	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
23. TRADE AND OTHER PAYABLES			
Trade			
Creditors			
Goods		**3,078,367**	2,809,858
Services		**2,729,197**	2,170,524
Airport related charges		**621,384**	626,551
		6,428,948	5,606,933
Other payables			
Accrued liabilities		**3,645,916**	2,125,058
Advance against transportation (unearned revenue)			
Normal		**4,762,490**	5,290,835
Hajj		**1,342,673**	1,222,732
		6,105,163	6,513,567
Advances from customers		**304,388**	268,192
Due to Employees' Provident Fund		**201,800**	136,796
Unclaimed dividend		**8,507**	3,297
Collection on behalf of others		**802,273**	827,416
Custom and central excise duty		**507,662**	578,826
Capital value tax		**608,823**	51,855
Stamp duties		**-**	5
Income tax deducted at source		**37,134**	43,681
Provision for frequent flyer programme	23.1	**99,776**	61,664
Provision for construction of University Road, Karachi	23.2	**215,000**	215,000
Short term deposits		**149,332**	166,044
Liabilities acquired from subsidiaries - net	23.3	**18,690**	18,690
Murabaha financing	23.4	**921,751**	-
		20,055,163	16,617,024
23.1 Provision for frequent flyer programme			
Balance at the beginning of the year		**61,664**	-
Charge for the year		**38,112**	61,664
		99,776	61,664
23.2 Provision for construction of University Road, Karachi			
Balance at the beginning of the year		**215,000**	100,000
Charge for the year		**-**	200,000
		215,000	300,000
Payments made during the year		**-**	(85,000)
		215,000	215,000

23.3 The subsidiaries of the Corporation, PIA Holdings (Private) Limited, PIA Shaver Poultry Breeding Farms (Private) Limited and PIA Hotel Limited, had applied under the 'Easy Exit Scheme' announced by the SECP for voluntary winding up. Assets and liabilities of these subsidiaries were taken over by the Corporation.

23.4 The Corporation has arranged a short term murabaha financing facility from a commercial bank for an aggregate sum of US$ 15 million equivalent to Rs.921.751 million. The said facility is secured against the promissory note issued by the Corporation, carrying mark-up at LIBOR + 1.25%.

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
24. ACCRUED INTEREST / MARK-UP / PROFIT			
On long term financing		**164,177**	48,361
On term finance certificates		**506,833**	484,767
On murabaha		**-**	3,493
On short term borrowings		**307,307**	275,657
		978,317	812,278
25. SHORT TERM BORROWINGS – secured			
Short term loans	25.1	**16,033,876**	10,580,640
Running finances under mark-up arrangements	25.2	**2,072,008**	4,962,806
		18,105,884	15,543,446

25.1 Short term loans – secured

Financier	Security	Repayment period	Mark-up rate	December 31, 2007	December 31, 2006
From Banking Companies					
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%	**1,359,997**	58,840
Habib Allied Bank Limited - London	Euro Receivables	1 year	1 month LIBOR + 2.25%	**553,050**	-
United Bank Limited - Bahrain	UAE Receivables	1 year	1 month LIBOR + 2.25%	**802,375**	-
Habib Bank Limited - Karachi	GoP Guarantee/ Domestic Receivables	1 year	1 month KIBOR + 0.25% - 1.5%	**2,850,000**	-
National Bank of Pakistan - Bahrain Habib Bank Limited - Export Processing Zone	GoP Guarantee	1 year	1 month LIBOR + 0.60%	**-**	4,260,900
Standard Chartered Bank – Dubai	GoP Guarantee	1 year	3 months LIBOR + 1%	**3,072,500**	3,043,500
Standard Chartered Bank – Dubai	Remittance Routings	1 year	1 month LIBOR + 1.5%	**553,050**	-
Standard Chartered Bank – Dubai	GoP Guarantee	3 months	3 months LIBOR + 1.325%	**-**	1,217,400
Habib Bank Limited- Karachi	Hypothecation charge over current assets/GoP Guarantee	1 Year	3 - 6 months KIBOR + 0.25% - 1.25%	**1,843,500**	-
Standard Chartered Bank Pakistan Limited- Karachi	GoP Guarantee	6 months	6 months KIBOR + 0.75%	**2,999,404**	-
				16,033,876	10,580,640

25.2 Running finances under mark-up arrangements – secured

Financier	Security	Repayment period	Mark-up rate	December 31, 2007	December 31, 2006
From Banking Companies					
United Bank Limited – Karachi	First pari passu hypothecation charge over stock & trade debts	1 Year	1 month KIBOR + 1.5%	**1,497,008**	365,372
National Bank of Pakistan - Karachi	First pari passu hypothecation charge over stock & trade debts	1 Year	1 month KIBOR + 1.25%	**575,000**	50,000
Habib Allied International Bank Limited – London	Receivables in Europe	1 Year	1 month LIBOR + 2.25%	**-**	547,830
Habib Bank Limited - Karachi	Lien over US$20 million deposited with Habib Allied International Bank Limited - London	6 months	1 month KIBOR + 0.50%	**-**	1,000,000
Standard Chartered Bank - Karachi	GoP Guarantee	6 months	6 months KIBOR + 0.75%	**-**	2,999,604
				2,072,008	4,962,806

The rate of mark-up ranges between 7.50% and 11.50% (2006: 5.50% and 11.50%) per annum, payable monthly, quarterly or semi-annually.

Facilities amounting to Rs.1,073 (2006: Rs.1,417) million remained un-utilized as of the balance sheet date.

26. CONTINGENCIES AND COMMITMENTS

26.1 Contingencies

(a) The Civil Aviation Authority (CAA), Pakistan has claimed additional amounts, aggregating to Rs.3,008 (2006: Rs.4,135) 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 financial statements.

(b) The Collector Central Excise had raised a demand of Rs.717 (2006: Rs.1,046) million in respect of duties levied on tickets provided by the Corporation to its staff either free of charge or at concessional rates, repair / replacement of re-imported aircraft engines, non-availability of invoices, import related to miscellaneous consignments, printed material sent at its various stations abroad for utilization, late / short payment of sales tax and central excise duty and excess baggage tickets. On protest by the Collector Central Excise, the Corporation has already paid an amount of Rs.100 million (note 12) which is considered fully recoverable by the management. The Corporation has filed appeals with the Customs, Central Excise & Sales Tax Tribunal which are pending adjudication. The management is confident that the decision would be made in Corporation's favour. Consequently, no provision has been made in these financial statements.

(c) The Corporation is contesting litigations relating to suits filed against it on dispute over throughput charges aggregating to Rs.125 (2006: Rs.125) million against which it has filed appeals with the Honourable High Court of Sindh, Karachi and District Court which are pending. The management is of the view that the ultimate outcome would be in favour of the Corporation. Accordingly, no provision in this respect has been made in these financial statements.

(d) The Corporation is contesting several litigations mainly relating to suits filed against it for unlawful termination of contracts, breach of contractual rights and obligations, non-performance of servicing stipulations due to negligence or otherwise. The Corporation's management is of the view that these cases have no sound legal footings and it does not expect these contingencies to materialize. Accordingly, no provision has been made in these financial statements against these claims amounting to Rs.2,112 (2006: Rs.2,549) million.

(e) Various ex-employees of the Corporation have lodged claims against the Corporation for their dues specifically relating to their re-instatements. However, the liability that may arise in these cases cannot be determined and consequently, no provision has been made in these financial statements.

(f) Contingencies relating to income tax matters are referred in note 34.1.

(g) Contingencies in respect of the tax matters relating to the Corporation’s subsidiaries, PIA Holdings (Private) Limited and PIA Shaver Poultry Breeding Farms (Private) Limited amounted to Rs.11.2 (2006: Rs.11.2) million.

26.2 Commitments

(a) Commitments for purchase of aircraft amounted to Rs.18,873 (2006: Rs.23,842) million.

(b) Commitments for capital expenditure amounted to Rs.436.4 (2006: Rs.10.6) million.

(c) Outstanding letters of credit amounted to Rs.200 (2006: Rs.141) million.

(d) Outstanding letters of guarantee amounted to Rs.176.4 (2006: Rs.141) million.

(e) Rentals under operating lease commitments amounted to Rs.7,011 (2006: Rs.962.7) million.

	Rs. in million
Not later than one year	779
Later than one year and not later than five years	3,116
Later than five years	3,116

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
27. REVENUES – net			
Passenger		**62,002,315**	60,901,468
Cargo		**4,849,735**	5,741,014
Excess baggage		**865,657**	808,259
Charter		**163,806**	388,272
Engineering services		**718,733**	1,043,635
Handling and related services		**712,686**	634,143
Mail		**305,265**	305,552
Others		**862,537**	764,803
		70,480,734	70,587,146
28. COST OF SERVICES – others			
Salaries, wages and allowances		**6,921,590**	5,788,545
Welfare and social security costs		**68,723**	64,735
Retirement benefits		**375,208**	331,545
Compensated absences		**97,800**	7,149
Mandatory retirement	30.4	**-**	30,988
Legal and professional charges		**7,879**	10,378
Stores and spares consumed		**2,188,619**	2,193,063
Maintenance and overhaul		**3,267,244**	6,377,874
Flight equipment rental		**3,124,857**	3,431,059
Landing and handling		**7,690,712**	8,343,403
Passenger services		**2,848,517**	2,838,218
Crew layover		**2,004,869**	2,011,703
Staff training		**80,743**	87,157
Utilities		**4,909**	4,067
Communication		**65,016**	63,311
Insurance		**1,038,143**	1,039,338
Rent, rates and taxes		**318,927**	302,783
Printing and stationery		**132,361**	108,964
Amortization	4.2.1	**2,532**	2,568
Depreciation	3.1.3	**5,395,614**	3,252,078
Others		**272,554**	223,190
		35,906,817	36,512,116

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
29. DISTRIBUTION COSTS			
Salaries, wages and allowances		**1,440,391**	1,370,247
Welfare and social security costs		**177,831**	167,512
Retirement benefit		**192,492**	170,092
Compensated absences		**30,022**	2,264
Mandatory retirement	30.4	**-**	9,813
Distribution and advertising expenses		**1,595,112**	1,737,797
Legal and professional charges		**14,905**	19,632
Repairs and maintenance		**73,566**	51,586
Insurance		**8,782**	12,279
Printing and stationery		**33,543**	28,820
Communication		**373,332**	356,137
Staff training		**35,959**	45,693
Rent, rates and taxes		**276,196**	258,191
Utilities		**31,942**	25,737
Amortization	4.2.1	**1,604**	2,203
Depreciation	3.1.3	**69,111**	55,884
Others		**93,886**	81,174
		4,448,674	4,395,061

	Note	December 31, 2007	December 31, 2006
30. ADMINISTRATIVE EXPENSES			
Salaries, wages and allowances		**1,633,976**	1,511,838
Welfare and social security costs		**699,819**	659,211
Retirement benefits		**379,371**	335,223
Compensated absences		**33,178**	2,502
Mandatory retirement	30.4	**-**	10,846
Legal and professional charges		**289,658**	381,510
Repairs and maintenance		**242,155**	224,954
Insurance		**23,234**	16,067
Printing and stationery		**77,250**	65,842
Staff training		**44,149**	64,933
Rent, rates and taxes		**371,650**	315,231
Utilities		**429,006**	380,110
Auditors' remuneration	30.1 & 30.2	**10,631**	12,415
Communication		**522,963**	427,417
Amortization	4.2.1	**30,459**	26,234
Depreciation	3.1.3	**152,470**	141,639
Donations	30.3	**3,288**	3,825
Others		**313,443**	307,291
		5,256,700	4,887,088

30.1 Auditors' remuneration

		December 31, 2007	December 31, 2006
Audit fee		**6,726**	6,726
Fee for review of interim financial statements		**2,016**	2,016
Consolidation		**1,000**	1,000
Other certification		**-**	2,000
Out of pocket expenses		**889**	673
		10,631	12,415

30.2 Auditors' remuneration is equally shared by the two firms of auditors.

30.3 Directors including Chairman / CEO and their spouse do not have any interest in the donee.

30.4 The Corporation implemented a mandatory retirement scheme for certain category of employees. These employees are entitled to all the benefits as per Corporation's rules.

