



# Half Yearly Report 2008

Pakistan International Airlines Corporation  
Head Office  
Jinnah International Airport  
Karachi 75200-Pakistan.

UAN: 111-786-786  
[www.piac.com.pk](http://www.piac.com.pk)



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## Board of Directors

### Ch. Ahmed Mukhtar

Minister for Defence and Chairman - PIA

Syed Naseer Ahmed

Malik Nazir Ahmed

Mr Javed Akhtar

### Capt. Mohammad Aijaz Haroon

Managing Director - PIA

Prof. Mian Ijaz Ul Hassan

Mr Mubashir Iftikhar

Mr Husain Lawai

### Mr Farrakh Qayyum

Secretary Finance

### Mr Kamran Rasool

Secretary Defence

### Managing Director

Capt. Mohammad Aijaz Haroon

### Chief Financial Officer

Mr Arif Majeed

### Corporate Secretary

Mr Muhammad Shuaib

### Head of Internal Audit

Mr Bhagwan Bharvani

## Audit Committee

### Mr Husain Lawai

Chairman

Malik Nazir Ahmed

Prof. Mian Ijaz Ul Hasan

Mr Mubashir Iftikhar

## Auditors

Messrs Anjum Asim Shahid Rahman  
Messrs Ford Rhodes Sidat Hyder & Co.

## Share Registrar

Central Depository Company of Pakistan  
Ltd. - Shares Registrar Services  
CDC House, 99 - B, Block 'B', Sindhi Muslim  
Cooperative Housing Society  
Main Shahrah-e-Faisal  
Karachi - 74400  
PAKISTAN  
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## Head Office

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

- The Directors of Pakistan International Airlines are pleased to present their report along with their financial statements for the first half of year 2008 (for the six month period ended 30 June 2008).

- Results for the period under review are summarized below:

	2nd Quarter		Half Year	
	2008	2007	2008	2007
	Rupees in Million			
Turnover - net	19,736	17,207	37,562	34,881
Cost and Expenditure	22,469	19,018	42,270	39,199
Financing Cost	1,806	1,827	3,710	3,396
(Other Income) / Provision - net	8,062	71	9,581	(139)
Loss before tax	12,601	3,709	17,999	7,575
Loss after tax	12,601	3,795	17,999	7,749

- In spite of competitive pressures and adverse political / economic environment of the country, the airline achieved an overall revenue growth of 7.7%. The passenger revenue growth was 11% whereas the growth in cargo revenue during this period was 3%.
- For the aviation industry, the year 2008 has turned out to be hugely challenging with IATA projecting a sizeable loss for this year. PIA also could not remain unaffected from the adversities and continues to struggle. The high loss levels sustained by the airline in the first quarter continued in the second quarter as well pushing the loss level for the first half of 2008 to a record level of Rs.18 billion. This includes Rs 8.8 billion foreign exchange translation loss on loans / lease obligations. The steep rise in oil price (Rs.8.3 billion impact) was the second major factor for this extent of loss as PIA paid an average of 74% higher into-plane price over corresponding period of last year. Airline succeeded in partially countering the impact by improving fuel efficiency through greater utilization of newer fleet and restricting deployment of older aircraft. Additionally, a provision of Rs 1.5 billion has been made for certain old claims as a matter of prudence.
- Notwithstanding high rate of inflation, rupee depreciation and increase in employees pay, PIA management succeeded in controlling the overall operating cost excluding fuel and achieved a reduction of Rs.2.3 billion denoting a decrease of 9% compared to the same period of last year.
- To reduce the adverse impact of very high fuel prices, the Corporation has taken various measures to improve revenues and cut non fuel costs. Revenue enhancement measures include additional fuel surcharge and raise in fares, carrying passengers on domestic leg of international flights, reconfiguration of 747 fleet to increase seating capacity. To save expenditure, measures include reduction in senior management positions, manpower rationalization at foreign stations and centralization of flight dispatch function at Head Office.
- During the current period, the last Boeing 777 under Exim Bank guaranteed financing was added to the fleet which would help in optimizing revenues.
- The Corporation has implemented 96% e-ticketing by July 31, 2008 and the remaining 4% primarily is on account of interline electronic e-ticketing for which the deadline set by IATA is Oct 31, 2008.



- Performance of the Corporation's subsidiaries remained satisfactory. PIAL reported 18% increase in revenue earning, a profit of Rs.552 million compared to Rs.238 million for the same period of last year. It disbursed an interim dividend of US\$ 6 million. SRL, another 100% owned subsidiary reported revenue of Rs. 110 million and an after tax profit of Rs. 10 million.
- PIA Board is very much concerned about the high level of losses being sustained by the Corporation and the consequent adverse financial situation arising therefrom. The management with full support of the GOP, Board and other stakeholders is working on additional measures to contain the high loss situation and bring about sustainable improvements in near future.

For and on behalf of the Board

**Ch. Ahmed Mukhtar**  
Chairman

August 28, 2008



**FORD RHODES SIDAT HYDER & CO.**  
CHARTERED ACCOUNTANTS  
6TH FLOOR, PROGRESSIVE PLAZA  
BEAUMONT ROAD  
KARACHI

**ANJUM ASIM SHAHID RAHMAN**  
CHARTERED ACCOUNTANTS  
1ST FLOOR, MODERN MOTORS HOUSE  
BEAUMONT ROAD  
KARACHI

#### Introduction

We have reviewed the accompanying interim condensed balance sheet of PAKISTAN INTERNATIONAL AIRLINES CORPORATION (the Corporation) as of June 30, 2008 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 (herein after referred to as "interim financial information"), for the half year then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### Scope of Review

We conducted our review in accordance with 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 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

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

- note 14.1(a) to the interim condensed financial statements, explaining the difference between the amount due as per the Corporation's records and amounts claimed by the Civil Aviation Authority for which a reconciliation and settlement exercise is currently in progress through the Ministry of Defence; and
- note 1.2 to the interim condensed financial statements, which indicates that the Corporation incurred a net loss of Rs.17,999 (June 30, 2007: Rs.7,749) million during the half year ended June 30, 2008, resulting in accumulated losses of Rs.54,634 (December 31, 2007: Rs.37,160) million as of the balance sheet date, and, as of that date, the Corporation's current liabilities exceeded its current assets by Rs.47,257 (December 31, 2007: Rs.38,798) million. The mitigating factors, however, relating to above situation, including support from the Government of Pakistan, as discussed in note 1.2, override the existence of any material uncertainty about the Corporation's ability to continue as a going concern. Accordingly, these interim condensed financial statements have been prepared on a going concern basis.

**FORD RHODES SIDAT HYDER & CO.**  
CHARTERED ACCOUNTANTS

**ANJUM ASIM SHAHID RAHMAN**  
CHARTERED ACCOUNTANTS

Karachi: August 28, 2008

		Un-audited June 30, 2008	Audited December 31, 2007	Un-audited June 30, 2008	Audited December 31, 2007
	Note	(Rupees in thousand)		(US\$ in thousand)	
<b>ASSETS</b>					
<b>NON CURRENT ASSETS</b>					
<b>Fixed assets</b>					
Property, plant and equipment	4	98,971,377	95,497,151	1,455,461	1,554,063
Intangibles		89,245	103,475	1,312	1,684
		99,060,622	95,600,626	1,456,773	1,555,747
Long term investments	5	4,526,820	4,540,229	66,571	73,885
Long term advances and other receivable		1,293,000	1,283,000	19,015	20,879
Long term deposits and prepayments		4,670,842	4,098,388	68,689	66,695
		109,551,284	105,522,243	1,611,048	1,717,206
<b>CURRENT ASSETS</b>					
Stores and spares	6	3,175,191	3,251,940	46,694	52,920
Trade debts	7	6,925,532	5,012,778	101,846	81,575
Advances	8	368,220	604,470	5,415	9,837
Trade deposits and prepayments		984,394	1,023,312	14,476	16,653
Accrued interest		10,519	32,789	155	534
Other receivables		1,481,112	1,043,971	21,781	16,989
Short term investments		36,068	32,093	530	522
Taxation - net		611,006	274,519	8,985	4,466
Cash and bank balances	9	1,216,806	1,975,459	17,894	32,147
		14,808,848	13,251,331	217,776	215,643
<b>TOTAL ASSETS</b>		<b>124,360,132</b>	<b>118,773,574</b>	<b>1,828,824</b>	<b>1,932,849</b>
<b>EQUITY AND LIABILITIES</b>					
<b>SHARE CAPITAL AND RESERVES</b>					
Share capital		20,878,074	20,878,074	307,030	339,757
Reserves		4,280,712	4,280,712	62,951	69,662
Unrealized gain on remeasurement of investments		92,179	97,366	1,356	1,584
Accumulated losses		(54,633,931)	(37,159,710)	(803,440)	(604,715)
<b>TOTAL EQUITY</b>		<b>(29,382,966)</b>	<b>(11,903,558)</b>	<b>(432,103)</b>	<b>(193,712)</b>
<b>SURPLUS ON REVALUATION OF FIXED ASSETS - net</b>		<b>630,799</b>	<b>972,040</b>	<b>9,276</b>	<b>15,818</b>
<b>ADVANCE AGAINST EQUITY FROM THE GOVERNMENT OF PAKISTAN</b>	10	<b>544,940</b>	<b>-</b>	<b>8,014</b>	<b>-</b>
		(28,207,227)	(10,931,518)	(414,813)	(177,894)
<b>NON CURRENT LIABILITIES</b>					
Long term financing	11	19,267,926	17,037,075	283,352	277,251
Term finance certificates		8,578,990	10,723,738	126,162	174,512
Liabilities against assets subject to finance leases	12	59,185,899	46,524,024	870,381	757,104
Long term deposits		283,690	321,547	4,172	5,233
Deferred liabilities		3,185,328	3,049,166	46,843	49,620
		90,501,833	77,655,550	1,330,910	1,263,720
<b>CURRENT LIABILITIES</b>					
Trade and other payables, including provisions		23,236,585	20,055,163	341,712	326,366
Accrued interest / mark-up / profit		1,174,487	978,317	17,272	15,920
Short term borrowings	13	22,737,755	18,105,884	334,379	294,644
Current maturities of:					
Long term financing		4,455,141	5,662,451	65,517	92,147
Term finance certificates		4,289,495	2,523,232	63,081	41,062
Liabilities against assets subject to finance leases		6,172,063	4,724,495	90,766	76,884
		62,065,526	52,049,542	912,727	847,023
<b>CONTINGENCIES AND COMMITMENTS</b>	14				
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>124,360,132</b>	<b>118,773,574</b>	<b>1,828,824</b>	<b>1,932,849</b>

