 1.3 During the year ended 2002, GoP had approved a fleet replacement plan. Accordingly, the Corporation had entered into an agreement for purchase of eight new Boeing 777 aircraft, out of which five aircraft have already been acquired to date. GoP has provided funding of US\$ 150 million (Rs. 8,816 million) in the form of equity, and guarantees for acquisition of the said aircraft up to June 30, 2006.

2. BASIS OF PREPARATION

These interim condensed financial statements are unaudited and are being circulated to the shareholders as required by Section 245 of the Companies Ordinance, 1984.

These interim condensed financial statements are being presented in condensed form in accordance with the requirements of International Accounting Standard (IAS) 34 'Interim Financial Reporting' as applicable in Pakistan and shall be read in conjunction with the annual financial statements of the Corporation for the year ended December 31, 2005.

The accounting policies and methods of computations adopted in the preparation of these interim condensed financial statements are the same as those applied in the preparation of financial statements of the Corporation for the year ended December 31, 2005.

3. CONSOLIDATION

The Corporation has been granted exemption by Securities and Exchange Commission of Pakistan under Section 237(8) of the Companies Ordinance, 1984 relating to the preparation of consolidated financial statements for the half year ended June 30, 2006.



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

For the six months period ended June 30, 2006

4. PROPERTY, PLANT AND EQUIPMENT

| | JUN - 2006 | DEC - 2005 |
|-----------------------------------|--------------------------|-------------------|
| | (Rupees in thousand) | |
| Operating fixed assets (note 4.1) | 59,563,278 | 41,024,467 |
| Capital work-in-progress | 8,131,303 | 10,239,447 |
| | <u>67,694,581</u> | <u>51,263,914</u> |

4.1 Following are the major additions and deletions during the period.

| | JUN - 2006 | JUN - 2005 |
|---|--------------------------|----------------|
| | (Rupees in thousand) | |
| Additions | | |
| <u>Owned</u> | | |
| Buildings on leasehold land | 21,834 | 22,047 |
| Aircraft fleet (note 4.1.1) | 694,201 | 71,220 |
| Operating ground equipment, catering communication and meteorological equipment | 15,807 | 90,060 |
| Traffic equipment | 76,184 | 61,028 |
| Furniture, fixtures and fitting | 17,172 | 6,579 |
| Computers and office automation | 80,398 | 28,115 |
| Other equipment | 17,951 | 1,965 |
| Capital spares | 563,555 | 268,671 |
| | <u>1,487,102</u> | <u>549,685</u> |
| <u>Leased</u> | | |
| Aircraft fleet (note 4.1.2) | 18,611,465 | - |
| | <u>20,098,567</u> | <u>549,685</u> |
| Deletions | | |
| <u>Owned</u> | | |
| Traffic equipment | 16,066 | 3,996 |
| Capital spares | 40,570 | 46,120 |
| | <u>56,636</u> | <u>50,116</u> |

4.1.1 Represents purchase of one ATR 42 aircraft.

4.1.2 Represents purchase of two Boeing 777 aircraft and a general electric spare engine as per fleet replacement plan approved by GoP.

5. LONG TERM INVESTMENTS

| | JUN - 2006 | DEC - 2005 |
|--|-------------------------|----------------|
| | (Rupees in thousand) | |
| Investment in subsidiaries / associated companies (note 5.1) | 4,416,377 | 214,567 |
| Other investments | 139,237 | 109,138 |
| | <u>4,555,614</u> | <u>323,705</u> |

5.1 During the period the Corporation has acquired shares of the other shareholder in PIAIL at a consideration of US \$ 70.171 million (Rs. 4,202 million), thereby increasing its shareholding in PIAIL to 99% (refer note 6.1.1).