		Note	December 31, 2007	December 31, 2006
			Rupees in '000'	
31.	**OTHER PROVISIONS AND ADJUSTMENTS - net**			
	Loss on fixed assets written off		**28,678**	-
	Provision for slow moving stores and spares	8.1	**334,519**	100,000
	Provision for doubtful debts	9.1	**402,211**	47,310
	Provision for the construction of University Road, Karachi		**-**	200,000
	Provision for doubtful advances	10.2	**2,334**	3,937
	Exchange loss – net		**720,151**	504,300
			1,487,893	855,547
32.	**OTHER OPERATING INCOME**			
	Income from financial assets			
	Profit on bank deposits		**207,464**	213,240
	Interest income on advance to pension and provident funds		**-**	13,568
	Income from subsidiary			
	Interest income on advances		**-**	185,876
	Income from investment			
	Interest income on held to maturity investment		**-**	3,708
	Gain on disposal of short term investments		**19,650**	-
	Dividend on investments		**568,548**	-
	Income from assets other than financial assets			
	Gain on disposal of fixed assets		**104,582**	257,006
	Insurance claims		**12,497**	255,674
	Liabilities no longer payable – written back		**73,384**	56,974
	Others		**13,308**	-
			999,433	986,046
33.	**FINANCE COSTS**			
	Mark-up on long term financing		**1,168,250**	472,914
	Profit on term finance certificate		**1,378,177**	1,357,869
	Interest on liabilities against assets subject to finance lease		**2,966,224**	1,942,027
	Mark-up on long term murabaha		**47,644**	117,067
	Mark-up on short-term borrowings		**1,436,326**	780,058
	Arrangement, agency and commitment fee		**97,717**	56,341
	Bank charges, guarantee commission and other related charges		**41,507**	42,160
			7,135,845	4,768,436
34.	**INCOME TAX EXPENSE**			
	Current	34.1	**352,404**	352,936
	Prior		**-**	(305,887)
	Deferred	34.2	**(24,619)**	(498,786)
			327,785	(451,737)

34.1 In view of available tax losses for the year, provision for minimum taxation has been made at 0.5% of turnover under section 113 of the Income Tax Ordinance, 2001. No numeric tax rate reconciliation is given as the Corporation is liable for turnover tax.

Return for the tax year 2003 to tax year 2007 have been deemed to be finalised under the provisions of the Income Tax Ordinance, 2001.

The minimum tax on turnover, under section 80D of the repealed Act, was levied by the tax authorities up to the assessment year 2002-03, after adding 10% of net turnover on estimated basis. The Corporation filed appeals thereagainst for the assessment years 1991-92, 1992-93 and 1997-1998 to 2002-2003. CIT (Appeal) deleted the above referred enhancement, vide Orders No. 4 to 8 dated October 10, 2006 for tax years 1991- 92, 1992-93 and 1997-98 to 1999-2000, whereas appeals for remaining tax years are pending for adjudication.

The Department thereafter filed an appeal in the office of the Income Tax Appellate Tribunal (ITAT) against the aforesaid orders, which is also pending adjudication. The ITAT has deleted enhancement of turnover tax for the years 2001-2002 and 2002-2003, vide its order ITA No.1668/KB/2005, dated August 08, 2007. However, appeal effect order against the said order is currently awaited. In respect of the remaining years, the Corporation anticipates favourable outcome of the appeal filed by the Department.

The Corporation had also made a representation to Secretary - Ministry of Law, GoP and also applied to the Federal Board of Revenue to constitute a committee under Section 134A of the Income Tax Ordinance, 2001 for the resolution of above hardship and dispute. During the year, proceeding of the said committee has been commenced and its decision is currently in pending.

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
34.2 Deferred taxation			
Deferred tax credits:			
Accelerated tax depreciation		**22,663,100**	17,349,229
Surplus on revaluation of fixed assets	17	**305,453**	498,786
Unrealised gain on re-measurement of investments		**26,724**	12,642
		22,995,277	17,860,657
Deferred tax debits:			
Unused tax losses		**(28,459,587)**	(20,011,344)
Provisions for liabilities and to write down other assets		**(2,356,848)**	(2,134,853)
		(30,816,435)	(22,146,197)
		(7,821,158)	(4,285,540)

Deferred tax asset has not been recognized in these financial statements in accordance with the accounting policy of the Corporation stated in note 2.15.

	December 31, 2007	December 31, 2006
	Rupees in '000'	
35. LOSS PER SHARE		
Loss for the year	**13,398,706**	12,763,420
	Number of shares	
Weighted average number of ordinary shares outstanding	**2,027,508,768**	1,877,566,277
	Rupees	
Loss per share		
'A' class Ordinary share	**6.61**	6.80
'B' class Ordinary share	**3.31**	3.40

35.1 Loss per share has no dilution effect.

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
36. CASH (USED IN) / GENERATED FROM OPERATIONS			
Loss before taxation		**(13,070,921)**	(13,215,157)
Adjustments for:			
Depreciation	3.1.3	**5,617,195**	3,449,601
Gain on disposal of property, plant and equipment	31 & 32	**(75,904)**	257,006)
Amortization	4.2.1	**34,595**	31,006
Provision for slow moving stores and spares	8.1	**334,519**	100,000
Provision for doubtful debts	9.1	**402,211**	47,112
Provision for doubtful advances and other receivable	10 & 12	**2,334**	11,122
Provision for the construction of University Road, Karachi		**-**	200,000
Provision for employees' benefits		**1,108,071**	848,775
Finance costs	33	**7,135,845**	4,768,436
Gain on disposal of short term investments		**(19,650)**	-
Dividend on investments		**(568,548)**	-
Interest income on advances to an associated company		**-**	(185,876)
Profit on bank deposits	32	**(207,464)**	(213,240)
Interest income on advance to pension and provident funds		**-**	(13,568)
Interest income on held to maturity investment		**-**	(3,708)
Liabilities no longer payable written back	32	**(73,384)**	(56,974)
		618,899	(4,489,477)
Working capital changes			
(Increase) in stores and spares		**(215,419)**	(680,906)
(Increase) / Decrease in trade debts		**712,350**	(954,250)
(Increase) in advances		**(12,402)**	(82,087)
(Increase) / Decrease in trade deposits and prepayments		**206,021**	(648,156)
(Increase) in other receivables		**(171,531)**	(390,991)
Increase in trade and other payables		**3,449,339**	1,575,078
		3,968,358	(1,181,312)
		4,587,257	(5,670,789)

37. REMUNERATION OF CHAIRMAN / CEO AND EXECUTIVES

	CHAIRMAN / CEO		EXECUTIVES	
	2007	2006	2007	2006
	Rupees in '000'		Rupees in '000'	
Managerial remuneration	**5,431**	7,896	**1,288,019**	937, 256
Corporation's contribution to provident fund	**101**	396	**47,588**	35,686
Other perquisites	**79**	282	**719,622**	390,855
	5,611	8,574	**2,055,229**	1,363,797
Number	**1**	1	**929**	641

Directors, other than the Chairman / CEO, are non-executive directors. Aggregate amount charged in the financial statements for fee to directors was Rs.0.485 (2006: Rs.0.18) million. Chairman / CEO, SVPs and certain executives are also provided with the Corporation maintained cars and facilities as per the Corporation's rules.

38. GEOGRAPHICAL SEGMENTS

	December 31, 2007	December 31, 2006
	Rupees in '000'	
Revenue analysis		
USA / Canada	**5,727,136**	7,712,345
Europe	**15,257,823**	15,424,690
Middle East / Africa	**13,703,231**	11,017,636
Asia (excluding Pakistan)	**3,369,481**	3,305,291
Pakistan	**32,423,063**	33,127,184
	70,480,734	70,587,146

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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

39.1 Capital management

Refer note 1 in respect of capital management.

	December 31, 2007	December 31, 2006
	Rupees in '000'	
Financing	**22,699,526**	9,500,394
Term Finance Certificates	**13,246,970**	14,003,940
Short-term borrowings	**18,105,884**	15,543,446
Trade and other payables	**20,055,163**	16,617,024
Mark-up accrued on short-term borrowings	**978,317**	812,278
Cash and bank balances	**(1,975,459)**	(5,459,924)
Net debt	**73,110,401**	51,017,158
Issued, subscribed and paid-up capital	**20,878,074**	19,473,631
Revenue reserve	**1,779,674**	1,779,674
Total capital	**22,657,748**	21,253,305
Capital and net debt	**95,768,149**	72,270,463

39.2 Risk management

(a) Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. All financial assets except cash in hand are subject to credit risk. The Corporation minimizes the credit risk by diversifying business with IATA approved agents and by obtaining bank guarantees from other agents.

(b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency risk arises on receivable and payable transactions at foreign stations and on foreign currency loans. The Corporation manages its currency risk by effectively utilizing its foreign currency receipts to satisfy its foreign currency obligations.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk in respect of borrowings and bank balances.

(d) Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Corporation manages its liquidity risk by maintaining sufficient cash and cash equivalents and through support of GoP to meet its liabilities when due, through a financial package, whereby GoP has issued guarantees to secure long-term finances and TFCs. Further, GoP has agreed to provide equity contribution as mentioned in note 1.

(e) Fuel price risk

Fuel price risk is the risk attributable to fluctuation in the international oil prices arising from external factors. The Corporation plans to manage this issue to the extent possible by taking certain measures including hedging of fuel prices.

39.3 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair value except for investment held to maturity which is carried at amortized cost.