The annexed notes 1 to 23 form an integral part of these interim condensed financial statements.

Ch. Ahmed Mukhtar  
Chairman

Mubashir Iftikhar  
Director

		Half Year Ended		Quarter Ended	Half Year Ended	
	Note	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008
		(Rupees in thousand)		(US\$ in thousand)		
<b>REVENUE - net</b>						
	15	37,562,143	34,881,364	19,736,406	17,206,729	552,384
<b>COST OF SERVICES</b>						
Aircraft fuel		(19,624,897)	(14,292,200)	(10,975,784)	(6,870,563)	(288,601)
Others	16	(17,882,364)	(20,320,074)	(8,927,258)	(9,664,691)	(262,976)
		(37,507,261)	(34,612,274)	(19,903,042)	(16,535,254)	(551,577)
<b>GROSS PROFIT / (LOSS)</b>		<b>54,882</b>	<b>269,090</b>	<b>(166,636)</b>	<b>671,475</b>	<b>807</b>
Distribution costs		(2,193,497)	(1,972,716)	(1,000,928)	(838,209)	(32,257)
Administrative expenses		(2,569,970)	(2,613,695)	(1,565,772)	(1,644,334)	(37,794)
Other provisions and adjustments - net	17	(10,321,227)	(81,284)	(8,478,275)	(231,573)	(151,784)
		(15,084,694)	(4,667,695)	(11,044,975)	(2,714,116)	(221,835)
Other operating income		740,668	219,977	416,076	160,110	10,892
<b>LOSS FROM OPERATIONS</b>		<b>(14,289,144)</b>	<b>(4,178,628)</b>	<b>(10,795,535)</b>	<b>(1,882,531)</b>	<b>(210,134)</b>
Finance costs	18	(3,710,184)	(3,395,896)	(1,805,810)	(1,826,711)	(54,562)
<b>LOSS BEFORE TAXATION</b>		<b>(17,999,328)</b>	<b>(7,574,524)</b>	<b>(12,601,345)</b>	<b>(3,709,242)</b>	<b>(264,696)</b>
Taxation		-	(174,407)	-	(86,034)	-
<b>LOSS FOR THE PERIOD</b>		<b>(17,999,328)</b>	<b>(7,748,931)</b>	<b>(12,601,345)</b>	<b>(3,795,276)</b>	<b>(264,696)</b>
<b>LOSS PER SHARE</b>						
		(Rupees)				(US\$ )
'A' class Ordinary shares of Rs.10 each		8.60	3.98	6.00	1.71	0.13
'B' class Ordinary shares of Rs. 5 each		4.30	1.99	3.00	0.85	0.06

The annexed notes 1 to 23 form an integral part of these interim condensed financial statements.

Ch. Ahmed Mukhtar  
Chairman

Mubashir Iftikhar  
Director

Note	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
	(Rupees in thousand)	(Rupees in thousand)	(US\$ in thousand)	(US\$ in thousand)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash used in operations after working capital changes	(10,858,431)	(3,684,390)	(159,683)	(60,899)
Profit on bank deposits received	127,636	124,510	1,877	2,058
Deferred custom duty paid	(113,554)	(176,275)	(1,670)	(2,914)
Finance cost paid	(3,514,013)	(3,378,327)	(51,677)	(55,840)
Taxes paid	(152,743)	(160,762)	(2,246)	(2,657)
Staff retirement benefits	(18,809)	(6,088)	(277)	(101)
Long term deposits - net	(610,312)	(449,092)	(8,975)	(7,423)
Net cash used in operating activities	(15,140,226)	(7,730,424)	(222,651)	(127,776)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Capital expenditure incurred	6,298,344	(3,972,398)	92,623	(65,659)
Proceeds from disposal of property, plant and equipment	206,383	76,413	3,035	1,263
Dividend income received	406,800	-	5,982	-
Net cash used in investing activities	6,911,527	(3,895,985)	101,640	(64,396)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Advance against equity from Government of Pakistan	544,940	1,057,741	8,014	17,483
Proceeds from long term financing - net	1,023,541	13,060,436	15,052	215,875
Redemption of term finance certificates	(378,485)	(378,485)	(5,566)	(6,256)
Repayment of obligations under finance leases	1,648,179	(2,175,625)	24,238	(35,961)
Repayment of long term murabaha	-	(428,249)	-	(7,078)
Net cash from financing activities	2,838,175	11,135,818	41,738	184,063
Decrease in cash and cash equivalents	(5,390,524)	(490,591)	(79,273)	(8,109)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	(16,130,425)	(10,083,522)	(237,212)	(166,670)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	(21,520,949)	(10,574,113)	(316,485)	(174,779)
<b>CASH AND CASH EQUIVALENTS</b>				
Cash and bank balances	1,216,806	1,726,847	17,894	28,543
Short term borrowings	(22,737,755)	(12,300,960)	(334,379)	(203,322)
	(21,520,949)	(10,574,113)	(316,485)	(174,779)

The annexed notes 1 to 23 form an integral part of these interim condensed financial statements.

Ch. Ahmed Mukhtar  
Chairman

Mubashir Iftikhar  
Director

	Issued, subscribed, and paid-up capital	Capital reserves	RESERVES		Unrealized gain / (loss) on re-measurement of investments	Accumulated losses	Total
			Revenue reserve	Total reserves			
(Rupees in '000)							
<b>Balance as at January 01, 2007</b>	19,473,631	2,501,038	1,779,674	4,280,712	21,013	(24,563,386)	(788,030)
Unrealised gain on re-measurement of investments	-	-	-	-	2,432	-	2,432
Surplus on revaluation of aircraft fleet realised during the period on account of incremental depreciation charged thereon	-	-	-	-	-	320,804	320,804
Net income recognised directly in equity	-	-	-	-	2,432	320,804	323,236
Loss for the period	-	-	-	-	-	(7,748,931)	(7,748,931)
<b>Balance as at June 30, 2007</b>	19,473,631	2,501,038	1,779,674	4,280,712	23,445	(31,991,513)	(8,213,725)
<b>Balance as at January 01, 2008</b>	20,878,074	2,501,038	1,779,674	4,280,712	97,366	(37,159,710)	(11,903,558)
Unrealised loss on re-measurement of investments	-	-	-	-	(5,187)	-	(5,187)
Surplus on revaluation of aircraft fleet realised during the period on account of incremental depreciation charged thereon	-	-	-	-	-	525,107	525,107
Net income recognised directly in equity	-	-	-	-	(5,187)	525,107	519,920
Loss for the period	-	-	-	-	-	(17,999,328)	(17,999,328)
<b>Balance as at June 30, 2008</b>	20,878,074	2,501,038	1,779,674	4,280,712	92,179	(54,633,931)	(29,382,966)

The annexed notes 1 to 23 form an integral part of these interim condensed financial statements.