Come Fly With Us

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

For the six months period ended June 30, 2006

6. LONG TERM ADVANCES AND OTHER RECEIVABLE

| | JUN - 2006 | DEC - 2005 |
|--|----------------------|------------------|
| | (Rupees in thousand) | |
| Long term advances (note 6.1) | 4,093,740 | 4,674,933 |
| Other receivable | 1,939,710 | 1,961,000 |
| | <u>6,033,450</u> | <u>6,635,933</u> |
| 6.1 Long term advances | | |
| Subsidiaries/ Associated company | | |
| Considered good | | |
| PIAIL | | |
| Advance for working capital requirements (6.1.1) | 1,083,171 | 936,760 |
| Accumulated interest on advance for working capital requirements (6.1.1) | 3,010,569 | 2,890,637 |
| Accumulated interest on loan for renovation of a Hotel (6.1.2) | - | 847,536 |
| | <u>4,093,740</u> | <u>4,674,933</u> |
| Considered doubtful | | |
| Sky Rooms (Private) Limited | 37,042 | 37,042 |
| Midway House (Private) Limited | 82,476 | 82,476 |
| | <u>119,518</u> | <u>119,518</u> |
| | <u>4,213,258</u> | <u>4,794,451</u> |
| Less: provision for doubtful advances | <u>(119,518)</u> | <u>(119,518)</u> |
| | <u>4,093,740</u> | <u>4,674,933</u> |

6.1.1 The amounts due from PIAIL are considered good and the management of the Corporation believes that it has become evident that these amounts will now be recovered as during the current period, the Corporation has acquired shares of the other shareholder thereby increasing its holding in PIAIL to 99%. Further, as part of the arrangement in respect of acquisition of 99% interest in PIAIL, following events have taken place:

an amount of US \$ 2.379 million (Rs. 142.48 million) appearing in the books of PIAIL as an amount payable to other shareholder has been assigned to the Corporation and therefore the subject amount is now payable by PIAIL to the Corporation. Accordingly, the Corporation has increased its long term advance to PIAIL for working capital requirement by the same amount; and

it was agreed between the Corporation and the other shareholder of PIAIL to transfer PIAIL's 49% interest i.e. US\$ 9.6 million (Rs.574.84 million) in Riyadh Minhal Hotel, to the other shareholder at an amount of US \$ 4.8 million (Rs. 287.42 million). As a consequence, long term advances payable to the Corporation were reduced by the same amount in the books of PIAIL.

The management is now considering either divestment of its holding in PIAIL or sale of assets owned by PIAIL. In view of evidence available with the Corporation there are strong indications that the sale proceeds of assets of PIAIL would be sufficient so as to enable PIAIL to settle all outstanding debts including those payable to the Corporation. Further, in view of expected balance of proceeds of assets of PIAIL after settling all outstanding debts, the Corporation believes that the carrying value of its investment in PIAIL [including the amount of US\$ 70.171 million (Rs. 4,202 million) paid during the current period] represents its recoverable amount.

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

For the six months period ended June 30, 2006

6.1.2 During the period, the Corporation has received an amount of US\$ 9.746 million (Rs. 585 million) from PIAL and also adjusted US\$ 4.8 million (Rs. 287.42 million) [refer note 6.1.1], which has resulted in full settlement of accumulated interest on long term loan for hotel renovation due from PIAL.

7. STORES AND SPARES

| | JUN - 2006 | DEC - 2005 |
|--|----------------------|-------------|
| | (Rupees in thousand) | |
| Stores | 684,102 | 659,612 |
| Spares | 4,207,604 | 3,924,807 |
| | 4,891,706 | 4,584,419 |
| Less: provision for slow moving stores and spares | (2,427,229) | (2,427,229) |
| | 2,464,477 | 2,157,190 |
| Inventory held for disposal | | |
| Cost | 1,246,849 | 1,253,852 |
| Less: adjustment to write down surplus inventory to net realisable value | (1,012,936) | (1,012,936) |
| | 233,913 | 240,916 |
| Goods-in-transit | 373,438 | 392,031 |
| | 3,071,828 | 2,790,137 |

8. ADVANCE AGAINST EQUITY FROM GoP

Represents the amount received from GoP towards equity contribution under the terms of financial package as stated in note 1.2 to these interim condensed financial statements.

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

| | | |
|---|--------------------|-------------|
| Present value of future rental obligations - aircraft fleet | | |
| A310 | 5,880,327 | 5,782,248 |
| B777 ER | 17,205,560 | 17,852,601 |
| B777LR (note 9.1) | 15,482,214 | - |
| | 38,568,101 | 23,634,849 |
| Present value of future rental obligations - vehicles (MT, TGS) | 116,042 | 138,578 |
| | 38,684,143 | 23,773,427 |
| Less: current portion | (3,223,021) | (2,067,363) |
| | 35,461,122 | 21,706,064 |