40. FINANCIAL INSTRUMENTS

	2 0 0 7								
	Interest / mark-up bearing				Non-Interest / mark-up bearing				
	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Total
Financial assets	(Rupees in '000')				(Rupees in '000')				
Investment	18,958	25,189	-	44,147	13,135	-	98,930	112,065	156,212
Advances and other receivables	-	1,283,000	-	1,283,000	1,289,832	-	-	1,289,832	2,572,832
Deposits	-	-	-	-	42,866	-	2,515,881	2,558,747	2,558,747
Trade debts	-	-	-	-	5,012,778	-	-	5,012,778	5,012,778
Accrued interest	-	-	-	-	32,789	-	-	32,789	32,789
Cash and bank balances	1,618,727	-	-	1,618,727	356,732	-	-	356,732	1,975,459
	1,637,685	1,308,189	-	2,945,874	6,748,132	-	2,614,811	9,362,943	12,308,817

	2 0 0 7								
	Interest / mark-up bearing				Non-Interest / mark-up bearing				
	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Total
Financial liabilities	(Rupees in '000')				(Rupees in '000')				
Long term financing	5,662,451	14,436,881	2,600,194	22,699,526	-	-	-	-	22,699,526
Term finance certificates	2,523,232	10,723,738	-	13,246,970	-	-	-	-	13,246,970
Liabilities against assets subject to finance lease	4,724,495	20,621,401	25,902,623	51,248,519	-	-	-	-	51,248,519
Murabaha	-	-	-	-	-	-	-	-	
Deposits	-	-	-	-	-	321,547	-	321,547	321,547
Deferred liabilities	-	-	-	-	-	2,870,578	-	2,870,578	2,870,578
Trade and other payables	-	-	-	-	11,783,801	-	-	11,783,801	11,783,801
Accrued interest / markup/ profit	978,317	-	-	978,317	-	-	-	-	978,317
Borrowings	18,105,884	-	-	18,105,884	-	-	-	-	18,105,884
	31,994,379	45,782,020	28,502,817	106,279,216	11,783,801	3,192,125	-	14,975,926	121,255,142
Net financial (liabilities) / assets	(30,356,694)	(44,473,481)	(28,502,817)	(103,333,342)	(5,035,669)	(3,192,125)	2,614,811	(5,612,983)	(108,946,325)

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	Interest / mark-up bearing				Non-Interest / mark-up bearing				
	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Total
	(Rupees in '000')				(Rupees in '000')				
Financial assets									
Investment	17,839	43,731	-	61,570	403,555	-	68,358	471,913	533,483
Advances and other receivables	-	1,684,000	-	1,684,000	1,235,802	-	-	1,235,802	2,919,802
Deposits	-	-	1,362,212	1,362,212	50,574	771,192	-	821,766	2,183,978
Trade debts	-	-	-	-	6,129,673	-	-	6,129,673	6,129,673
Accrued interest	-	-	-	-	51,010	-	-	51,010	51,010
Cash and bank balances	2,682,287	-	-	2,682,287	2,777,637	-	-	2,777,637	5,459,924
	2,700,126	**1,727,731**	**1,362,212**	**5,790,069**	**10,648,251**	**771,192**	**68,358**	**11,487,801**	**17,277,870**

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	Interest / mark-up bearing				Non-Interest / mark-up bearing				
	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Total
Financial liabilities	(Rupees in '000')				(Rupees in '000')				
Long term financing	2,599,916	5,190,869	1,709,608	9,500,393	-	-	-	-	9,500,393
Term finance certificates	756,970	13,246,970	-	14,003,940	-	-	-	-	14,003,940
Liabilities against assets subject to finance lease	3,914,491	17,299,562	25,203,882	46,417,935	-	-	-	-	46,417,935
Murabaha	781,165	-	-	781,165	-	-	-	-	781,165
Deposits	-	-	-	-	-	261,711	-	261,711	261,711
Deferred liabilities	-	-	-	-	-	2,637,000	-	2,637,000	2,637,000
Trade and other payables	-	-	-	-	8,461,581	-	-	8,461,581	8,461,581
Accrued interest / markup/ profit	812,278	-	-	812,278	-	-	-	-	812,278
Borrowings	15,543,446	-	-	15,543,446	-	-	-	-	15,543,446
	24,408,266	**35,737,401**	**26,913,490**	**87,059,157**	**8,461,581**	**2,898,711**	**-**	**11,360,292**	**98,419,449**
Net financial (liabilities) / assets	**(21,708,140)**	**(34,009,670)**	**(25,551,278)**	**(81,269,088)**	**2,186,670**	**(2,127,519)**	**68,358**	**127,509**	**(81,141,579)**

Effective interest rates (a)	Percentage	Effective interest rates (b)	Percentage
Investment	5.20	Long term financing	5.28 - 11.33
Advances	2.78 - 11.00	Term finance certificates	10.00 - 10.50
Deposits	4.00 - 5.00	Murabaha	7.06 - 8.02
Cash and bank balances	3.00 - 4.00	Liabilities against assets subject to finance lease	4.70 - 11.00
		Mark-up / interest accrued on loans	4.70 - 11.33

41. TRANSACTIONS WITH RELATED PARTY

The related parties comprise of subsidiaries, associates, joint ventures, directors, key management personnel and employees' benefits funds. 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. Amounts due from and to related parties, amounts due from executives and remuneration of directors and executives are disclosed in the relevant notes.

Terms and conditions of transactions with related parties

The transactions with the related parties are made at normal market prices. Outstanding balances are disclosed in the respective notes. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2007, the Corporation has made provision for doubtful debts relating to amounts owed by related parties amounting to Rs.188.038 (2006: Rs.188.038) million. An assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Other material transactions with related parties are given below:

	December 31, 2007	December 31, 2006
	Rupees in '000'	
PIA Investments Limited – Subsidiary		
Recovery of advances	**-**	5,055,045
Interest on advances	**-**	185,876
Sky Rooms (Private) Limited – Subsidiary		
Catering services	**6,426**	31,497
Retirement funds		
Contribution	**533,190**	689,590
Interest on advances	**16,901**	24,013

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

42. CORRESPONDING FIGURES

The following comparative figure has been reclassified for the purposes of better presentation.

From	To	Rupees in '000'
Other provisions and adjustments - net	**Other operating income**	
Liabilities no longer payable – written back	Liabilities no longer payable – written back	56,974

43. AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements were authorized for issue in the Board of Directors meeting held on March 01, 2008.

44. GENERAL

44.1 The information as to the available capacity and utilization thereof during the year has been disclosed in the statistics annexed to the financial statements.

44.2 Figures have been rounded off to the nearest thousand rupee.

Kamran Rasool
Chairman

Kamal Afsar
Director

GROUP CONSOLIDATED FINANCIAL STATEMENTS

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

Auditors' Report To The Members

We have audited the annexed consolidated financial statements comprising the consolidated balance sheet of Pakistan International Airlines Corporation (the Holding company) and its subsidiary companies as at December 31, 2007 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed a separate opinion on the financial statements of the Holding company. The financial statements of the subsidiary companies were audited by other firms of auditors, whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for such companies, is based solely on the reports of such other auditors. These consolidated financial statements are the responsibility of the Holding company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Except for the matters referred to in paragraph (a) to (c) below, our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

The auditors of the subsidiary companies have qualified their opinions in respect of the following:

a) As more fully explained in note 6 to the consolidated financial statements, the PIA Investment Limited (PIAIL) receivable from Centre Hotel comprises of the share of joint venture's net current assets, amounting to Rs.464.206 million (US$ 7,554,210), as at April 21, 1997, the date when joint venture period expired. The share has been incorporated based on the joint venture's financial statements as at April 21, 1997 as its audited financial statements are not available. The amounts spent on renovation of the hotel and amounts set aside as renovation reserve have been added back as these amounts were spent without authorisation of PIAIL and are subject of a dispute with other joint venture partners. The PIAIL has served a notice of arbitration on the other joint venture partners. Pending the outcome of the arbitration proceedings, it is not possible to determine with reasonable accuracy the amount of joint venture assets, which are available for distribution to the joint venture partners.

b) As more fully explained in note 19.13, the Roosevelt Hotel Corporation (RHC) Operating LLC has entered into certain loan agreements, aggregating, to Rs.9,625.567 million (US$156,640,641). The loan agreements mature on November 09, 2008 with an option for three separate one year extensions. Similarly, as more fully explained in note 19.15, there is an acquisition loan of Euro 16,267,353 (US$ 23,947,170) obtained by Minhal France S.A. whose bullet payment is due on March 22, 2008. The amounts due under RHC Operating LLC loan agreements have been classified as long term, as the Company intends to exercise the option for one year extension and the acquisition loan obtained by Minhal France S.A. has been classified as long term, as the Company is in the process of finalising with lender to refinance the loan for long term. We consider that loans should be classified as current unless the company expects and is able to, solely at its own discretion, roll over an obligation for at least 12 months after the balance sheet date. Accordingly, debts of Rs.11,097.120 million (US$180,587,811) classified as long term should be classified as current.

c) The Government of Pakistan (GoP) has conveyed its decision to privatise the Roosevelt Hotel, owned by PIAIL, in a quickest possible time. As the process of privatisation is managed by the GoP, PIAIL's management is not in a position to ascertain that whether steps have been taken to make the sale as highly probable. Accordingly, we are unable to determine with reasonable certainty that the assets and liabilities relating to Roosevelt Hotel have been appropriately classified.

Auditors' Report To The Members

Except for the effect of the matters stated in paragraphs (a) to (c) above, in our opinion, the consolidated financial statements present fairly the financial position of the Holding company and its subsidiary companies as at December 31, 2007 and the results of their operations for the year then ended.

Without qualifying our opinion, we draw attention to the following matters:

i) Note 27.1 (a) to the consolidated financial statements, explaining the difference between the amount due as per the Holding company's records and amounts claimed by the Civil Aviation Authority (CAA) in respect of which a reconciliation and settlement exercise is currently in progress through the Ministry of Defence; and

ii) Note 1.3 (i) to the consolidated financial statements, which indicates that the Holding company incurred a net loss of Rs.13,399 (2006: Rs.12,763) million during the year ended December 31, 2007, resulting in accumulated losses of Rs.37,160 (2006: Rs.24,563) million at the close of the year, and, as of that date, the Holding company's current liabilities exceeded its current assets by Rs.38,798 (2006: Rs.22,672) million. The mitigating factors, however, relating to the above situation, including support from the Government of Pakistan, as discussed in note 1, override the existence of any material uncertainty about the Holding company's ability to continue as a going concern. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

Further, the auditors of a subsidiary company have given emphasis of matter in respect of the following:

iii) The Subsidiary company has accumulated losses of Rs.103.674 million at December 31, 2007 as against the paid-up share capital of Rs.40.000 million and, as of that date, the company's current liabilities exceeds its total assets by Rs.63.674 million. The Company's ability to continue as a going concern is dependant upon the continued financial and operational support from the Holding company; and

iv) The company's lease agreement with the Civil Aviation Authority (CAA) for land and hotel building expired on June 02, 2001. The management is pursuing the matter with CAA for the renewal of the lease period.