Ch. Ahmed Mukhtar  
Chairman

Mubashir Iftikhar  
Director

## 1. CORPORATE INFORMATION

- 1.1 Pakistan International Airlines Corporation (the Corporation) was incorporated in Pakistan on April 18, 1956 under the Pakistan International Airlines Corporation Act, 1956 (PIAC Act). The shares of the corporation are quoted on all Stock Exchanges of Pakistan. The registered office is situated at the Karachi Airport. 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.
- 1.2 During the current period, the Corporation incurred a net loss of Rs.17,999 (June 30, 2007: Rs.7,749) million, resulting in accumulated losses of Rs.54,634 (December 31, 2007: Rs.37,160) million as of the balance sheet date. Further, as of that date the current liabilities of the Corporation exceeded its current assets by Rs.47,257 (December 31, 2007: Rs.38,798) million. The adverse exchange rate of US Dollar (the exchange loss for the period amounted to Rs.8,848 million) and the unprecedented rise in oil prices were contributory factors in the Corporation incurring a net loss for the period. The management is undertaking corrective measures to improve the operating results of the Corporation.

The Government of Pakistan (GoP), as a majority shareholder, is committed to ensure the going concern status of the Corporation at all times. Historically, the support of the GoP has always been available to the Corporation, as evident by the GoP issuing guarantees to secure certain long term finances and TFCs.

The 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 finance and TFCs for the first five years. Further, as part of the financial package, an amount of Rs.8,872 (December 31, 2007: Rs.8,327) million has been provided to the Corporation up to June 30, 2008 against which 832,750,601 (2007: 832,750,601) 'A' class Ordinary shares of Rs.10 each were issued to the GoP up to that date. The remaining 54,494,004 Ordinary shares are expected to be issued during the current year.

In addition, the GoP had approved a fleet replacement plan as a result of which the Corporation entered into an agreement for purchase of eight new Boeing 777 aircraft. The GoP had provided funding of US\$ 150 million (equivalent to Rs.8,816 million) in the form of equity and guarantees for acquisition of the said aircraft up to December 31, 2007.

The Corporation, therefore, believes that the going concern assumption is appropriate and has, as such, prepared these interim condensed financial statements on this basis.

The Head office of the Corporation is situated at PIA Building, Jinnah International Airport, Karachi.

## 2. BASIS OF PREPARATION

These interim condensed financial statements are unaudited but subject to limited scope review by auditors and are being submitted to the shareholders as required under Section 245 of the Companies Ordinance, 1984 and the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges and have been prepared in accordance with the requirements of the International Accounting Standard (IAS) - 34 "Interim Financial Reporting", as applicable in Pakistan.

The interim condensed 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 annual financial statements as at December 31, 2007.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these interim condensed financial statements are the same as those applied in the preparation of the annual financial statements of the Corporation for the year ended December 31, 2007.

## 4. PROPERTY, PLANT AND EQUIPMENT

Note	JUN-2008	DEC-2007
	Rupees in '000	
	98,464,763	88,075,893
	506,614	7,421,258
	<u>98,971,377</u>	<u>95,497,151</u>

	JUN-2008	JUN-2007
	Rupees in '000	
4.1 Following are the major additions / transfers and deletions during the current period:		
<b>Additions / transfers</b>		
<b>Owned</b>		
Buildings on leasehold land	17,688	18,775
Workshops and hangers	-	465
Renovation and improvements	21,776	24,467
Aircraft fleet	373,867	3,070,722
Operating ground equipment, catering, communication and meteorological equipment	1,282	20,996
Engineering equipment and tools	11,383	51,078
Motor transport	9,328	3,730
Traffic equipment	14,192	31,232
Furniture, fixtures and fittings	22,768	12,230
Office equipment	335	531
Computers and office automation	15,658	53,824
Precision engineering equipment	299	-
Other equipment	27,386	38,865
Capital spares	357,446	645,483
	<u>873,408</u>	<u>3,972,398</u>
<b>Leased</b>		
Aircraft fleet	13,202,738	10,488,244
Vehicles	939	-
	<u>14,077,085</u>	<u>14,460,642</u>
<b>Deletions</b>		
<b>Owned</b>		
Leasehold land	103	-
Renovation and improvements	-	1,525
Aircraft fleet	-	231,584
Operating ground equipment, catering, communication and metrological equipment	106	3,274
Motor transport	9,609	480
Traffic equipment	22,874	3,414
Furniture, fixtures and fittings	1,034	1,300
Office equipment	455	435
Computers and office automation	132	520
Other equipment	-	287
Capital spares	7,187	1,728
	<u>41,500</u>	<u>244,547</u>
<b>Leased</b>		
Vehicles	13,805	2,415
	<u>55,305</u>	<u>246,962</u>

- 4.1.1 Additions of Rs.7,009 million represents transfer from capital work in progress during the current period.

Note  
JUN-2008 DEC-2007  
Rupees in '000

## 5. LONG TERM INVESTMENTS

### Investments in related parties - at cost

#### Unquoted

Subsidiaries	4,415,712	4,415,712
Associate	396	396
Joint venture	2	2
	4,416,110	4,416,110

#### Other investments

	110,710	124,119
	4,526,820	4,540,229

## 6. STORES AND SPARES

Stores	833,071	849,517
Spares	4,115,908	3,986,246
	4,948,979	4,835,763
Provision for slow moving stores and spares	(2,075,846)	(1,930,145)
	2,873,133	2,905,618

Inventory held for disposal cost	2,207,092	2,207,092
Adjustment to write down surplus inventory to net realisable value	(1,944,538)	(1,944,539)
Disposals during the period	(9,695)	-
	252,859	262,553
Stores and spares-in-transit	49,199	83,769
	3,175,191	3,251,940

### 6.1 Movement in provision is as follows:

Balance at the beginning of the year	1,930,145	1,604,338
Provision written back	-	(8,712)
Provision made during the period	145,701	334,519
	2,075,846	1,930,145

## 7. TRADE DEBTS

Considered good	6,925,532	5,012,778
Considered doubtful	546,858	721,000
Provision for doubtful debts	(546,858)	(721,000)
	-	-
	6,925,532	5,012,778

### 7.1 Movement in provision is as follows:

Balance at the beginning of the year	721,000	455,000
Provision written back	(174,142)	(136,211)
Provision made during the period	-	402,211
	546,858	721,000

Note  
JUN-2008 DEC-2007  
Rupees in '000

## 8. ADVANCES

### Considered good

#### Subsidiary

Sky Rooms (Private) Limited	81,782	80,582
-----------------------------	--------	--------

#### Others

Employees	80,039	154,361
Suppliers	55,412	363,538
Others	150,987	5,989
	286,438	523,888

### Considered doubtful

Provision for advances considered doubtful	31,319	31,319
	(31,319)	(31,319)
	-	-
	368,220	604,470

### 8.1 Movement in provision is as follows:

Balance at the beginning of the year	31,319	28,985
Provision made during the period	-	2,334
	31,319	31,319

## 9. CASH AND BANK BALANCES

In hand	10,416	6,648
In transit	132,029	61,769
	142,445	68,417

### With banks

#### In current accounts

Collection	3,248,475	3,029,427
Overdrawn bank balances	(3,053,862)	(2,741,112)
	194,613	288,315

#### In short term deposit accounts

	879,748	1,618,727
	1,074,361	1,907,042
	1,216,806	1,975,459

## 10. ADVANCE AGAINST EQUITY FROM THE GoP

This represents amount received from the Government of Pakistan (GoP) towards equity contribution, under the terms of financial package, as disclosed in note 1.2 to these interim condensed financial statements.