9.1 In 2005, the Corporation entered into an agreement for Ex-Im Bank supported financing for US\$ 266 million to acquire two Boeing 777 aircraft and a general electric spare engine, from Taxila-II Limited, a special purpose entity incorporated in Cayman Islands. These aircraft and a spare engine have been delivered to the Corporation during the current period. The guaranteed lenders of the financing are Citibank and DVB Bank. The salient features of the lease are as follows:

| | | |
|---|--|---|
| Discount rate - aircraft and spare engine | 3 months LIBOR - 2 basis points | - |
| Lease period - aircraft | 144 months | - |
| Lease period - spare engine | 96 months | - |
| Security deposits (Rupees in thousand) | 459,000 | - |

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

For the six months period ended June 30, 2006

10. SHORT TERM BORROWINGS - secured

Represents running finance facilities acquired from the following banks:

| Financier | Security | Repayment period | Mark up | JUN-2006 (Rupees in thousand) | DEC - 2005 |
|--|---|------------------|-----------------------|----------------------------------|----------------|
| National Bank of Pakistan - Karachi | First pari passu hypothecation charge over stocks and trade debts | 1 year | KIBOR + 1.25% | 575,000 | - |
| National Bank of Pakistan - Karachi | Foreign currency deposit | 6 months | KIBOR + 0.75% | 310,321 | - |
| National Bank of Pakistan - Bahrain | GoP guarantee | 6 months | LIBOR + 0.6% | 4,217,500 | - |
| Standard Chartered Bank - Karachi | GoP guarantee | 6 months | KIBOR + 0.75% | 2,999,604 | - |
| Syndicate financing by United Bank Limited - Bahrain, Habib Bank Limited - London, Standard Chartered Bank - Dubai and National Bank of Pakistan - Bahrain | First pari passu hypothecation charge over current assets and GoP guarantee | 3-12 months | LIBOR + 0.6% to 2.25% | 2,601,178 | - |
| United Bank Limited - Karachi | First pari passu hypothecation charge over stocks and trade debts | 1 year | KIBOR + 1.25% | 1,025,000 | - |
| United Bank Limited - Dubai | First pari passu charge over present and future current assets | 1 year | LIBOR + 2% | - | 362,075 |
| | | | | 11,728,603 | 362,075 |

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingency

Civil Aviation Authority, Pakistan has claimed additional amounts aggregating to Rs. 3,649 million (Dec 2005: Rs. 3,819 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 the 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. Accordingly, no provision in this respect has been made in these interim condensed financial statements.

11.2 Commitment

Outstanding commitments for the purchase of aircrafts as at June 30, 2006 amount to Rs. 45,349 million (Dec 2005: Rs. 60,613 million).

There has been no significant change in the status of other contingencies and commitments as disclosed in the annual financial statements of the Corporation for the year ended December 31, 2005.

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

For the six months period ended June 30, 2006

12. TURNOVER - net

| | Half year ended | | Quarter ended | |
|-------------------------------|----------------------|-------------------|-------------------|-------------------|
| | JUN - 2006 | JUN - 2005 | JUN - 2006 | JUN-2005 |
| | (Rupees in thousand) | | | |
| Passenger | 28,706,131 | 26,005,192 | 14,126,466 | 11,714,933 |
| Cargo | 2,613,628 | 2,230,463 | 1,415,251 | 1,222,073 |
| Excess baggage | 383,444 | 417,991 | 168,057 | 164,205 |
| Charters | 243,511 | 219,975 | 124,747 | 134,552 |
| Engineering services | 623,107 | 331,436 | 436,410 | 268,939 |
| Handling and related services | 432,630 | 269,243 | 211,080 | 134,654 |
| Mail | 137,048 | 149,826 | 65,449 | 61,135 |
| Others | 386,673 | 309,427 | 139,009 | 105,910 |
| | <u>33,526,172</u> | <u>29,933,553</u> | <u>16,686,469</u> | <u>13,806,401</u> |