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Anjum Asim Shahid Rahman
Chartered Accountants

Karachi: March 01, 2008

Consolidated Balance Sheet
As At December 31, 2007

	Note	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
		Rupees in '000'		US$ in '000'	
ASSETS					
NON - CURRENT ASSETS					
Fixed assets					
Property, plant and equipment	3	**132,470,820**	102,579,997	**2,155,750**	1,685,231
Intangibles	4	**2,067,117**	2,075,078	**33,639**	34,090
		134,537,937	104,655,075	**2,189,389**	1,719,321
Long term investments	5	**188,465**	156,224	**3,067**	2,566
Receivable from Centre Hotel	6	**464,206**	459,825	**7,554**	7,554
Long term loans, advances and other receivables	7	**1,291,092**	1,694,077	**21,010**	27,831
Long term deposits and prepayments	8	**4,242,703**	3,406,397	**69,043**	55,962
		140,724,403	110,371,598	**2,290,063**	1,813,234
CURRENT ASSETS					
Stores and spares	9	**3,286,170**	3,382,328	**53,477**	55,566
Trade debts	10	**5,395,745**	6,521,586	**87,807**	107,140
Advances	11	**549,900**	552,856	**8,949**	9,083
Trade deposits and prepayments	12	**1,257,980**	1,476,145	**20,472**	24,251
Accrued interest		**32,789**	51,010	**534**	838
Other receivables	13	**1,170,866**	1,100,676	**19,054**	18,082
Short term investments	14	**182,771**	606,868	**2,974**	9,970
Taxation - net		**310,239**	261,674	**5,049**	4,299
Cash and bank balances	15	**4,233,180**	7,079,105	**68,888**	116,299
		16,419,640	21,032,248	**267,204**	345,528
TOTAL ASSETS		**157,144,043**	131,403,846	**2,557,267**	2,158,762

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

Kamran Rasool
Chairman

Kamal Afsar
Director

Consolidated Balance Sheet
As At December 31, 2007

	Note	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
		Rupees in '000'		US$ in '000'	
EQUITY AND LIABILITIES					
SHARE CAPITAL AND RESERVES					
Share capital	16	**20,878,074**	19,473,631	**339,757**	319,922
Reserves	17	**4,280,712**	4,280,712	**69,662**	70,325
Unrealized gain on remeasurement of investments		**97,366**	21,013	**1,584**	345
Foreign exchange translation reserve		**2,116,441**	1,847,591	**34,439**	30,353
Accumulated losses		**(36,029,644)**	(23,717,778)	**(586,325)**	(389,646)
Attributable to the Holding company's shareholders		**(8,657,051)**	1,905,169	**(140,883)**	31,299
Minority Interest		**527,860**	520,692	**8,590**	8,554
Total equity		**(8,129,191)**	2,425,861	**(132,293)**	39,853
Surplus on revaluation of fixed assets - net	18	**10,190,057**	3,601,840	**165,827**	59,173
		2,060,866	6,027,701	**33,534**	99,026
NON - CURRENT LIABILITIES					
Long term financing	19	**28,994,934**	18,682,829	**471,846**	306,930
Term finance certificates	20	**10,723,738**	13,246,970	**174,512**	217,627
Liabilities against assets subject to finance lease	21	**46,524,024**	42,503,444	**757,104**	698,266
Long term deposits	22	**321,679**	261,843	**5,235**	4,302
Deferred liabilities	23	**14,669,765**	8,045,670	**238,727**	132,178
		101,234,140	82,740,756	**1,647,424**	1,359,303
CURRENT LIABILITIES					
Trade and other payables, including provisions	24	**21,652,372**	18,023,185	**352,358**	296,093
Accrued interest / mark-up / profit	25	**978,317**	812,278	**15,921**	13,344
Short term borrowings	26	**18,105,884**	15,543,446	**294,644**	255,355
Tax payable		**19,388**	89,299	**316**	1,467
Current maturities of:					
Long term financing		**5,845,349**	2,714,555	**95,124**	44,596
Term finance certificates		**2,523,232**	756,970	**41,062**	12,436
Liabilities against assets subject to finance lease		**4,724,495**	3,914,491	**76,884**	64,309
Long term murabaha		**-**	781,165	**-**	12,833
		53,849,037	42,635,389	**876,309**	700,433
CONTINGENCIES AND COMMITMENTS	27				
TOTAL EQUITY AND LIABILITIES		**157,144,043**	131,403,846	**2,557,267**	2,158,762

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

Kamran Rasool
Chairman

Kamal Afsar
Director

Consolidated Profit And Loss Account
For The Year Ended December 31, 2007

	Note	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
		Rupees in '000'		US$ in '000'	
REVENUE - Net	28	**78,554,483**	76,435,189	**1,278,348**	1,255,712
COST OF SERVICES					
Aircraft fuel		**30,315,159**	33,370,101	**493,330**	548,219
Others	29	**42,194,738**	41,353,164	**686,652**	679,369
		72,509,897	74,723,265	**1,179,982**	1,227,588
GROSS PROFIT		**6,044,586**	1,711,924	**98,366**	28,124
Distribution costs	30	**4,448,674**	4,395,834	**72,395**	72,217
Administrative expenses	31	**5,293,654**	4,910,728	**86,146**	80,676
Other provisions and adjustments - net	32	**1,487,893**	955,964	**24,213**	15,705
		11,230,221	10,262,526	**182,754**	168,598
Other operating income	33	**614,523**	855,714	**10,000**	14,058
LOSS FROM OPERATIONS		**4,571,112**	7,694,888	**74,388**	126,416
Finance costs	34	**7,938,364**	5,275,360	**129,184**	86,666
Share of (profit)/loss from an associated company		**(20,211)**	15,023	**(329)**	246
LOSS BEFORE TAXATION		**12,489,265**	12,985,271	**203,243**	213,328
Income tax expense	35	**726,390**	(562,455)	**11,821**	(9,240)
LOSS FOR THE YEAR		**13,215,655**	12,422,816	**215,064**	204,088
Attributable to:					
Shareholders of the holding company		**13,208,487**	12,426,185	**214,947**	204,143
Minority interest		**7,168**	(3,369)	**117**	(55)
		13,215,655	12,422,816	**215,064**	204,088
		(Rupees)		(US$)	
LOSS PER SHARE	36				
'A' class Ordinary shares of Rs.10 each		**6.25**	6.62	**0.10**	0.11
'B' class Ordinary shares of Rs. 5 each		**3.12**	3.31	**0.05**	0.05

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

Kamran Rasool
Chairman

Kamal Afsar
Director

Consolidated Cash Flow Statement
For The Year Ended December 31, 2007

	Note	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
		Rupees in '000'		US$ in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from / (used in) operations after working capital changes	37	**8,753,067**	(3,869,836)	**142,442**	(63,575)
Profit on bank deposits received		**225,685**	202,277	**3,673**	3,323
Deferred custom duty paid		**-**	(71,102)	**-**	(1,168)
Finance costs paid		**(7,772,325)**	(5,070,851)	**(126,482)**	(83,306)
Taxes paid		**(796,301)**	(93,615)	**(12,959)**	(1,538)
Staff retirement benefits paid		**(874,493)**	(693,706)	**(14,231)**	(11,397)
Compensated absences paid		**-**	(91,915)	**-**	(1,510)
Payments made for construction of University Road, Karachi		**-**	(85,000)	**-**	(1,396)
Long term deposits - net		**(836,306)**	(935,075)	**(13,610)**	(15,362)
Net cash used in operating activities		**(1,300,673)**	(10,708,823)	**(21,167)**	(175,929)
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditure incurred		**(12,722,326)**	(5,340,052)	**(207,035)**	(87,729)
Proceeds from disposal of property, plant and equipment		**193,671**	280,136	**3,152**	4,602
Purchase of shares of PIAIL		**-**	(2,834,782)	**-**	(46,571)
Investments - net		**(12,030)**	(197,232)	**(196)**	(3,240)
Receivable from Centre Hotel		**(4,381)**	103,917	**(72)**	1,707
Proceeds from sale of investment		**427,491**	-	**6,957**	-
Intangibles		**(50,778)**	-	**(826)**	-
Long term advances and other receivable		**402,985**	277,000	**6,558**	4,551
Net cash used in investing activities		**(11,765,368)**	(7,711,013)	**(191,462)**	(126,680)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		**1,404,443**	1,492,972	**22,855**	24,527
Proceeds of long term financing - net		**13,442,899**	10,846,388	**218,762**	178,189
Redemption of term finance certificates		**(756,970)**	(756,970)	**(12,318)**	(12,436)
Repayment of obligations under finance leases		**(5,651,529)**	(3,078,876)	**(91,970)**	(50,581)
Repayment of long term murabaha		**(781,165)**	(824,810)	**(12,712)**	(13,550)
Net cash from financing activities		**7,657,678**	7,678,704	**124,617**	126,149
Decrease in cash and cash equivalents		**(5,408,363)**	(10,741,132)	**(88,012)**	(176,460)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**(8,464,341)**	2,276,791	**(137,744)**	37,404
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**(13,872,704)**	(8,464,341)	**(225,756)**	(139,056)
CASH AND CASH EQUIVALENTS					
Cash and bank balances	15	**4,233,180**	7,079,105	**68,888**	116,299
Short term borrowings	26	**(18,105,884)**	(15,543,446)	**(294,644)**	(255,355)
		(13,872,704)	(8,464,341)	**(225,756)**	(139,056)

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

Kamran Rasool
Chairman

Kamal Afsar
Director

Consolidated Statement Of Changes In Equity
For The Year Ended December 31, 2007

	ATTRIBUTABLE TO SHAREHOLDERS OF THE HOLDING COMPANY							
		RESERVES						
	Issued subscribed, and paid-up capital	Capital reserves	Revenue reserves	Unrealized gain/(loss) on remeas-urement of investments	Foreign currency translation reserves	Accumulated losses	Minority Interest	Total equity
	(Rs. in '000')							
Balance as at December 31, 2005	17,980,659	2,501,038	1,779,674	(15,107)	1,562,720	(11,291,593)	-	**12,517,391**
Issue of share capital 'A' class Ordinary shares	1,492,972	-	-	-	-	-	-	**1,492,972**
Unrealised gain on re-measurement of investments recognised directly in equity	-	-	-	36,120	-	-	-	**36,120**
Foreign currency translation	-	-	-	-	284,871	-	728	**285,599**
	-	-	-	36,120	284,871	-	728	**321,719**
Loss for the year	-	-	-	-	-	(12,426,185)	3,369	**(12,422,816)**
Minority interest arising on business combination	-	-	-	-	-	-	516,595	**516,595**
Balance as at December 31, 2006	19,473,631	2,501,038	1,779,674	21,013	1,847,591	(23,717,778)	520,692	**2,425,861**
Issue of share capital 'A' class Ordinary shares	1,404,443	-	-	-	-	-	-	**1,404,443**
Unrealised gain on re-measurement of investments	-	-	-	76,353	-	-	-	**76,353**
Surplus on revaluation of aircraft fleet and Hotel building realised during the year on account of incremental depreciation charged thereon						896,621		**896,621**
Foreign currency translation	-	-	-	-	268,850	-	-	**268,850**
Net income recognised directly in equity	-	-	-	76,353	268,850	896,621	-	**1,241,824**
Loss for the year	-	-	-	-	-	(13,208,487)	-	**(13,208,487)**
Minority interest arising on business combination	-	-	-	-	-	-	7,168	**7,168**
Balance as at December 31, 2007	**20,878,074**	**2,501,038**	**1,779,674**	**97,366**	**2,116,441**	**(36,029,644)**	**527,860**	**(8,129,191)**

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

Kamran Rasool
Chairman

Kamal Afsar
Director

Notes To The Consolidated Financial Statements For The Year Ended December 31, 2007

1. THE GROUP AND ITS OPERATIONS

1.1 The "Group" consists of:

Pakistan International Airlines Corporation (the Holding company)

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). The shares of the Corporation are quoted on all Stock Exchanges of Pakistan. The principal activity of the Corporation is to provide air transport services. Other activities of the Corporation include provision of engineering and other allied services.

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

Subsidiaries

PIA Investment Limited (PIAIL) was incorporated on September 10, 1977 in Sharjah, United Arab Emirates, as a limited liability company under a decree issued by H.R.H. Prince Faisal Bin Khalid Bin Abdul Aziz 'The Ruler of Sharjah' and is currently registered in British Virgin Islands. The principal activities are to carry business as promoters of and investors in projects related to construction, development and operation of hotels, motels and restaurants throughout the world. The Holding company's controlling interest in PIAIL is 99%.

Sky Rooms (Private) Limited (SRL) was incorporated on May 20, 1975 in Pakistan as a Private Limited Company under the Companies Ordinance, 1984. The Principal activity of the company is to manage Airport Hotel at Karachi. The Company is a wholly owned subsidiary of the Holding company.