### 11. LONG TERM FINANCING - secured

Financier	Type of facility	Limit (Rupees in million)	Repayment period	Number of instalments/ mode	Mark-up %	(Un-audited) June 30, 2008	(Audited) December 31, 2007
-----Rupees in '000-----							
<b>From Banking Companies</b>							
United Bank Limited	Syndicate finance	1,650	2005-2010	6 half-yearly	6 months KIBOR + 0.79%	945,640	1,215,825
Citibank / DVB Bank	Syndicate finance	6,603	2008	1 Bullet	1 month LIBOR + 0.77%	-	3,184,462
Habib Bank Limited	Demand finance	530	2006-2009	36 monthly	1 month KIBOR + 1.50%	176,667	267,000
Citibank, N.A.	Demand finance	4,895	2006-2017	20 half-yearly	5.28% fixed	4,811,961	4,599,184
Habib Bank Limited	Demand finance	200	2006-2009	36 monthly	1 month KIBOR + 1.75%	88,889	122,222
ABN AMRO Bank	Demand finance	3,538	2009-2013	19 quarterly	3 months KIBOR + 1.60%	3,739,910	3,132,458
National Bank of Pakistan / Habib Bank Limited	Syndicate finance	7,260	2010	1 Bullet	3 months LIBOR + 1.325%	8,160,000	7,374,000
Standard Chartered Bank DXB	Demand finance	3,025	2007-2009	12 quarterly	3 months LIBOR + 1.325%	1,983,333	2,304,375
National Bank of Pakistan - Karachi	Demand finance	500	2007-2010	12 quarterly	3 months KIBOR + 1.5%	416,667	500,000
National Bank of Pakistan - Bahrain	Demand finance	3,400	2008-2010	24 months	6 months LIBOR + 2.55%	3,400,000	-
Current maturity						23,723,067 (4,455,141)	22,699,526 (5,662,451)
						19,267,926	17,037,075
Note						JUN-2008	DEC-2007
						Rupees in '000	

### 12. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

Present value of future rental obligations - aircraft fleet		
A 310-300	5,370,602	5,149,590
B 777-200 ER	15,767,256	15,101,574
B 777-200 LR	15,027,802	14,156,116
B 777-300 ER	29,163,693	16,794,148
	65,329,353	51,201,428
Present value of future rental obligations - vehicles	28,609	47,091
Current maturity thereof	65,357,962 (6,172,063)	51,248,519 (4,724,495)
	59,185,899	46,524,024

### 13. SHORT TERM BORROWINGS - Secured

Short term loans	13.1	19,649,549	16,033,876
Running finances under mark-up arrangements	13.2	3,088,206	2,072,008
		22,737,755	18,105,884

### 13.1 Short term loans - secured

Financier	Security	Repayment period	Mark-up rate	JUN 30, 2008	DEC 31 2007
Rupees in '000					
<b>From Banking Companies</b>					
Habib Bank Limited - Karachi	GoP Guarantee	3 months	1 month KIBOR + 0.25%	2,000,000	2,000,000
United Bank Limited - Dubai	UAE receivables	1 year	1 month LIBOR + 2%	767,909	1,359,997
Habib Allied Bank Limited - London	Euro receivables	1 year	1 month LIBOR + 2.25%	612,000	553,050
United Bank Limited - Bahrain	UAE receivables	1 year	1 month LIBOR + 2.25%	872,402	802,375
Habib Bank Limited Karachi	GoP Guarantee/ Domestic Receivables	1 year	1 month KIBOR + 0.25% - 1.5%	2,850,000	2,850,000
Standard Chartered Bank - Dubai	GoP Guarantee	1 year	3 months LIBOR + 1%	3,400,000	3,072,500
Standard Chartered Bank - Dubai	Remittance Routings	1 year	1 month LIBOR + 1.5%	408,000	553,050
Habib Bank Limited- Karachi	Hypothecation charge over current assets/GoP Guarantee	1 Year	3-6 months KIBOR + 1% 0.25% - 1.25%	1,360,000	1,843,500
Standard Chartered Bank Pakistan Limited- Karachi	GoP Guarantee	6 months	6 months KIBOR + 0.75%	2,999,904	2,999,404
National Bank of Pakistan	GoP Guarantee	1 year	Three month KIBOR + 0.6%	1,100,000	-
United Bank Limited	GoP Guarantee	1 year	Six month LIBOR + 1.25%	680,000	-
United Bank Limited	GoP Guarantee	1 year	Three month KIBOR + 0.5%	976,000	-
HSBC	GoP Guarantee	1 year	Three month KIBOR + 0.35%	1,000,000	-
Habib Allied Bank International - KEPZ	EURO receivables	15 months	1 month LIBOR + 2.5%	311,667	-
Habib Allied Bank International - London	EURO receivables	15 months	1 month LIBOR + 2.5%	311,667	-
				19,649,549	16,033,876

### 13.2 Running finances under mark-up arrangements - secured

Financier	Security	Repayment period	Mark-up rate	JUN 30, 2008	DEC 31 2007
Rupees in '000					
<b>From Banking Companies</b>					
United Bank Limited - Karachi	First pari passu hypothecation charge over stock and trade debts	1 Year	One month KIBOR + 1.50%	2,513,206	1,497,008
National Bank of Pakistan - Karachi	First pari passu hypothecation charge over stock and trade debts	1 Year	One month KIBOR + 1.25%	575,000	575,000
				3,088,206	2,072,008

The rate of mark-up ranges between 11.50% and 13.66% (December 31, 2007: 7.50% and 11.50%) per annum, payable monthly, quarterly or semi-annually.

Facilities, aggregating to Rs.407.000 (December 31, 2007: Rs.1,073.000) million remained un-utilized as of the balance sheet date.

#### 14. CONTINGENCIES AND COMMITMENTS

##### 14.1 Contingencies

- Civil Aviation Authority (CAA), Pakistan has claimed additional amounts, aggregating to Rs.3,382 (December 31, 2007: Rs. 3,008) 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.
- The Collector Central Excise had raised demand of Rs. 568 (December 31, 2007: Rs.568) million in respect of duties levied on tickets provided by the Corporation to its staff either free of charge or at concessional rates. On protest by the Collector Central Excise, the Corporation has already paid an amount of Rs.100 (December 31, 2007: Rs.100) million, which is considered fully recoverable by the management. The Corporation has filed appeals with the Customs, Central Excise and Sales Tax Tribunal, which are pending adjudication. Management is confident that the decision would be made in Corporation's favour. Consequently, no provision has been made in these interim condensed financial statements.
- There has been no change in the status of other contingencies as disclosed in the annual financial statements of the Corporation for the year ended December 31, 2007.

##### 14.2 Commitment

- Commitments for purchase of aircraft amounted to Rs.Nil (December 31, 2007: Rs.18,873) million.
- Commitments for capital expenditure amounted to Rs.276.2 (December 31, 2007: Rs.436.4) million.
- Outstanding letters of credit amounted to Rs.118 (December 31, 2007: Rs.200) million.
- Outstanding letters of guarantee amounted to Rs.180.4 (December 31, 2007: Rs.176.4) million.

#### 15. REVENUE - net

	Half year ended		Quarter ended	
	JUN-2008	JUN-2007	JUN-2008	JUN-2007
	(Rupees in thousand)			
Passengers	33,577,948	30,747,005	17,682,024	15,053,739
Cargo	2,359,423	2,284,340	1,263,075	1,205,576
Excess baggage	381,595	415,605	159,355	188,862
Charter	96,332	84,965	33,778	13,674
Engineering services	283,727	319,195	162,096	160,609
Handling and related services	291,349	436,468	147,460	269,887
Mail	131,719	156,425	58,077	82,234
Others	440,050	437,361	230,541	232,148
	<u>37,562,143</u>	<u>34,881,364</u>	<u>19,736,406</u>	<u>17,206,729</u>

	Half year ended		Quarter ended	
	JUN-2008	JUN-2007	JUN-2008	JUN-2007

(Rupees in thousand)

#### 16. COST OF SERVICES - Others

Salaries, wages and allowances	3,829,874	3,495,658	1,912,293	1,729,717
Welfare and social security costs	133,866	123,395	21,566	25,678
Retirement benefits	349,550	223,851	213,419	109,243
Compensated absences	50,197	6,012	26,197	4,212
Legal and professional charges	33,672	56,121	16,069	41,391
Stores and spares consumed	668,840	839,567	214,058	233,809
Maintenance and overhaul	1,549,202	3,430,872	730,636	1,835,886
Flight equipment rental	474,000	2,298,336	207,731	894,422
Landing and handling	3,948,004	4,122,010	2,047,329	2,035,982
Passenger services	1,271,750	1,427,201	669,058	681,119
Crew layover	957,912	1,064,875	503,920	545,406
Staff training	25,539	37,537	11,975	16,091
Utilities	8,482	6,159	4,019	3,751
Communication	26,497	33,080	9,591	18,209
Insurance	568,326	538,479	245,450	274,228
Rent, rates and taxes	157,297	139,947	73,696	70,506
Printing and stationery	46,883	66,754	23,995	51,015
Amortization	1,127	1,238	438	619
Depreciation	3,616,634	2,303,495	1,896,030	1,052,332
Others	164,712	105,487	99,788	41,075
	<u>17,882,364</u>	<u>20,320,074</u>	<u>8,927,258</u>	<u>9,664,691</u>

#### 17. OTHER PROVISIONS AND ADJUSTMENTS - net

Loss on fixed assets written off	1,453	-	-	-
Provision for slow moving stores and spares	145,701	320,688	54,525	320,688
Provision (written back) / made for doubtful	(174,142)	164,319	(174,142)	164,319
Provision against claims by the CAA	1,500,000	-	1,500,000	-
Exchange loss / (gain) - net	8,848,215	(403,723)	7,097,892	(253,434)
	<u>10,321,227</u>	<u>81,284</u>	<u>8,478,275</u>	<u>231,573</u>