13. COST OF SERVICES - others

| | | | | |
|-----------------------------------|-------------------|-------------------|------------------|------------------|
| Salaries, wages and allowances | 2,822,955 | 2,708,990 | 1,435,743 | 1,344,190 |
| Welfare and social security costs | 92,233 | 95,771 | 22,861 | 19,058 |
| Retirement benefits | 153,441 | 176,037 | 11,886 | 99,490 |
| Compensated absences | 5,923 | 7,628 | 1,232 | 2,948 |
| Legal and professional charges | 45,242 | 4,244 | 28,136 | 3,949 |
| Stores and spares consumed | 1,158,787 | 1,326,791 | 531,370 | 600,671 |
| Maintenance and overhaul | 2,713,756 | 2,317,615 | 1,405,222 | 1,327,408 |
| Flight equipment rental | 1,486,209 | 818,060 | 341,763 | 150,144 |
| Landing and handling | 3,912,735 | 3,361,113 | 1,878,876 | 1,584,537 |
| Passenger services | 1,387,468 | 1,079,853 | 742,830 | 536,378 |
| Crew layover | 951,659 | 792,419 | 488,747 | 394,733 |
| Staff training | 39,410 | 37,218 | 16,796 | 10,567 |
| Utilities | 3,598 | 2,333 | 2,355 | 1,230 |
| Communication | 36,867 | 30,692 | 23,344 | 25,749 |
| Insurance | 524,495 | 638,517 | 261,227 | 326,887 |
| Rent, rates and taxes | 148,749 | 152,983 | 80,809 | 80,385 |
| Repair and maintenance | 69,102 | 49,080 | 38,743 | 28,982 |
| Printing and stationery | 46,653 | 40,655 | 30,398 | 26,715 |
| Amortization | 862 | 601 | 464 | 601 |
| Depreciation | 1,463,137 | 2,016,947 | 804,339 | 1,016,958 |
| Others | 95,255 | 66,349 | 47,306 | 18,846 |
| | <u>17,158,536</u> | <u>15,723,896</u> | <u>8,194,447</u> | <u>7,600,426</u> |

14. FINANCE COST

| | | | | |
|--|------------------|------------------|------------------|----------------|
| Mark-up on long term finance under mark-up arrangements | 205,767 | 139,209 | 123,369 | 73,415 |
| Profit on term finance certificates | 682,574 | 600,619 | 330,993 | 301,970 |
| Interest on obligation under finance leases | 810,130 | 441,912 | 483,364 | 233,242 |
| Mark-up on long term murabaha finance | 59,443 | 62,539 | 32,826 | 30,249 |
| Mark-up on short-term borrowings | 245,353 | 70 | 167,558 | 35 |
| Arrangement, agency and commitment fee | 63,977 | 41,612 | 33,863 | 21,900 |
| Interest to pension provident funds | - | 659 | - | 659 |
| Bank charges, guarantee commission and other related charges | 20,694 | 19,000 | 9,856 | 12,808 |
| | <u>2,087,938</u> | <u>1,305,620</u> | <u>1,181,829</u> | <u>674,278</u> |

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

For the six months period ended June 30, 2006

15. TAXATION

| | Half year ended | | Quarter ended | |
|----------------------|----------------------|----------------|---------------|----------------|
| | JUN - 2006 | JUN - 2005 | JUN - 2006 | JUN - 2005 |
| | (Rupees in thousand) | | | |
| Current (note 15.1) | 167,631 | 150,132 | 83,432 | 69,200 |
| Deferred (note 15.2) | - | 238,099 | - | 150,197 |
| | 167,631 | 388,231 | 83,432 | 219,397 |

15.1 In view of taxable loss for the period, the provision for minimum taxation has been made at 0.5% of turnover under section 113 of the Income Tax Ordinance, 2001.

15.2 Deferred tax asset has not been recognised in these interim condensed financial statements in accordance with the Corporation's accounting policy.

16. CASH (UTILISED IN) / GENERATED FROM OPERATIONS

| | Half year ended | |
|---|----------------------|-------------|
| | JUN - 2006 | JUN - 2005 |
| | (Rupees in thousand) | |
| Loss before tax | (5,976,852) | (1,681,680) |
| Depreciation | 1,594,175 | 2,132,576 |
| Amortization | 14,994 | 10,454 |
| Finance cost | 2,087,938 | 1,305,620 |
| Provision for employees' benefits | 254,841 | 244,576 |
| Provision against stores and spares | - | 40,000 |
| Gain on disposal of fixed assets | (81,686) | (34,616) |
| Interest income from a subsidiary | (123,355) | (149,884) |
| Profit on bank deposit | (85,986) | (70,183) |
| Operating profit before working capital changes | (2,315,931) | 1,796,863 |
| Working capital changes | | |
| Increase in stores and spares | (281,692) | (164,625) |
| Increase / (decrease) in trade debts | (703,071) | 1,086,966 |
| Increase in advances | (95,975) | (262,285) |
| Increase in trade deposits and prepayments | (156,521) | (271,521) |
| Increase in other receivables | (194,539) | (5,259) |
| Decrease in trade and other payables | (1,235,293) | (1,769,621) |
| Cash (utilised in) / generated from operations | (4,983,022) | 410,518 |