Midway House (Private) Limited is a wholly owned subsidiary of the Holding company. The company is under winding up and has been fully provided in the books of the Holding company, and, accordingly, not consolidated in these financial statements.

The subsidiaries of the Holding company, **PIA Holding (Private) Limited, PIA Shaver Poultry Breeding Farms (Private) Limited** and **PIA Hotel Limited,** had applied under the 'Easy Exit Scheme' announced by the SECP for voluntary winding up. Assets and liabilities of these subsidiaries were taken over by the Holding company, and, accordingly, not consolidated in these financial statements.

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

Associate

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

Joint venture

Abacus Distribution Systems Pakistan (Private) Limited was incorporated in Pakistan on October 12, 2004 as a Private Company Limited by shares under the Companies Ordinance, 1984. The registered office of the company is situated at Karachi. The company operates a computer reservation system which incorporates a software package which performs various functions including real time airline seat reservation, schedules, bookings for a variety of air, car and hotel services, automated ticketing and fare displays. The Holding company's interest in the company is 45% which will increase to 75% over a period of nine years.

1.2 During the year, the Group has incurred a net loss of Rs.13,216 (2006: Rs.12,423) million, resulting in accumulated losses of Rs.36,030 (2006: Rs.23,718) million as of the balance sheet date. Further, as of that date the current liabilities of the Group exceeded its current assets by Rs.37,429 (Rs.21,603) million.

1.3 The management of the holding company and its subsidiary have reported the following in their audited financial statements to mitigate the foregoing:

(i) Holding company

During the current year, the Holding company incurred a net loss of Rs.13,399 (2006: Rs.12,763) million, resulting in accumulated losses of Rs.37,160 (2006: Rs.24,563) million as of the balance sheet date. Further, as of that date the current liabilities of the Holding company exceeded its current assets by Rs.38,798 (2006: Rs.22,672) million. As a result of the adverse financial position of the Holding company during the last few years, the Ministry of Finance, after considering the financial constraints and future funding requirements of the Holding company, agreed in a letter issued to the Holding company on December 29, 2006 to jointly develop a robust operational and financial restructuring plan with the objective of converting the Holding company into a profitable entity. At the same time, the Ministry of Finance stated in the said letter that the Government of Pakistan (GoP), as a majority shareholder, would extend all necessary support to implement the restructuring plan and would assure the going concern status of the Holding company at all times. Thereafter, the said Ministry in another letter, dated February 22, 2007, stated that the financial support will be provided by the GoP to the Holding company and asked the Holding company to initiate the required actions for its financial and other operational restructuring measures.

Consequently, the Holding company commenced the process of operational and financial restructuring, seeking financial support from the Government for taking various measures, starting the beginning of the current year. The financial measures which the Holding company has embarked upon include:

(a) debt restructuring, which includes restructuring of current outstanding Term Finance Certificates (TFCs) and local and foreign currency short term debts into new TFCs, supporting debt re-profiling and pricing of the new TFCs with the lenders, floating of Sukuk in the International capital market and funding interest payments on the new TFCs for 5 years through equity injections semi-annually;

(b) sale of PIA Investment Limited Hotels, to be managed by the Privatisation Commission, and using the funds generated therefrom to repay loans and to finance capital expenditure requirements; and

(c) sale of non-core assets, including land and building at various locations.

In addition to initiating the above referred financial measures, the Holding company has also commenced taking certain operational measures, which include:

(a) fleet modernization;
(b) marketing efforts;
(c) route rationalization;
(d) improved non-core businesses; and
(e) organizational strengthening.

Further, the Holding company issued 140,444,307 Ordinary shares of Rs.10 each, aggregating to Rs.1,404 million, to the GoP during the current year in line with the GoP's commitment to provide equity contribution equivalent to the Holding company's accumulated losses up to year 2000 to cover interest/profit payments on long term finances and TFCs. Historically, the support of the GoP has always been available to the Holding company, as evident by the GoP issuing guarantees to secure certain long term finances and TFCs. Hence, the Holding company expects continued financial support of GoP in future as well.

Furthermore, another evidence of the GoP's continued support is the funding and support it provided to the Holding company in the form of equity and guarantees for the acquisition of eight new Boeing 777 aircraft and seven ATRs.

Moreover, the Holding company succeeded in having the operational restrictions lifted by the European Union during the current year, which will contribute towards better financial performance, in addition to the much improved performance of the subsidiaries of the Holding company, as evidenced by the Holding company receiving a dividend of Rs.551 million from its subsidiaries.

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

(ii) Subsidiary company

SRL incurred a net loss of Rs.2.969 (2006: Rs.30.869) million during the year ended December 31, 2007, resulting in accumulated losses of Rs.103.674 (2006: Rs.100.706) million at the close of the year, and, as of that date, the company's current liabilities exceeded its current assets by Rs.38.219 (2006: Rs.9.363) million. However, the Holding company has provided financial assistance of Rs.37.042 (2006: Rs.37.042) million as advance against share capital. The management believes that financial and operational support from the Holding company will continue in the foreseeable future as has been done in the past.

The company entered into a lease agreement for the plot of land and hotel's building thereon with the Civil Aviation Authority (CAA) for a period of 20 years, commencing June 03, 1981, to June 02, 2001. During the current year, renewal of the said lease agreement for further 30 years has been approved by the CAA in a meeting held on January 07, 2008. However, the revised lease agreement has not been signed.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with the requirements of the PIAC Act, relevant provisions of the Companies Ordinance, 1984 and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the requirements of the PIAC Act or the provisions or directives of the Companies Ordinance, 1984 shall prevail.

These consolidated financial statements have been prepared on accrual basis of accounting except for cash flow statement.

2.2 Basis of preparation

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

- Group's aircraft fleet, land and building thereon are stated at revalued amounts less accumulated depreciation and impairment, if any, as referred to in notes 3.1.1 and 3.1.2;

- Held for trading, available for sale investments and derivative financial instruments are stated at fair values in accordance with the requirements of IAS - 39 "Financial Instruments: Recognition and Measurement", as referred to in notes 5.3.1 and 14;

The US$ amounts in the balance sheet, profit and loss account and cash flow statement have been translated into US$ at the rate of Rs.61.45 = US$1 (2006: Rs.60.87 = US$1) solely for the convenience purposes.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Holding company and its subsidiaries as at December 31, each year.

2.3.1 Subsidiaries

Subsidiaries are those entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiary companies were consolidated for the first time as at December 31, 2006, as in prior years, the holding company had obtained exemption from the Securities and Exchange Commission of Pakistan ("SECP") to prepare consolidated financial statements, these are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

The financial statements of the subsidiaries are prepared for the same reporting year as the holding company, using consistent accounting policies.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from holding company shareholders' equity

2.3.2 Associates

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

The Group's investment in its associate is accounted for using the equity method of accounting.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortized.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the group's interest in the associates.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The financial statements of the associates are prepared for the same reporting year as the holding company, using consistent accounting policies.

2.3.3 Joint Venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity.

The Group's investment in its joint venture is accounted for using the equity method of accounting.

Under the equity method, the investment in the joint venture is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortized.

The financial statements of the joint venture are prepared for the same reporting year as the holding company, using consistent accounting policies.

2.4 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods affected.

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

Property, plant and equipment

The Group reviews appropriateness of the rate of depreciation, useful life and residual value used in the calculation of depreciation. Further, where applicable, an estimate of the recoverable amount of assets is made for possible impairment on an annual basis. Furthermore, the Group revalue its aircraft fleet, engines and land and buildings thereon, based on the periodic valuations by external independent valuers. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with corresponding effects on the depreciation charge and impairment.

Employee benefits

The cost of defined benefit plans is determined using actuarial valuation(s). The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, future increase in medical costs and future pension increases. Due to long term nature of these plans, such estimates are subject to significant variations. Significant actuarial assumptions have been disclosed in notes 7.3, 23.2 and 23.3 to the financial statements.

Stores and spares

The Group reviews the net realizable values of stores and spares to assess any diminution in the respective carrying values. Net realizable value is estimated with reference to the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. Provision against the slow moving stores and spares is made in proportion to estimated average useful life of the relevant category of the aircraft attained up to the balance sheet date.

Taxation

In making the estimate for income tax payable by the Group, the Group takes into account the applicable tax laws.

Deferred tax assets are recognized for all unused tax losses and credits to the extent that it is probable that taxable profit will be available against which such losses and credits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Trade debts

The Group reviews its doubtful trade debts at each reporting date to assess whether provision should be recorded in the profit and loss account. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

Provision for frequent flyer programme

The provision is based on miles outstanding valued at the incremental direct cost of providing the service. In arriving at the miles outstanding, an adjustment is made for miles which are not expected to be redeemed based on current trends. Incremental direct costs are arrived at based on the forecasted average cost of the reward. These estimates are reviewed on an annual basis and the liability suitably adjusted as appropriate.

Unearned and earned revenue

The value of unutilized passenger tickets and cargo airway bills is determined by the management on the basis of estimated number of days delay between the date of sale of ticket / airway bills and the date of actual travel / lift.

2.5 Accounting standards not yet effective

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretations.

Standard or Interpretation		Effective date (accounting periods beginning on or after)
IAS 1	- Presentation of Financial Statements	January 01, 2009
IAS 23	- Borrowings Costs	January 01, 2009
IAS 27	- Consolidated and Separate Financial Statements	January 01, 2009
IFRS 3	- Business Combinations	January 01, 2009
IFRIC 11	- Group and Treasury Share Transactions	March 01, 2007
IFRIC 12	- Service Concession Arrangements	January 01, 2008
IFRIC 13	- Customer Loyalty Programs	July 01, 2008
IFRIC 14	- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interactions	January 01, 2008
IAS 41	- Agriculture	May 22, 2007

The Group expects that the adoption of the above standards and interpretations will have no material impact on the Group's financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by the International Accounting Standards Board but have not yet been adopted by the Institute of Chartered Accountants of Pakistan or notified by the Securities & Exchange Commission of Pakistan (SECP) and, hence, presently do not form part of the local financial reporting framework:

IFRS 4 - Insurance Contracts
IFRS 7 - Financial Instruments: Disclosures
IFRS 8 - Operating Segments

2.6 Fixed assets

2.6.1 Property, plant and equipment

Owned

Leasehold land is stated at cost.

Building, improvements of hotel properties and aircraft fleet is measured at revalued amounts, which is the fair value at the date of revaluation less accumulated depreciation and impairment, if any, recognised subsequent to the date of revaluation. Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment, if any. Cost of certain fixed assets comprises historical cost and exchange differences incurred in the financial year 1983 on foreign currency loan obtained for acquisition of fixed assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred. Major renewals and improvements are capitalised. Major overhaul expenditure is capitalised and depreciated over the period to the next major overhaul (see change in accounting policy, as discussed below).

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

Depreciation is separately charged for the airframes and engines based on their respective estimated useful lives.

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

The rates used are stated in note 3.1 to the financial statements.

Useful lives are determined by the management based on expected usage of asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of assets and other similar factors.

The assets' residual values, useful lives and methods are reviewed, and adjusted, if appropriate, at each financial year end.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount at the balance sheet date. Accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group has adopted the following accounting treatment in respect of surplus on revaluation of fixed assets and depreciation thereon, keeping in view the requirement of section 235 of the Companies Ordinance, 1984, and Securities and Exchange Commission of Pakistan (SECP) SRO 45(1)/2003, dated January 13, 2003:

- The surplus / (deficit) arising on revaluation of fixed assets is credited / (debited) to the "Surplus on Revaluation of Fixed Assets Account" and it is shown in the balance sheet after share capital and reserves.