#### 18. FINANCE COSTS

Mark-up on long term financing	649,452	348,653	313,865	198,242
Profit on term finance certificates	702,390	680,962	352,914	339,703
Interest on liabilities against assets subject to finance lease	1,218,624	1,380,078	557,182	807,904
Mark-up on long term murabaha	9,327	34,353	6,235	15,763
Mark-up on short-term borrowings	963,980	759,225	493,385	432,022
Arrangement, agency and commitment fee	148,302	168,691	73,199	22,036
Bank charges, guarantee commission and other related charges	18,109	23,934	9,030	11,041
	<u>3,710,184</u>	<u>3,395,896</u>	<u>1,805,810</u>	<u>1,826,711</u>

## 19. CASH USED IN OPERATIONS

	JUN-2008	JUN-2007
	Rupees in '000	
<b>Loss before taxation</b>	(17,999,328)	(7,574,524)
<b>Adjustments for:</b>		
Depreciation	3,704,412	2,411,256
Gain on disposal of stores and spares	1,453	-
Gain on disposal of property, plant and equipment	(198,184)	(75,109)
Amortization of intangibles	14,285	15,810
Dividend income	406,800	-
Provision for slow moving stores and spares	145,701	90,000
Adjustment to write down surplus inventory to net realisable value	-	230,688
Provision for employees' benefits	606,358	245,928
Provision (written back) / made for doubtful debts	(174,142)	164,319
Finance costs	3,710,184	3,395,896
Profit on bank deposits	(105,366)	(109,156)
<b>Operating loss before working capital changes</b>	(9,887,827)	(1,204,892)
<b>Working capital changes</b>		
Increase in stores and spares	(68,952)	(158,807)
Increase in trade debts	(1,738,612)	(32,434)
Decrease / (increase) in advances	236,250	(1,149,848)
Decrease in trade deposits and prepayments	38,917	24,075
Increase / (decrease) in other receivables	(437,142)	45,783
Increase / (decrease) in trade and other payables, including provisions	998,935	(1,208,267)
	(970,604)	(2,479,498)
<b>Cash used in operations</b>	(10,858,431)	(3,684,390)

## 20. GEOGRAPHICAL SEGMENTS

	Half year ended		Quarter ended	
	JUN-2008	JUN-2007	JUN-2008	JUN-2007
	(Rupees in thousand)			
<b>Revenue analysis</b>				
USA / Canada	2,701,255	3,324,939	1,419,330	1,829,398
Europe	8,415,767	8,366,556	4,421,925	3,603,209
Middle East / Africa	6,335,040	5,740,251	3,328,642	3,122,834
Asia (excluding Pakistan)	2,210,263	1,944,405	1,161,346	1,055,418
Pakistan	17,899,818	15,505,213	9,405,163	7,595,870
	37,562,143	34,881,364	19,736,406	17,206,729

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

### Analysis of net assets

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

## 21. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of subsidiaries, associates, joint ventures, directors, key management personnel and employees' benefits funds. The GoP despite being the major shareholder is not treated as a related party. 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 terms of employment / regulations and those not mentioned elsewhere in these financial statements are as follows:

	JUN-2008	JUN-2007
	Rupees in '000	
<b>Sky Rooms (Private) Limited - Subsidiary</b>		
Catering services	3,178	87,620
<b>Retirement funds</b>		
Contribution	381,706	197,918
<b>Key management personnel</b>		
Remuneration	1,119,864	1,046,650

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

## 22. 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, 2008.

## 23. GENERAL

- 23.1 The figures for the quarter ended June 30, 2008 and June 30, 2007 appearing in the profit and loss account have not been subject to limited scope review by the auditors.
- 23.2 Figures have been rounded off to the nearest thousand rupees.
- 23.3 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.68 = US\$1 solely for convenience purposes and have not been subject to limited scope review by the auditors.
- 23.4 The information as to the available capacity and utilization thereof during the quarter is disclosed in the statistics annexed to the interim condensed financial statements.

	2008		2007			
	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter

**Traffic Operations**

Available Seat Kilometers (million)	International	3,801	3,314	3,516	4,040	4,157	4,045
	Domestic	607	652	627	625	687	771
	Hajj	-	615	978	-	-	772
	<b>Total</b>	<b>4,408</b>	<b>4,581</b>	<b>5,121</b>	<b>4,665</b>	<b>4,844</b>	<b>5,588</b>
Revenue Passenger Kilometers (million)	International	2,756	2,383	2,310	3,074	2,857	2,942
	Domestic	477	464	416	457	465	464
	Hajj	-	313	501	-	-	393
	<b>Total</b>	<b>3,233</b>	<b>3,160</b>	<b>3,227</b>	<b>3,531</b>	<b>3,322</b>	<b>3,799</b>
Seat Factor (%)	International	72.51	71.91	65.70	76.09	68.73	72.73
	Domestic	78.58	71.17	66.35	73.12	67.69	60.18
	Hajj	0.00	50.89	51.23	0.00	0.00	50.91
	<b>Total</b>	<b>73.34</b>	<b>68.98</b>	<b>63.02</b>	<b>75.69</b>	<b>68.58</b>	<b>67.98</b>
Available Freight Tonne Kilometers (million)	International	118	107	115	141	148	128
	Domestic	17	20	22	22	28	31
	<b>Total</b>	<b>135</b>	<b>127</b>	<b>137</b>	<b>163</b>	<b>176</b>	<b>159</b>
Revenue Freight Tonne Kilometers (million)	International	71	60	60	102	80	74
	Domestic	9	9	9	11	9	8
	<b>Total</b>	<b>80</b>	<b>69</b>	<b>69</b>	<b>113</b>	<b>89</b>	<b>82</b>
Load Factor (%)	International	60.17	56.07	52.17	72.34	54.05	57.81
	Domestic	52.94	45.00	40.91	50.00	32.14	25.81
	<b>Total</b>	<b>59.26</b>	<b>54.33</b>	<b>50.36</b>	<b>69.33</b>	<b>50.57</b>	<b>51.57</b>

**Financial**

Operating Revenue	19,736	17,826	18,430	17,165	17,207	17,679
Operating Expenses	22,470	19,801	18,013	18,716	19,018	20,181
Profit/(loss) before taxation	(12,601)	(5,398)	(2,428)	(3,069)	(3,709)	(3,865)
Profit/(loss) after taxation	(12,601)	(5,487)	(2,495)	(3,155)	(3,795)	(3,954)
Fixed Assets	99,061	100,973	95,601	89,390	89,285	87,095
Current Assets	14,809	14,236	13,251	15,211	15,219	15,222
Current Liabilities	62,066	55,198	52,050	44,733	39,633	43,211
Long-term Debts	87,033	83,211	74,285	76,453	78,391	69,483
Net Worth	(29,383)	(17,171)	(11,904)	(10,998)	(8,214)	(4,635)
Jet Fuel Prices (Rs. Per US Gallon)	241.22	174.47	160.87	134.49	125.03	114.28