17. RELATED PARTY TRANSACTIONS

The transactions with related parties, other than those relating to issuance of tickets at concessional rates to employees and directors according to terms of employment / regulations and those not mentioned elsewhere in these interim condensed financial statements are as follows:

| | | |
|--|----------------|---------|
| Recovery of advances from PIAL | 588,553 | 535,320 |
| Interest on advances to PIAL | 123,355 | 149,885 |
| Catering services from Sky Rooms (Private) Limited | 42,138 | 3,796 |
| Contribution to retirement funds | 182,865 | 293,359 |

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

For the six months period ended June 30, 2006

18. AUTHORISATION OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were authorized for issue in the Board of Directors Meeting held on August 28, 2006.

19. SUBSEQUENT EVENT

Subsequent to the half year end, one Fokker aircraft crashed on July 10, 2006. As a result, the Corporation has grounded Fokker aircraft fleet.

20. COMPARATIVES

Certain comparative figures have been reclassified for the purpose of comparison. Major reclassifications made during the period are as follows:

| Component | Reclassification from | Reclassification to | Rupees in thousand |
|-----------------|----------------------------------|------------------------|--------------------|
| Insurance claim | Turnover | Other operating income | 92,927 |
| Exchange loss | Other provisions and adjustments | Other operating income | 93,951 |

21. GENERAL

21.1 The figures for the quarter ended June 30, 2006 and June 30, 2005 appearing in the profit and loss account have not been subject to limited scope review by the auditors.

21.2 The figures have been rounded off to the nearest thousand rupees.

21.3 The US Dollars amounts in Balance Sheet, Profit and Loss Account and Cash Flow Statement have been translated into US Dollars at the rate of Rs. 60.25 = US\$ 1 solely for convenience purposes and have not been subject to limited scope review by the auditors.

21.4 The information as to the available capacity and utilisation thereof during the period has been disclosed in the statistics annexed to the interim condensed financial statements.

Tariq Kirmani
Chairman & CEO

Kamal Afsar
Director

Quarterly Summary

| | | 2006 | | 2005 | | | |
|--|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | 2nd Quarter | 1st Quarter | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| Traffic Operations | | | | | | | |
| Available Seat Kilometers (million) | International | 4,490 | 4,209 | 3,694 | 3,631 | 4,378 | 4,370 |
| | Domestic | 670 | 649 | 627 | 598 | 629 | 927 |
| | Hajj | - | 882 | 1,271 | - | - | 691 |
| | Total | 5,160 | 5,740 | 5,592 | 4,229 | 5,007 | 5,988 |
| Revenue Passenger Kilometers (million) | International | 3,101 | 2,953 | 2,731 | 2,636 | 3,474 | 2,840 |
| | Domestic | 493 | 465 | 390 | 427 | 530 | 488 |
| | Hajj | - | 451 | 639 | - | - | 352 |
| | Total | 3,594 | 3,869 | 3,760 | 3,063 | 4,004 | 3,680 |
| Seat Factor (%) | International | 69.06 | 70.16 | 73.93 | 72.60 | 79.35 | 64.99 |
| | Domestic | 73.58 | 71.65 | 62.20 | 71.40 | 84.26 | 52.64 |
| | Hajj | - | 51.13 | 50.26 | - | - | 50.94 |
| | Total | 69.65 | 67.40 | 67.24 | 72.43 | 79.97 | 61.46 |
| Available Freight Tonne Kilometers (million) | International | 163 | 126 | 138 | 140 | 152 | 156 |
| | Domestic | 24 | 20 | 22 | 22 | 24 | 24 |
| | Total | 187 | 146 | 160 | 162 | 176 | 180 |
| Revenue Freight Tonne Kilometers (million) | International | 104 | 83 | 83 | 88 | 107 | 93 |
| | Domestic | 9 | 9 | 9 | 9 | 11 | 11 |
| | Total | 113 | 92 | 92 | 97 | 118 | 104 |
| Load Factor (%) | International | 63.80 | 65.87 | 60.14 | 62.86 | 70.39 | 59.62 |
| | Domestic | 37.50 | 45.00 | 40.91 | 40.91 | 45.83 | 45.83 |
| | Total | 60.43 | 63.01 | 57.50 | 59.88 | 67.05 | 57.78 |