- An annual transfer from the surplus on revaluation of fixed assets account to unappropriated profit / accumulated losses through statement of changes in equity is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the asset's original cost.

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

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

The fair value of aircraft signifies cost less manufacturers' credits, if any.

Leased

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease or incremental borrowing rate of the Group, where appropriate.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit and loss account.

Depreciation is charged to profit and loss account applying the straight-line method on a basis similar to owned assets.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the lease term.

CHANGE IN ACCOUNTING POLICY

During the current year, the Holding company changed its accounting policy in respect of the overhauling of engines, whereby, with effect from the current year, expenditure incurred thereon is being capitalized and depreciated over the period to the next major overhaul (note 3.1), as opposed to the past policy of writing off the same as incurred. The change has been made to comply with the requirements of International Accounting Standard -16 "Property, Plant and Equipment", requiring recognition of such cost in the carrying amount of the item of property, plant and equipment when each major inspection is performed.

The said policy has been applied prospectively from the start of the current year as it was not practical to estimate the effects of applying the policy retrospectively, given the complexities involved in calculating the said effects due to the revaluation of aircraft fleet each year, recording of surplus arisen in prior years, net of deferred taxes, and adjustment thereof in subsequent years through incremental depreciation.

The effect on current year is the increase in carrying amount of aircraft fleet at the start of the year by Rs.4,967 million and recording of depreciation thereon of Rs.716 million, resulting in reduction of loss for the year by Rs.4,251 million

Capital spares

Rotable and repairable spares are stated at cost and treated as property, plant and equipment and are depreciated based on the average useful remaining life of the related aircraft. The average rate is stated in note 3.1. Capital spares not repairable are treated as scrap and charged to profit and loss account currently.

Capital work-in-progress

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

2.7 Intangibles

Intangible assets acquired separately are measured on initial recognition at cost. Costs that are directly associated with identifiable software products controlled by the Group and have probable economic benefit beyond one year are recognized as intangible assets. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. In respect of additions and deletions of intangible assets during the year, amortization is charged from the month of acquisition and up to the month preceding the deletion respectively. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with finite lives are amortized on a straight line basis over their estimated useful lives as specified in note 4.

Intangible assets with indefinite useful lives are tested for impairment annually. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

2.8 Investments

Held for trading

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

Available for sale

All of the Group's investments other than fixed maturity investments and investments in subsidiaries, associates and joint venture are classified as available for sale as the Group has no intention for the purpose of generating a profit from short term fluctuations in prices or dealer's margin.

All investments classified as available for sale are initially recognized at cost inclusive of transaction costs and are subsequently marked to market using period end bid prices from stock exchange quotations and quotations from brokers and in case of unquoted investments, at cost, less impairment.

Any resultant gain / loss is recognized directly in equity until the investment is de-recognized. Any impairment loss including that had been recognized directly in equity is removed from equity and recognized in profit and loss account.

Held to maturity

Investments with fixed or determinable payments and fixed maturity for which the Group has ability to hold them till maturity are classified as held to maturity investments. These investments are initially recognized in the balance sheet at cost including transaction cost and subsequently measured at amortized cost using effective interest method. All investments categorized under held to maturity are subject to annual review for impairment.

2.9 Stores and spares

These are valued at lower of cost and net realizable value except goods-in-transit, which are valued at cost. Cost is determined as follows:

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

Net realizable value signifies the estimated selling price in the ordinary course of business less cost of completion and cost necessary to be incurred in order to make the sale.

2.10 Trade debts and other receivables

Trade debts are recognized and carried at original invoice / ticket amount less provision for doubtful debts. Provision is made against the debts considered doubtful, as per the Group's policy. Known bad debts are written-off as and when identified.

2.11 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost.

For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks and short term placements readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents also include bank overdrafts / short term borrowings that are repayable on demand and form an integral part of the Group's cash management.

2.12 Trade and other payables

Liabilities for trade creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received up to the year end, whether or not billed to the Group.

2.13 Interest / Mark-up bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

Loans and borrowings are subsequently stated at amortized cost with any difference between the proceeds (net of transaction cost) and the redemption value recognised in the profit and loss account over the period of the borrowing using the effective interest method less any impairment losses.

Gains and losses are recognized in profit and loss account when the liabilities are derecognized.

2.14 Employee benefits

Provident Fund

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

Pension funds

The Group operates a funded benefit pension scheme for all its permanent employees. Pension scheme is a final salary pension scheme and is invested through three funds for both cockpit and non-cockpit employees namely PALPA, FENA and Employees' Pension Funds. Contributions are made to the scheme on the basis of actuarial valuation that is carried out every year. Actuarial gains and losses are recognized immediately.

Post retirement medical benefits

The Group operates an unfunded defined benefit medical scheme and provides free hospitalization benefits to all its retired employees and their spouses in accordance with their service regulations. The post retirement medical benefit is accounted for on the basis of actuarial valuation that is carried out every year. Actuarial gains and losses are recognized immediately.

Compensated absences

The Group accounts for all accumulated compensated absences when the employees render service that increases their entitlement to future compensated absences based on actuarial valuation.

Gratuity funds

PIA Investment Limited operates a funded gratuity scheme for employees who have completed one year of service.

Sky Rooms (Private) Limited operates an un-funded defined benefits gratuity scheme for all permanent employees. Provision is made annually to cover obligations under the scheme.

Other funds

Roosevelt Hotel Holding company, N.V. is a party to the Industry wide Collective Bargaining Agreement between the Union and the Hotel Association of New York City, Inc., which provides a Union sponsored multi-employer pension plan. The multi-employer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employers associated with a plan, who withdraw from such a plan or upon termination of said plan. The company has not received information from plans' administrators to determine its share of unfunded vested benefits, if any. The company has not undertaken to terminate, withdraw or partially withdraw from the plan.

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

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

2.15 Equity instruments

Equity instruments issued by the Group are stated at their face value.

2.16 Taxation

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any, or one half percent of turnover, whichever is higher. It also includes any adjustment to tax payable in respect of prior years. Income tax expense is recognised in profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred taxation

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

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised

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

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

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit and loss account.

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

2.17 Revenue recognition

Passenger and cargo revenue

Passenger and cargo sales are recognized as revenue when the transportation service is provided. The value of unutilized passenger tickets and cargo airway bills are recorded as "advance against transportation" account under current liabilities until recognised as revenue.

However, in view of the limitation of the Group's revenue accounting system, the value of unutilized passenger tickets (other than Hajj operation) and cargo airway bills is not provided by the system and is determined by the management on the basis of estimated number of days delay between the date of sale of ticket / airway bills and the date of actual travel / lift. In case of Hajj operation, the value of unutilised passenger tickets is determined on the basis of actual unutilised passenger coupons.

Engineering and other services

Revenue of engineering and other services is recognized when services are rendered and invoices raised.

Room, food and beverages

Revenue from room, food, beverages and other related services is recognized on the provision of services.

Interest / Mark-up and dividend income

- The Group recognizes interest income / mark-up on short term bank deposits and interest bearing advances on time proportion basis.
- Interest on held to maturity investments are recognized using the effective interest method.
- Dividend income is recognized, when the right to receive dividend is established.

2.18 Borrowing costs

The Group recognizes the borrowing costs as an expense in the period in which these costs are incurred.

2.19 Provision

A provision is recognized in the balance sheet when:

- the Group has a legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of obligation.

2.20 Impairment

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any objective evidence that an asset or group of assets may be impaired. If any such evidence exists, the asset or group of assets' recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account immediately.

2.21 Foreign currency translation

The financial statements are presented in Pak Rupee, which is the Group's functional and presentation currency. Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the last week of the preceding month's average rate of exchange date of the transaction.

Monetary assets and liabilities in foreign currencies are translated at the rates using the average spot rate on the balance sheet date. Gains and losses on translation are taken to profit and loss account currently.

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

2.22 Frequent flyer programme

The Group operates an Award Plus frequent flyer programme. The incremental direct cost of providing free travel in exchange of redemption of miles earned by members is accrued in the financial statements as an operating cost and a future liability after allowing for miles which are not expected to be redeemed.

2.23 Management Fee

Roosevelt Hotel Corporation N.V.

The management of the day-to-day operations of the Roosevelt Hotel is undertaken by interstate hotels corporation under a management agreement. The agreement provides for a base management fee calculated at 1.25% of gross operating revenues per year and an incentive management fee calculated at 15% of net operating income as defined in the agreement. This agreement as amended will expire in April 2009.

Minhal France S.A.

On March 20, 2002, Minhal France S.A. acquired Scribed Gestion (SG), a company whose principal activity is the holding of 99.99 % of the shares of Canadian National France (CNF), the company which owns the building and the goodwill of the Hotel Scribe (both SG and CNF merged into Minhal France S.A. effective January 1, 2006). During the year ended December 31, 2003, the freehold value of Hotel Scribe was assessed by PKF Hotel Experts, who have determined the value of Hotel Scribe and ground floor shops to be around Rs.6,681 million (Euro 83,500,000). Accordingly, the hotel has been accounted for at this value.

Scribe Hotel

Scribe Hotel is currently managed by ACCOR with assistance of Parisian Management Company B.V., related parties, under a management agreement. The agreement provides for a base management fee calculated at 3.5% of turnover per year and an incentive management fee calculated at 12% of gross operating profit, as defined in the agreement. However, the agreement further provides that the fee to be paid would be remitted to 6.75% of the turnover.

2.24 Financial instruments

Financial assets and financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value and amortized cost respectively. Financial assets are de-recognized at the time when the Group loses control of the contractual rights that comprise the financial assets. Financial liabilities are de-recognized at the time when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to the profit and loss account immediately.

2.25 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet if the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.26 Segment reporting

A segment is a distinguishable component within the Group that is engaged in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group's primary format for segment reporting is based on geographical segment.