GROUP CONSOLIDATED  
FINANCIAL STATEMENTS

		June 2008	December 2007	June 2008
		(Rupees in thousand)		(US\$ in thousand)
<b>ASSETS</b>				
<b>NON - CURRENT ASSETS</b>				
<b>Fixed assets</b>				
Property, plant and equipment	4	137,371,931	132,470,820	2,020,175
Intangibles		2,052,041	2,067,117	30,177
		139,423,972	134,537,937	2,050,352
Long term investments		111,108	188,465	1,634
Long term advances and other receivable		1,982,831	1,755,298	29,159
Long term deposits and prepayments		4,672,803	4,242,703	68,718
Total non - current assets		146,190,714	140,724,403	2,149,863
<b>CURRENT ASSETS</b>				
Stores and spares	5	3,216,617	3,286,170	47,303
Trade debts		7,844,203	5,395,745	115,356
Advances		358,398	549,900	5,271
Trade deposits and prepayments		984,394	1,257,980	14,476
Accrued interest		10,519	32,789	155
Other receivables		1,512,468	1,170,866	22,242
Short term investments		313,790	182,771	4,615
Taxation - net		647,923	310,239	9,528
Cash and bank balances	6	3,585,856	4,233,180	52,733
		18,474,168	16,419,640	271,679
<b>TOTAL ASSETS</b>		<b>164,664,882</b>	<b>157,144,043</b>	<b>2,421,542</b>
<b>EQUITY AND LIABILITIES</b>				
<b>SHARE CAPITAL AND RESERVES</b>				
Share capital		20,878,074	20,878,074	307,031
Reserves		4,284,841	4,280,712	63,012
Unrealized gain on remeasurement of investments		92,178	97,366	1,356
Foreign exchange translation reserve		2,291,488	2,116,441	33,698
Accumulated losses		(53,115,693)	(36,029,644)	(781,113)
		(25,569,112)	(8,657,051)	(376,016)
<b>MINORITY INTEREST</b>		<b>570,494</b>	<b>527,860</b>	<b>8,390</b>
<b>TOTAL EQUITY</b>		<b>(24,998,618)</b>	<b>(8,129,191)</b>	<b>(367,627)</b>
Surplus on revaluation of fixed assets - net		9,889,352	10,190,057	145,432
		(15,109,266)	2,060,866	(222,195)
<b>NON - CURRENT LIABILITIES</b>				
Advance against equity from GoP	7	544,940	-	8,014
Long term financing	8	32,608,366	28,994,934	479,535
Term finance certificates		8,578,990	10,723,738	126,162
Liabilities against assets subject to finance lease	9	59,246,957	46,524,024	871,279
Long term deposits		283,822	321,679	4,174
Deferred liabilities		14,896,412	14,669,765	219,065
Total non - current liabilities		116,159,487	101,234,140	1,708,228
<b>CURRENT LIABILITIES</b>				
Trade and other payables		24,748,292	21,652,372	363,945
Accrued interest / mark-up / profit		1,174,487	978,317	17,272
Short term borrowings	10	22,737,755	18,105,884	334,379
Tax payable		22,974	19,388	338
Current portion of:				
Long term financing		4,469,595	5,845,349	65,729
Term finance certificates		4,289,495	2,523,232	63,081
Liabilities against assets subject to finance lease		6,172,063	4,724,495	90,766
<b>Total current liabilities</b>		<b>63,614,661</b>	<b>53,849,037</b>	<b>935,510</b>
<b>CONTINGENCIES AND COMMITMENTS</b>				
<b>TOTAL EQUITY AND LIABILITIES</b>	11	<b>164,664,882</b>	<b>157,144,043</b>	<b>2,421,542</b>

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

Ch. Ahmed Mukhtar  
Chairman

Mubashir Iftikhar  
Director

		Half Year Ended		Quarter Ended		Half-Year Ended
		June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008
		(Rupees in thousand)				(US\$ in thousand)
Turnover - net	12	41,850,831	38,410,731	22,199,758	19,259,087	615,453
<b>Cost of services</b>						
Aircraft fuel		(19,624,897)	(14,292,200)	(10,975,784)	(6,870,563)	(288,601)
Others	13	(20,404,010)	(22,500,992)	(10,244,131)	(10,555,374)	(300,059)
		(40,028,907)	(36,793,192)	(21,219,915)	(17,425,937)	(588,660)
<b>Gross Profit / (Loss)</b>		<b>1,821,924</b>	<b>1,617,539</b>	<b>979,843</b>	<b>1,833,150</b>	<b>26,793</b>
Distribution costs		(2,413,905)	(2,128,529)	(1,114,858)	(994,023)	(35,499)
Administrative expenses		(3,026,828)	(3,036,896)	(1,834,843)	(2,063,536)	(44,512)
Other provisions and adjustments - net		(10,321,227)	(81,284)	(8,478,275)	(231,573)	(151,783)
		(15,761,960)	(5,246,709)	(11,427,976)	(3,289,132)	(231,794)
Other operating income		392,092	237,338	11,927	156,544	5,766
<b>Loss from operations</b>		<b>(13,547,944)</b>	<b>(3,391,832)</b>	<b>(10,436,206)</b>	<b>(1,299,438)</b>	<b>(199,234)</b>
Finance costs	14	(4,035,998)	(3,797,911)	(1,963,060)	(2,004,091)	(59,353)
Loss before tax		(17,583,942)	(7,189,743)	(12,399,266)	(3,303,529)	(258,587)
Taxation		(260,649)	(302,847)	(131,074)	(210,064)	(3,833)
Loss after tax		(17,844,591)	(7,492,590)	(12,530,340)	(3,513,593)	(262,420)
Attributable to:						
Shareholders of the holding company		(17,856,722)	(7,498,475)	(12,539,815)	(3,519,147)	(262,599)
Minority interest		12,131	5,885	9,475	5,554	178
		(17,844,591)	(7,492,590)	(12,530,340)	(3,513,593)	(262,420)
Loss per share				(Rupees)		(US\$)
'A' class ordinary shares		8.55	3.85	6.00	1.69	0.13
'B' class ordinary shares		4.28	1.93	3.00	0.85	0.07

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

Ch. Ahmed Mukhtar  
Chairman

Mubashir Iftikhar  
Director



PAKISTAN INTERNATIONAL AIRLINES CORPORATION  
Interim Condensed Consolidated Cash Flow Statement (Un-audited)  
For the six months period ended June 30, 2008

		June 2008	June 2007	June 2008
	Note	(Rupees in thousand)		(US\$ in thousand)
<b>Cash flows from operating activities</b>				
Cash (used in) / generated from operations	15	(9,573,080)	(2,737,948)	(140,781)
Profit on bank deposits received		127,636	124,510	1,877
Deferred custom duty paid		(113,554)	(176,275)	(1,670)
Finance costs paid		(3,863,247)	(3,731,530)	(56,812)
Taxes paid		(629,860)	(178,715)	(9,263)
Staff retirement benefits paid		(1,443)	(597)	(21)
Compensated absences paid		(18,809)	(6,088)	(277)
Long term deposits - net		(734,017)	(479,092)	(10,794)
Net cash used in operating activities		(14,806,374)	(7,185,735)	(217,741)
<b>Cash flows from investing activities</b>				
Fixed capital expenditure		6,104,766	(4,096,997)	89,776
Proceeds from sale of fixed assets		215,651	112,822	3,171
Investments - net		(110,983)	-	(1,632)
Net cash used in investing activities		6,209,433	(3,984,175)	91,315
<b>Cash flows from financing activities</b>				
Advance against Equity		544,940	1,057,741	8,014
Proceeds / (repayment) of long term financing		1,275,887	13,012,008	18,763
Redemption of term finance certificates		(378,485)	(378,485)	(5,566)
Repayment of obligations under finance lease		1,643,222	(2,175,625)	24,165
Repayment of long term murabaha		-	(428,249)	-
Net cash generated from / (used in) financing activities		3,085,564	11,087,390	45,376
Decrease in cash and cash equivalents		(5,511,377)	(82,520)	(81,050)
Cash and cash equivalents at the beginning of the year		(13,640,522)	(8,464,341)	(200,596)
Cash and cash equivalents at the end of half year		(19,151,899)	(8,546,861)	(281,646)
<b>CASH AND CASH EQUIVALENTS</b>				
Cash and bank balances		3,585,856	3,754,099	52,733
Short term borrowings		(22,737,755)	(12,300,960)	(334,379)
		(19,151,899)	(8,546,861)	(281,646)

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

Ch. Ahmed Mukhtar  
Chairman

Mubashir Iftikhar  
Director

PAKISTAN INTERNATIONAL AIRLINES CORPORATION  
Interim Condensed Consolidated  
Statement of Changes in Equity (Un-audited)  
For the half year ended June 30, 2008



	Share Capital	Capital reserves			Revenue reserves		Minority interest	Total Equity
		capital Reserve	Unrealized gain / (loss) on re-measurement	Foreign exchange translation reserves	Revenue Reserve	Accumulated losses		
----- (Rupees in thousand) -----								
Balance as at January 01, 2007	19,473,631	2,501,038	21,013	1,847,591	1,779,674	(23,717,778)	520,692	2,425,861
Unrealized loss on re-measurement of investments	-	-	2,432	-	-	-	-	2,432
Loss for the Period	-	-	-	-	-	(5,001,183)	5,885	(4,995,298)
Currency translation difference	-	-	-	150,499	-	-	6,061	156,560
Transfer from surplus on revaluation	-	-	-	-	-	338,575	-	338,575
Balance as at June 30, 2007	19,473,631	2,501,038	23,445	1,998,090	1,779,674	(28,380,386)	532,638	(2,071,870)
Balance as at January 01, 2008	20,878,074	2,501,038	97,366	2,116,441	1,779,674	(36,029,644)	527,860	(8,129,191)
Unrealized gain on re-measurement of investments	-	-	(5,188)	-	-	-	-	(5,188)
Loss for the period	-	-	-	-	-	(17,844,591)	12,131	(17,832,460)
Currency translation difference	-	-	-	175,047	4,129	-	30,503	209,679
Transfer from surplus on revaluation	-	-	-	-	-	758,542	-	758,542
Balance as at June 30, 2008	20,878,074	2,501,038	92,178	2,291,488	1,783,803	(53,115,693)	570,494	(24,998,618)

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

Ch. Ahmed Mukhtar  
Chairman

Mubashir Iftikhar  
Director

### 1. STATUS AND ACTIVITY

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 (PIAC Act).