Financial

(Rupees in million)

| | | | | | | |
|-------------------------------------|---------|---------|--------|---------|---------|---------|
| Operating Revenue | 16,686 | 16,840 | 16,186 | 13,840 | 15,981 | 18,067 |
| Operating Expenses | 18,755 | 18,951 | 15,494 | 15,029 | 17,325 | 19,228 |
| Operating profit/(loss) | (2,069) | (2,111) | 692 | (1,189) | (1,344) | (1,161) |
| Profit/(loss) before taxation | (2,981) | (2,996) | 188 | (1,870) | (1,604) | (1,227) |
| Profit/(loss) after taxation | (3,064) | (3,080) | 19 | (2,089) | (1,023) | (1,319) |
| Fixed Assets | 67,802 | 67,219 | 50,150 | 50,582 | 51,253 | 51,376 |
| Current Assets | 14,566 | 12,865 | 14,956 | 15,065 | 13,014 | 12,757 |
| Current Liabilities | 34,891 | 30,497 | 15,805 | 17,979 | 19,783 | 21,237 |
| Long-term Debts | 52,310 | 51,938 | 40,994 | 40,409 | 38,798 | 38,099 |
| Net Worth | 4,262 | 7,345 | 13,445 | 11,372 | 10,343 | 10,446 |
| Jet Fuel Prices (Rs. Per US Gallon) | 128.26 | 113.88 | 82.48 | 102.67 | 111.39 | 102.05 |





 **PIA**
Pakistan International
Come Fly With Us

Cultural Unity in Diversity

The Punjab Motif: The land of the five rivers, the Province of Punjab in Pakistan offers soothing feast for its senses. With its lush valleys and its verdant plains the crafts of the Punjab have a rich and effervescent tradition both of the 'royal' craftsmanship of its urban centers to the village crafts of its sedentary rural areas. The patterns and motifs vary from floral designs to figures of birds and majestic elephants, which have been a hallmark of this area. Its historical buildings and gardens, its glasswork shimmering in the Sheesh Mahal, the art of Punjab is best exemplified in the exquisite tile decorations of the Wazir Khan Mosque in Lahore, and that is the design on the tail of the airplane, an airplane is named after the Garden of the Mughals

The Sindh Motif: Situated in the heart of the over five thousand years old Indus Valley Civilization, famous for the ruins of Mohenjodaro, this southern province of Pakistan has an ancient and very old tradition of arts and crafts, reflected in its pottery and other artifacts discovered here. Among them, the Hala tile work is one of the most striking representations of a craftsmanship that transforms clay into an object of undying and pristine beauty. Once again, its Muslim geometric influence seeping through its floral pattern is self-evident. Exquisitely adorned with electric blue and white flowery patterns, the Hala craft signifies a labour of love and passion for perfection. These floral patterns constitute the design of the tail and an aircraft itself is named after the Desert of Sindh.

The Frontier Motif: This style in the art of embroidery is over 2500 years old. It incorporates within its design Greek influence, both pre and post Gandhara. It came to be known as the 'Phulkari' or flowering pattern and a strong, vibrant Muslim influence brought in the Geometric element so unique to the Muslim art with its exquisite detail, and precision of craftsmanship. So strong has been this influence in Frontier region that people of the Frontier province have adopted this colorful tradition since ages on their shawls, their linen and even their shirts. The tail of the airplane bears witness to this design. One of the airplanes is named after the Khyber Pass.

The Baluchistan Motif: The motif of Baluchistan reflects and signifies the proud Baluch tribal traditions. The most striking and remarkable aspect of this tradition is reflected in the robust creativity seen in the "Kilims", carpets and rugs, woven with wool, goat or camel hair and mixed yarn, all mostly in primary colors. Most motifs dominated by the primary color red which, due to its high frequency, makes it strikingly beautiful. Influenced by the Persian and Afghan carpet design, they are nonetheless also greatly influenced by the geometric propensity of Muslim art. Baluchistan is the Province of the thousands of years old Juniper Forests, and the aircraft also carries the name after the Orchards of Baluchistan.





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