	Note	December 31, 2007	December 31, 2006
3. PROPERTY, PLANT AND EQUIPMENT		Rupees in '000'	
Operating fixed assets	3.1	**125,049,562**	95,942,231
Capital work-in-progress	3.2	**7,421,258**	6,637,766
		132,470,820	102,579,997

3.1 Operating fixed assets

	COST / REVALUED AMOUNT					ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at January 01, 2007	Additions/ (Disposals)	Revaluation / * Adjustment/ ** (write-off)	As at December 31, 2007	Annual depreciation Rate	As at January 01, 2007	For the year/ (on disposals)	Revaluation/ * Adjustment/ ** (write-off)	As at December 31, 2007	As at December 31, 2007
	(Rupees in '000')				%	(Rupees in '000')				
December 31, 2007										
Owned										
Leasehold land	66,821	313	-	67,134	-	-	-	-	-	67,134
Buildings on leasehold land	1,072,608	45,975	-	1,118,583	2.5	362,658	28,538	-	391,196	727,387
Hotel Property	24,320,909	49,595	12,593,175 *	37,754,129	-	2,233,513	473,045	(65,120) *	2,641,438	35,112,691
			790,450 **							
Workshops and hangers	819,662	10,633	-	830,295	5	694,897	11,222	-	706,119	124,176
Renovation and improvements	485,094	83,359	-	566,928	20	412,506	43,571	-		
			(1,525)					(1,525)	454,552	112,376
Aircraft fleet (notes 3.1.1, 3.1.2 & 3.1.3)	27,362,335	3,226,351	4,362,652 **	34,366,303	8.85-4.55	14,173,656	2,051,635	(643,678) **	14,996,578	19,369,725
		(585,035)					(585,035)			
Operating ground equipment, catering, communication and meteorological equipment	514,683	117,057	-	628,372	10	364,146	30,827	-	391,623	236,749
		(3,368)					(3,350)			
Engineering equipment and tools	1,043,160	135,275	-	1,177,631	10-20	869,721	56,841	-	925,758	251,873
			(804)					(804)		
Traffic equipment	1,703,811	74,122	-	1,773,891	10-20	1,166,790	67,548	-	1,230,700	543,191
		(4,042)					(3,638)			
Furniture, fixture and fitting	4,178,808	378,616	232,911 **	4,542,603	10	2,556,101	257,825	(82,700) **	2,566,513	1,976,090
		(247,732)					(164,713)			
Motor transport	212,323	23,445	-	228,843	25	166,783	15,073	-	176,943	51,900
		(6,925)					(4,913)			
Office equipment	77,845	1,684	-	78,783	15	66,844	3,274	-	69,429	9,354
		(746)					(689)			
Computer and office automation	1,285,583	80,422		1,365,528	10-20	966,485	114,479	-	1,080,487	285,041
			(477)					(477)		
Precision engineering equipment	809,297	636	-	809,933	10	795,687	5,925	-	801,612	8,321
Printing press equipment	15,039	-	-	15,039	20	12,630	688	-	13,318	1,721
Reservation equipment	12,619	-	-	12,395	10	12,618	-	-		
			(224)					(224)	12,394	1
Heat Ventilation and Airconditioning	8,412	-	-	8,412	10	3,679	665	-	4,344	4,068
Kitchen and Bar equipments	3,484	-	-	3,484	10	3,130	51	-	3,181	303
Television/Dish/Stand	2,399	330	-	2,729	20	1,515	485	-	2,000	729
Other equipment	443,049	31,592	-	470,813	10	363,042	12,017	-	372,752	98,061
		(3,748)	(80)				(2,227)	(80)		
Capital spares	6,834,108	1,200,573	-	7,938,602	8.85-4.55	2,493,084	395,706	(65,672)	2,821,389	5,117,213
		(1,729)	(94,350)				(1,729)			
	71,272,049	5,459,978	12,593,175 *	93,760,430		27,719,485	3,569,415	(65,120) *	29,662,326	64,098,104
		(853,325)	5,386,013 **				(766,294)	(726,378) **		
			(97,460)					(68,782)		
Leased										
Aircraft fleet (notes 3.1.1, 3.1.2 & 3.1.3)	59,303,016	10,488,247	604,551 **	70,395,814	4.55	6,999,464	2,741,369	(229,045) **	9,511,788	60,884,026
Vehicles – Motor Transport	130,142	-	-	124,008	25	103,854	9,026	-	108,804	15,204
		(6,134)					(4,076)			
Vehicles – Technical Ground Service	84,430	-	-	84,430	10-20	24,603	7,599	-	32,202	52,228
	59,517,588	10,488,247	604,551	70,604,252		7,127,921	2,757,994	(229,045) **	9,652,794	60,951,458
		(6,134)					(4,076)			
	130,789,637	15,948,225	12,593,175 *	164,364,682		34,847,406	6,327,409	(65,120) *	39,315,120	125,049,562
			5,990,564 **				(770,370)	(955,423) **		
		(859,459)	(97,460)					(68,782)		

	COST / REVALUED AMOUNT					ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at January 01, 2006	Additions/ (Disposals)	Transfers/ revaluation	As at December 31, 2006	Annual depreciation Rate	As at January 01, 2006	For the year/ (on disposals)	Transfers/ adjustment/ revaluation *	As at December 31, 2006	As at December 31, 2006
December 31, 2006	(Rupees in '000')				%	(Rupees in '000')				
Owned										
Leasehold land	67,824	-	-	66,821	-	-	-	-	-	66,821
		(1,003)								
Buildings on leasehold land	952,149	120,459	-	1,072,608	2.5-5	332,566	35,668	-	362,658	709,950
								(5,576)		
Hotel Property	-	229,946	20,727,291	24,320,909	3.33	-	437,537	2,872,499	2,233,513	22,087,396
			3,363,672					(1,076,523)		
Workshops and hangers	802,264	17,398	-	819,662	5	682,455	12,442	-	694,897	124,765
Renovation and improvements	448,374	38,306	-	485,094	20	382,991	31,101	-	412,506	72,588
		(1,586)					(1,586)			
Aircraft fleet (notes 3.1.1, 3.1.2 & 3.1.3)	24,445,800	2,215,722	908,437	27,362,335	3.85-4.55	14,394,271	843,505	908,437	14,173,656	13,188,679
		(207,624)					(207,624)	-		
								(1,764,933) *		
Operating ground equipment, catering, communication and meteorological equipment	520,164	22,251	-	514,683	10	366,358	24,568	-	364,146	150,537
		(27,732)					(27,512)	732		
Engineering equipment and tools	989,063	54,097	-	1,043,160	10-20	835,672	34,049	-	869,721	173,439
Traffic equipment	1,594,216	137,271	-	1,703,811	10-20	1,127,937	63,737	-	1,166,790	537,021
		(27,676)					(24,884)			
Furniture, fixture and fitting	617,892	1,116,582	-	4,178,808	10	526,934	179,665	-	2,556,101	1,622,707
		(400,560)	2,844,894				(387,848)	2,237,350		
Motor transport	201,659	22,998	-	212,323	25	165,676	12,400	-	166,783	45,540
		(17,847)	5,513				(14,581)	3,288		
Office equipment	76,835	2,040	-	77,845	15	64,332	3,459	-	66,844	11,001
		(1,030)					(1,009)	62		
Computer and office automation	1,160,478	140,947	-	1,285,583	10-20	873,522	108,679	-	966,485	319,098
		(15,842)					(15,791)	75		
Precision engineering equipment	820,031	55	-	809,297	10	783,041	23,415	-	795,687	13,610
		(10,789)						(10,769)		
Printing press equipment	15,039	-	-	15,039	20	11,942	688	-	12,630	2,409
Reservation equipment	12,619	-	-	12,619	10	12,618	-	-	12,618	1
Heat Ventiltaion and Airconditioning	8,242	170	-	8,412	10	2,765	665	-	3,679	4,733
							249			
Kitchen and Bar equipments	3,484	-	-	3,484	10	2,560	51	-	3,130	354
								519		
Television/Dish/Stand	2,399	-	-	2,399	20	935	474	-	1,515	884
								106		
Other equipment	382,827	70,915	-	443,049	10	361,060	12,190	-	363,042	80,007
		(10,693)					(10,688)	480		
Capital spares	6,127,065	1,454,744	(706,892)	6,834,108	3.85-4.55	2,844,925	333,523	(644,555)	2,493,084	4,341,024
		(40,809)					(40,809)			
	39,248,424	5,643,901	201,545	71,272,049		23,772,560	2,157,816	263,882	27,719,485	43,552,564
		(763,191)	23,577,698				(743,101)	5,109,784		
			3,363,672					(2,841,456)		
Leased										
Aircraft fleet (notes 3.1.1, 3.1.2 & 3.1.3)	30,254,454	29,048,562	-	59,303,016	4.55	4,794,370	1,865,265	-	6,999,464	52,303,552
								339,829 *		
Vehicles – Motor Transport	139,989	835	-	130,142	25	92,420	19,077	-	103,854	26,288
		(10,682)					(7,643)			
Vehicles – Technical Ground Service	84,430	-	-	84,430	10-20	17,004	7,599	-	24,603	59,827
	30,478,873	29,049,397	-	59,517,588		4,903,794	1,891,941	-	7,127,921	52,389,667
		(10,682)					(7,643)	339,829 *		
	69,727,297	34,693,298	201,545	130,789,637		28,676,354	4,049,757	263,882	34,847,406	95,942,231
		(773,873)	23,577,698				(750,744)	5,109,784		
			3,363,672					(2,501,627) *		

3.1.1 Hotel property

Roosevelt Hotel Corporation N.V.

The management of the day-to-day operations of the Roosevelt Hotel is undertaken by Interstate Hotels Corporation under a management agreement. The agreement provides for a base management fee, calculated at 1.25% of gross operating revenues per year, and an incentive management fee, calculated at 15% of net operating income, as defined in the agreement. Roosevelt Hotel Corporation N.V's Managing Board in its meeting held on December 13, 2007, had decided to amend this agreement with effect from January 2008. The amended agreement provides for a base management fee, calculated at 1.20% of gross operating revenues per year, and an incentive management fee, calculated at 14.5% of net operating income, as defined in the amended agreement. This amended agreement will expire in January 2012.

The Hotel property is stated at revalued amount. The latest valuation was performed by Hospitality Valuation Services (HVS), which determined that the "as is" market value of the fee simple interest in the property including the land, the improvement and the furniture, fixtures and equipment as of 8 January 2008 is Rs.24.958 billion (US$ 406,000,000). The carrying value of the land, building, improvements, furniture, fixtures and equipment at 31 December 2007 amounted to Rs.12.206 billion (US$ 198,636,667) and, accordingly, Rs.12.742 billion (US$ 207,363,333) has been credited to revaluation surplus account.

The revised carrying value of Rs.10.430 billion (US$ 169,731,466) for land is not depreciated and the value of building and improvements of Rs.14.172 billion (US$ 230,628,834) is being amortized over 29 years and 11 months period beginning in January 2008. The carrying value of furniture and equipment of Rs.346.560 million (US$ 5,639,700) is being amortized over 7 years.

The historical costs of building and improvements are being depreciated over a period ranging between 12 and 40 years whereas furniture and equipment and capitalized leased equipment are being amortized over a period ranging between 7 and 12 years, using the straight-line and accelerated methods.

The carrying amount of the assets as at December 31, 2007, if the assets had been carried at historical cost, would have been as follows:

	Cost	Accumulated depreciation	Book value
		Rupees in '000'	
Land, buildings and improvements	8,029,522	2,440,699	5,588,823
Furniture and equipment	1,346,512	1,262,763	83,749

Minhal France S.A.

On March 20, 2002, Minhal France SA acquired Scribe Gestion (SG), a company whose principal activity is the holding of 99.99% of the shares of Canadian National France (CNF), the company which owns the building and the goodwill of the Hotel Scribe (both SG and CNF merged into Minhal France SA effective 1 January 2006). During the year ended December 31, 2003, the freehold value of Hotel Scribe was assessed by PKF Hotel Experts, who have determined the value of Hotel Scribe and ground floor shops to be around Rs.7.581 billion (Euro 83,500,000).

This value has been apportioned between land amounting to Rs.1.283 billion (Euro 20,875,000) and buildings amounting to Rs.3.848 billion (Euro 62,625,000). The value assigned to land is not amortized and other building value is being amortized over 30 years.

Another valuation of the property was carried out in October 2006 by an independent appraiser BOO MG Hotels Tourism. The appraiser determined that the value of fee simple interest in the property as on October 2006 amounted to Euro 140.6 million equivalents to US $185.17 million. The carrying value of land, building and improvements and furniture and equipment at December 31, 2006 amounted to Rs.6.903 billion (US$ 112.336 million) and, accordingly, the resulting difference of Rs.4.482 billion (US$ 72.945 million) was credited to revaluation reserve.