1.2 The following subsidiary companies have been consolidated in the financial statements of Pakistan International Airlines (PIA: the Holding Company).

Subsidiary Companies	Nature of Business	Holding
PIA Investments Ltd. (PIA-IL)	Promoters of and investors in projects related to construction, development and operations of hotels, motels and restaurants throughout the world.	99%
Skyrooms (private) Limited (SRL)	To manage Airport Hotel at Karachi.	100%

1.3 During the period, the Group has incurred a net loss of Rs.17,845 million which is primarily due to adverse exchange rate of US Dollar (the exchange loss for the period amounted to Rs.8,848 million) and secondly the unprecedented rise in oil prices. The fuel cost for the period is Rs.19,625 million as compared to the same period of 2007: Rs.14,292 million despite 21% lower quantity consumed during the current period. Group's accumulated losses are Rs.53,116 million as of the balance sheet date. Further as of that date the current liabilities of the Group exceeded its current assets by Rs.45,141 (December 31, 2007: Rs.37,429) million. The management is undertaking corrective measures to improve the operating results of the Corporation.

1.4 The Government of Pakistan (GoP) as a majority shareholder, is committed to ensure the going concern status of the Group at all times. Also historically support of the GoP is available to the Group as GoP has already issued guarantees to secure certain long term finance and Term Finance Certificates (TFCs) of the Group. The GoP had agreed to provide equity contribution to the Group equivalent to accumulated loss of the Group as at December 31, 2000, to cover interest/profit payments on long term finance and TFCs. As part of the financial package, an amount of Rs.8,872 (Dec. 2007: Rs.8,327) million has been provided to the Group up to June 30, 2008 against which 832,750,601 (2007: 832,750,601) 'A' class ordinary shares of Rs.10 each were issued to GoP up to that date. The remaining 54,494,000 ordinary shares are expected to be issued during the current year. Further, the Ministry of Finance has extended its support by approving a financial restructuring package which is currently in the process of implementation. Hence, the Group expects continued financial support of GoP in future as well.

In view of the above, the Group has prepared these financial statements on going concern basis.

1.5 In addition GoP had approved a fleet replacement plan as a result of which the Group entered into an agreement for purchase of eight new Boeing 777 aircraft. GoP had 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 December 31, 2007.

### 2. BASIS OF PREPARATION

These interim condensed financial statements are unaudited but subject to limited scope review by auditors and are being submitted to the shareholders as required under Section 245 of the Companies Ordinance, 1984 and the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges and have been prepared in accordance with the requirements of the International Accounting Standard (IAS) - 34 "Interim Financial Reporting" as applicable in Pakistan.

The interim condensed 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 annual financial statements as at December 31, 2007.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these interim condensed financial statements are the same as those applied in the preparation of the annual financial statements of the Corporation for the year ended December 31, 2007.

### 4. PROPERTY, PLANT AND EQUIPMENT

	JUN-2008	DEC-2007
	(Rupees in thousand)	
Operating fixed assets (note 4.1)	136,865,317	125,049,562
Capital work-in-progress	506,614	7,421,258
	<u>137,371,931</u>	<u>132,470,820</u>

4.1 Following are the major additions and deletions during the half year:

	JUN-2008	JUN-2007
<b>Additions /transfers</b>		
<b>Owned</b>		
Buildings on leasehold land	17,688	18,775
Workshops and hangers	-	465
Renovation and improvements	47,083	57,635
Aircraft fleet	115,766	3,070,722
Aircraft fleet / Engines Overhauling	258,101	-
Operating ground equipment, catering communication & meteorological equipment	1,282	20,996
Engineering equipment and tools	11,383	51,078
Motor transport	9,328	5,334
Traffic equipment	14,192	31,232
Furniture, fixture and fitting	176,170	102,796
Office equipment	335	531
Computer and office automation	15,658	53,910
Precision engineering equipment	299	-
Other equipment	27,386	38,865
Capital spares	357,446	645,483
	<u>1,052,118</u>	<u>4,097,824</u>
<b>Leased</b>		
Aircraft fleet	13,203,677	10,488,244
	<u>14,255,795</u>	<u>14,586,068</u>
<b>Deletions</b>		
<b>Owned</b>		
Land	103	-
Renovation and improvements	-	1,525
Aircraft fleet	-	231,584
Operating ground equipment, catering communication & meteorological equipment	106	3,274
Motor transport	9,609	480
Traffic equipment	22,874	3,414
Furniture, fixture and fitting	10,302	37,853
Office equipment	455	435
Computer and office automation	132	520
Other equipment	-	287
Capital spares	7,187	1,728
	<u>50,768</u>	<u>281,100</u>
<b>Leased</b>		
Vehicles	13,805	2,415
	<u>64,573</u>	<u>283,515</u>

**5. STORES AND SPARES**

	JUN-2008	DEC-2007
	(Rupees in thousand)	
Stores	874,497	883,747
Spares	4,115,909	3,986,246
	4,990,406	4,869,993
Less: provision for slow moving stores and spares	(2,075,847)	(1,930,145)
	2,914,559	2,939,848
Inventory held for disposal	2,207,092	2,207,092
Less: adjustment to write down surplus inventory to net realizable value	(1,944,538)	-
Disposal during the period	(9,695)	(1,944,539)
	252,859	262,553
Goods-in-transit	49,199	83,769
	3,216,617	3,286,170

**6. CASH AND BANK BALANCES**

	JUN-2008	DEC-2007
	(Rupees in thousand)	
<b>With banks</b>		
<b>In current accounts</b>		
Collection	3,990,593	4,959,513
Overdrawn bank balances	(1,474,350)	(2,741,112)
	2,516,243	2,218,401
In short term deposits accounts	927,112	1,936,944
	3,443,355	4,155,345
In hand	10,472	8,973
In transit	132,029	68,862
	3,585,856	4,233,180

**7. ADVANCE AGAINST EQUITY**

This represents the amount received from GoP towards equity contribution under the terms of Financial Package whereby GoP had agreed to provide equity contribution to the corporation to cover interest/profit payments on TFCs.

**8. LONG TERM FINANCING - secured**

Financier	Limit (Rupees in million)	Repayment Period	Number of installments / mode	JUN-2008	DEC-2007
	(Rupees in thousand)				
<b>From Banking Companies</b>					
United Bank Limited	1,650	2005 - 2010	6 Half-yearly	945,640	1,215,825
Citibank, N.A.	6,603	2008	1 Bullet	-	3,184,462
Habib Bank Limited	530	2006 - 2009	36 Monthly	176,667	267,000
Citibank, N.A.	4,985	2006 - 2017	20 Half-yearly	4,811,962	4,599,184
Habib Bank Limited	200	2006 - 2009	36 Monthly	88,889	122,222
ABN Amro Bank	3,538	2009 - 2013	19 Quarterly	3,739,910	3,132,458
NBP/HBL	7,260	2010	1 Bullet	8,160,000	7,374,000
Standard Chartered Bank DXB	3,025	2007-2009	12 Quarterly	1,983,333	2,304,375
Nationa Bank of Pakistan	500	2007-2010	12 Quarterly	416,667	500,000
Nationa Bank - Bahrain	3,400	2008-2010	24 Monthly	3,400,000	-
J. P. Morgan Chase	6087	2006-2009	Variable	6,571,563	5,938,567
J. P. Morgan Chase	3652	2006-2009	Variable	4,080,000	3,687,000
Honk Kong Shangai Banking Corporation	2362	2004-2012	Variable	2,955,162	2,515,190
				37,329,793	34,840,283
				(4,721,427)	(5,845,349)
Less : current portion				32,608,366	28,994,934

**9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

	JUN-2008	DEC-2007
	(Rupees in thousand)	
Present value of future rental obligations - aircraft fleet		
A-310 - 300	5,370,602	5,149,590
B-777 -200 ER	15,767,256	15,101,574
B-777 -200 LR	15,027,801	14,156,116
B-777 -300 ER	29,163,693	16,794,148
	65,329,352	51,201,428
Present value of future rental obligations - vehicles	28,609	47,091
Present value of future rental obligations - others	75,513	-
	65,433,474	51,248,519
	(6,186,517)	(4,724,495)
Less: current portion	59,246,957	46,524,024



### 10. SHORT TERM BORROWINGS - secured

	JUN-2008	DEC-2007
	(Rupees in thousand)	
Short term loans (note 10.1)	19,649,549	16,033,876
Running finance under mark-up arrangements (note 10.2)	3,088,206	2,072,008
	<u>22,737,755</u>	<u>18,105,884</u>

#### 10.1 Short term loans - secured

Financier	Security	Repayment period	JUN-2008	DEC-2007
(Rupees in thousand)				
<b>From Banking Companies</b>				
Habib Bank Limited - Karachi	GoP Guarantee	3 months	2,000,000	2,000,000
United Bank Limited - Dubai	UAE Receivables	1 Year	767,909	1,359,997
Habib Allied Bank Limited-London	Euro Receivables	1 Year	612,000	553,050
United Bank Limited - Bahrain	UAE Receivables	1 Year	872,402	802,375
Habib Bank Limited - Karachi	GoP Guarantee/Domestic Receivables	1 Year	2,850,000	2,850,000
Standard Chartered Bank - Dubai	GoP Guarantee	1 Year	3,400,000	3,072,500
Standard Chartered Bank - Dubai	Remittance Routing	1 Year	408,000	553,050
Habib Bank Limited - Karachi	hypothecation charge over current assets / GoP Guarantee	1 Year	1,360,000	1,843,500
Standard Chartered Bank - Karachi	GoP Guarantee	6 months	2,999,904	2,999,404
National Bank Pakistan	GoP Guarantee	1 Year	1,100,000	-
United Bank Limited	GoP Guarantee	1 Year	680,000	-
United Bank Limited	GoP Guarantee	1 Year	976,000	-
HSBC	GoP Guarantee	1 Year	1,000,000	-
Habib Allied Bank International - KEPZ	EURO Receivables	15 Month	311,667	-
Habib Allied Bank International - Lon	EURO Receivables	15 Month	311,667	-
			<u>19,649,549</u>	<u>16,033,876</u>

### 10.2 Running finance under mark-up arrangements - secured

Financier	Security	Repayment period	JUN-2008	DEC-2007
(Rupees in thousand)				
<b>From Banking Companies</b>				
United Bank Limited - Karachi	First pari passu hypothecation charge over stock & trade debts	1 Year	2,513,206	1,497,008
National Bank of Pakistan - Karachi	First pari passu hypothecation charge over stock & trade debts	1 Year	575,000	575,000
			<u>3,088,206</u>	<u>2,072,008</u>

### 11. CONTINGENCIES AND COMMITMENTS

#### 11.1 Contingencies

- Civil Aviation Authority (CAA), Pakistan has claimed additional amounts aggregating to Rs.3,382 million (2007: Rs.3,008 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 parent company made a provision of Rs.1500 million.
- The Collector Central Excise had raised demand of Rs.568 million (2007: Rs.568 million) in respect of duties levied on tickets provided by the Group to its staff either free of charge or at concessional rates. On protest by the Collector Central Excise, the Group has already paid an amount of Rs.100 million which is considered fully recoverable by the management. The Group has filed appeals with the Customs, Central Excise & Sales Tax Tribunal which are pending adjudication. Management is confident that the decision would be made in Group's favour. Consequently, no provision has been made in these financial statements.
- There has been no change in the status of other contingencies as disclosed in the annual financial statements of the Group for the year ended December 31, 2007.

#### 11.2 Commitments

- Commitments for purchase of aircraft amounted to Rs. nil million (2007: Rs.18,873 million).
- Commitments for capital expenditure amounted to Rs.276.2 million (2007: Rs.436.4 million).
- Outstanding letters of credit amounted to Rs.118 million (2007: Rs.200 million).
- Outstanding letters of guarantee amounted to Rs.180.4 million (2007: Rs.176.4 million).

**12. TURNOVER - net**

	Half year ended		Quarter ended	
	JUN-2008	JUN-2007	JUN-2008	JUN-2007
	(Rupees in thousand)			
Passenger	33,577,948	30,747,005	17,682,024	15,053,739
Cargo	2,359,423	2,284,340	1,263,075	1,205,576
Excess baggage	381,595	415,605	159,355	188,862
Charter	96,332	84,965	33,778	13,674
Engineering services	283,727	319,195	162,096	160,609
Handling and related services	291,349	436,468	147,460	269,887
Mail & telephone	142,962	170,243	64,010	84,763
Rooms sales	3,158,126	2,616,810	1,852,066	1,534,402
Food & beverages	838,784	682,352	459,535	349,769
Shop and other rentals	185,160	153,952	95,219	115,093
Others	535,425	499,796	281,140	282,713
	<u>41,850,831</u>	<u>38,410,731</u>	<u>22,199,758</u>	<u>19,259,087</u>

**13. COST OF SERVICES - others**

	Half year ended		Quarter ended	
	JUN-2008	JUN-2007	JUN-2008	JUN-2007
	(Rupees in thousand)			
Salaries, wages and allowances	3,861,072	3,518,717	1,357,238	1,739,139
Welfare and social security costs	140,645	130,094	25,560	28,616
Retirement benefits	349,550	223,851	213,419	109,243
Compensated absences	50,197	6,012	26,196	4,212
Legal and professional charges	33,672	56,121	16,069	41,391
Stores and spares consumed	669,248	841,441	213,762	234,860
Maintenance and overhaul	1,477,037	3,374,037	699,780	1,798,741
Flight equipment rental	474,000	2,298,336	207,731	894,422
Landing and handling	3,948,004	4,122,010	2,047,329	2,035,982
Passenger services	1,271,750	1,427,201	669,059	681,119
Crew layover	957,912	1,064,875	503,920	545,406
Hotel running expenses	1,676,295	1,343,142	1,227,230	659,024
Staff training	25,539	37,537	11,975	16,091
Food cost	780,871	786,716	774,759	372,030
Utilities	17,427	15,106	10,061	8,132
Communication	26,753	33,265	9,647	18,343
Insurance	568,366	538,519	245,470	274,247
Rent, rates and taxes	161,265	143,030	76,122	71,999
Repair and maintenance	83,404	62,589	30,450	35,951
Printing and stationery	47,205	67,033	24,157	51,179
Amortization	1,127	1,238	438	619
Depreciation	3,617,959	2,304,635	1,753,972	893,554
Others	164,712	105,487	99,787	41,074
	<u>20,404,010</u>	<u>22,500,992</u>	<u>10,244,131</u>	<u>10,555,374</u>

**14. FINANCE COSTS**

	Half year ended		Quarter ended	
	JUN-2008	JUN-2007	JUN-2008	JUN-2007
	(Rupees in thousand)			
Mark-up on long term financing	975,266	750,668	420,461	375,622
Profit on term finance certificates	702,390	680,962	352,911	339,703
Interest on liabilities against assets subject to finance lease	1,218,624	1,380,078	557,182	717,562
Mark-up on long term murabaha	9,327	34,353	6,235	15,763
Mark-up on short-term borrowings	963,980	759,225	493,385	432,022
Arrangement, agency and commitment fee	148,302	168,691	123,853	112,378
Bank charges, guarantee commission and other related charges	18,109	23,934	9,033	11,041
	<u>4,035,998</u>	<u>3,797,911</u>	<u>1,963,060</u>	<u>2,004,091</u>

**15. CASH (USED IN) / GENERATED FROM OPERATIONS**

	JUN-2008	JUN-2007
	(Rupees in thousand)	
Loss before tax	(17,583,942)	(7,189,743)
Adjustments for:		
Depreciation	4,031,395	2,708,674
Scrappage	1,453	-
Gain on disposal of fixed assets	(198,184)	(75,109)
Amortization	15,131	15,810
Provision for employees' benefits	607,858	247,328
Provision for stores and spares	145,701	320,688
Provision for doubtful debts	(174,142)	164,319
Finance costs	4,002,714	3,796,323
Profit on bank deposits	(105,366)	(109,156)
	<u>(9,257,382)</u>	<u>(120,866)</u>
<b>Working capital changes</b>		
(Increase) in stores and spares	(72,812)	(161,331)
(Increase) in trade debts	(1,803,203)	203,379
(Increase) / decrease in advances	148,358	(1,138,678)
(Increase) in trade deposits and prepayments	38,917	(321,625)
(Increase) / decrease in other receivables	(441,855)	44,637
Increase (decrease) in trade and other payables	1,814,897	(1,243,464)
	<u>(315,698)</u>	<u>(2,617,082)</u>
Cash (used in) / generated from operations	<u>(9,573,080)</u>	<u>(2,737,948)</u>



PAKISTAN INTERNATIONAL AIRLINES CORPORATION

Notes to the Interim Condensed Consolidated  
Financial Statements (Un-audited)  
For the six months period ended June 30, 2008

PAKISTAN INTERNATIONAL AIRLINES CORPORATION

Quarterly Summary



#### 16. AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements were authorized for issue in the Board of Directors meeting held on August 28, 2008.

#### 17. GENERAL

- 17.1 Figures have been rounded off to the nearest thousand rupee.
- 17.2 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. 68.00 = US\$ 1 solely for convenience purposes and have not been subject to limited scope review by the auditors.

Ch. Ahmed Mukhtar  
Chairman

Mubashir Iftikhar  
Director