The carrying amount of the assets as at December 31, 2007, if the assets had been carried at historical cost, would have been as follows:

	Cost	Accumulated depreciation	Book value
		Rupees in '000'	
Land, buildings and improvements	6,697,851	1,253,729	5,444,122
Furniture and equipment	1,977,724	921,977	1,055,747

The useful lives of the assets for calculation of depreciation are as follows:

Assets	Years
Leasehold improvements	30
Hotel furniture and equipment	3 to 15
Technical equipment	5 to 25
Fixtures and fittings	5 to 15
Office furniture and equipment	5

Scribe Hotel is currently managed by ACCOR with assistance of Parisian Management Company B.V, related parties, under management agreements. The agreement with ACCOR provides for a base management fee calculated at 2.625 % of turnover per year and an incentive management fee calculated at 9% of gross operating profit, as defined in the agreement with a limit on total fee to 4.25% of the turnover. The agreement with Parisian Management Company B.V. provides for a fee calculated at 2.5 % of turnover per year, as defined in the agreement. Minhal France S.1. has terminated the agreement with Parisian Management Company B.V, with effect from December 31, 2007, and has executed a Supervisory Consulting and Management Agreement with· the holding company with effect from January 01, 2008 at a fee of 2.5% of turnover.

3.1.2 During the current year, the aircraft fleet of the Holding company was revalued by an independent valuer, Airclaims Limited - UK, on the basis of professional assessment of current market values as of December 31, 2007. Current market value represents the value that an aircraft could best achieve under today's open market conditions and, therefore, takes into account a thorough review of recent market activity and known transactions, involving the subject aircraft covering new sales, new orders, the limited open market and financial activity that has occurred to date. It additionally considers the perceived demand for the type, its availability in the market and further takes account of the expressed views of informed industry sources.

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

As a result of revaluation carried out by the appraiser, a net surplus of Rs.873 million (2006: Rs.1,425 million) on revaluation of aircraft fleet has arisen, which has been recorded at Rs.567 (2006: Rs.926) million, net of deferred tax of Rs.305 (2006: Rs.499) million. However, in connection with this analysis, the valuer did not physically inspect any of the aircraft and has relied on the information provided by the Group.

Airclaims Limited - UK reviewed the useful lives of the aircraft and these have been estimated as follows:

	2007					
	BOEING				AIRBUS	ATR
	737-300	747-200	747-300	777-200	A310-300	
Airframe	30	25	25	25	25	30
Engine	35	30	25	35	30	35
Other component	30	25	25	25	25	30

	2006					
	BOEING				AIRBUS	ATR
	737-300	747-200	747-300	777-200	A310-300	
Airframe	30	25	25	25	25	-
Engine	35	30	25	35	30	-
Other component	30	25	25	25	25	-

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

	Cost	Accumulated depreciation	Written down Value
	Rupees in '000'		
Aircraft fleet - 2007	**92,250,503**	**20,082,394**	**72,168,109**
Aircraft fleet - 2006	78,912,495	16,265,774	62,646,721

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

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
Cost of services - others	29	**6,105,680**	3,852,103
Distribution costs	30	**69,111**	55,884
Administrative expenses	31	**152,618**	141,770
		6,327,409	4,049,757

3.1.5 Included in "operating fixed assets" are one Fokker and two Boeing 747 aircraft and other fixed assets, costing Rs.2,075.38 (2006: Rs.331.88) million and Rs.6.62 (2006: Rs.8,700.5) million, respectively, which are fully depreciated.

3.1.6 The following fixed assets were disposed off during the year:

Description	Sold to	Method of disposal	Cost	Accumulated depreciation	Net book value	Sale proceeds
			(Rupees in '000)			
Aircraft fleet						
F-27 AP-(BAO)	Pakistan Navy	Through negotiation	59,567	59,566	1	24,272
F-27 AP-(BCZ)	Pakistan Navy	Through negotiation	76,574	76,573	1	24,272
F-27 AP-(BDB)	Pakistan Navy	Through negotiation	95,443	95,442	1	24,272
Motor vehicles						
To employees						
Honda City (APB-896)	Captain Hassan Jaffri, P-51008	As per Corporation's policy	854	-	854	560
Honda City (GA-9687)	Mr. Akhtarul Islam, P-23150	As per Corporation's policy	795	576	219	795
Honda City (GA-4796)	Mr. Shujauddin, P-15850	As per Corporation's policy	735	662	73	735
Honda City (GA-8484)	Mr. Y.J. Zaidi, P-17676	As per Corporation's policy	735	662	73	735
Toyota Corolla (GA-9209)	Captain Jawed Khan,P 31117	As per Corporation's policy	695	625	70	695
Honda City (PIA-996)	Mr. Zulfiqar Mirza, P-17751	As per Corporation's policy	885	420	465	885
Honda City (AJM-602)	Mr. Muhammad Iqbal, P-45414	As per Corporation's policy	835	292	543	-
Honda City (AJL-829)	Mr. Kamran Ali Khan, P-26301	As per Corporation's policy	835	282	553	560
Various *						
Aggregate value of items where written down value (WDV) is above Rs.50,000	**Various**		10,404	8,203	2,201	25,530
WDV is less than Rs.50,000	Various		363,523	363,110	413	6,738
Assets disposed off by subsidiaries			247,579	163,957	83,622	83,622
	Total	**2007**	**859,459**	**770,370**	**89,089**	**193,671**
		2006	773,873	750,744	23,129	280,135

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

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

3.1.7 CHANGES IN ACCOUNTING ESTIMATES

(i) During the current year, the Holding company changed its method of computation of depreciation on fixed assets, with the exception of aircraft fleet, whereby, with effect from the current year, depreciation on additions is charged from the month in which an asset is available for use to the month immediately preceding the disposals, as opposed to the previous method of charging full year's depreciation on the additions during the first six months and six months' depreciation charged on additions during the second half of the year, and no depreciation was charged in the year of disposal. The said change has been made as the Holding company believes that the changed basis better reflect the pattern of utilization of economic benefits derived from the assets.

The said change has been accounted for prospectively in accordance with the requirements of International Accounting Standard (IAS) - 8 "Accounting Policies, Changes in Accounting Estimates and Errors" as a result, depreciation charge and loss before taxation for the current year have increased by a sum of Rs.5.4 million each.

(ii) Further, during the current year, the Group changed its method of computation of depreciation on aircraft fleet, whereby, with effect from the current year, depreciation is charged separately for the airframes and engines, based on their respective estimated useful lives, to better reflect the pattern of utilisation of economic benefits derived from the assets, as against the previous method of charging depreciation on the aircraft as a whole.

Had the Group not made the above change, loss before taxation for the current period would have been higher by Rs.368 million whereas depreciation charge for the period would have been higher by the same amount.

3.2 Capital work-in-progress

	December 31, 2007	December 31, 2006
	Rupees in '000'	
Buildings on leasehold land	**25,883**	23,696
Other equipment	**757,730**	404,249
Renovation and improvements	**86,699**	115,542
Non-refundable advances against the purchase of aircraft and related equipment	**10,823,084**	24,899,773
	11,693,396	25,443,260
Less: Transfer to operating fixed assets	**4,268,076**	18,775,030
Items written off	**4,062**	30,464
	4,272,138	18,805,494
	7,421,258	6,637,766

4. INTANGIBLES

	Note	COST				ACCUMULATED AMORTIZATION			WRITTEN DOWN VALUE
		As at January 01, 2007	Additions/ translation adjustment	As at December 31, 2007	Annual amortization years	As at January 01, 2007	For the year	As at December 31, 2007	As at December 31, 2007
		Rupees in '000'				Rupees in '000'			
Goodwill	4.1	1,976,803	50,259	2,027,062	-	102,350	-	102,350	1,924,712
Computer software		199,601	39,795	239,396	5-10	101,326	34,595	135,921	103,475
Lease land acquisition premium		-	50,778	50,778	30	-	11,848	11,848	38,930
		2,176,404	50,259 90,573	2,317,236		203,676	46,443	250,119	2,067,117

4.1 During the current year, the Holding company changed its accounting policy in respect of amortization of goodwill, whereby, with effect from the current year, amortization is not charged in the financial statements. Instead, tests are performed on annual basis to impair goodwill, if any.

The change has been made to comply with the requirements of International Financial Reporting Standard IFRS 3 "Business Combinations", adopted by the SECP, vide SRO 1228(I)/2006, dated December 06, 2006, effective for periods beginning on or after January 01, 2007. Accordingly, the said policy has been applied prospectively from the start of the current year, with no amortization charged in the financial statements for the current year.

Had the Holding Company not made the above change, loss for the year would have increased by Rs.102.350 million.

	COST				ACCUMULATED AMORTIZATION			WRITTEN DOWN VALUE
	As at January 01, 2006	Additions/ translation adjustment	As at December 31, 2006	Annual amortization years	As at January 01, 2006	For the year	As at December 31, 2006	As at December 31, 2006
	Rupees in '000'				Rupees in '000'			
Goodwill	2,047,002	- 32,151	2,079,153	20	-	102,350	102,350	1,976,803
Computer software	182,741	16,860	199,601	5-10	70,320	31,006	101,326	98,275
	2,229,743	16,860 32,151	2,278,754		70,320	133,356	203,676	2,075,078

4.2 Amortization charge for the year has been allocated as under:

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
Cost of services - others	29	**13,788**	2,568
Distribution costs	30	**1,604**	2,203
Administrative expenses	31	**31,051**	26,234
		46,443	31,005

5. LONG TERM INVESTMENTS

Investments in related parties			
Associate - unquoted	5.1	**64,346**	44,135
Joint venture - unquoted	5.2	**1**	1
		64,347	44,135
Share in profit acquisition losses		**(1)**	(1)
		64,346	44,135
Other investments	5.3	**124,119**	112,089
		188,465	156,224

5.1 Associate - unquoted

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

Name of associate	Country of incorporation/ listing	Date of Financial year end	Total Assets	Total Liabilities	Net Assets	Share of Net assets	Revenues	Interest held %
			Rupees '000'					
2007								
Minhal Incorporated	Sharjah	December 31	116,994	3,193	113,801	45,521	40,001	40
2006								
Minhal Incorporated	Sharjah	December 31	112,607	2,270	110,337	44,135	25,591	40

5.2 Joint venture - unquoted

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

Name of associate	Country of incorporation/ listing	Date of Financial year end	Total Assets	Total Liabilities	Net Assets	Share of Net assets	Revenues	Interest held %
			Rupees '000'					
2007								
Abacus Distribution System Pakistan (Private) Limited	Pakistan	December 31	81,275	83,953	(2,678)	(1,205)	159,871	45
2006								
Abacus Distribution System Pakistan (Private) Limited	Pakistan	December 31	73,141	79,154	(6,013)	(1,203)	131,372	20

5.2.1 During the year 2006, the Group acquired 25% equity participation at a cost of Re.0.01 per share. As per the Joint Venture Agreement, shareholding of the Group will increase to 75% during the period of 9 years. As at December 31, 2007, the shareholding of the PIAC was 45%. The Abacus Distribution Systems Pakistan (Private) Limited is a joint venture between the Group and Abacus International Pte Limited, Singapore.

	Note	December 31, 2007	December 31, 2006
5.3 Other investments		Rupees in '000	
Available for sale	5.3.1	**98,930**	68,358
Held to maturity	5.3.2	**25,189**	43,731
		124,119	112,089
5.3.1 Available for sale			
Quoted			
Pakistan Services Limited			
172,913 (2006: 172,913) Ordinary shares of Rs.10 each, having market value per Ordinary Share of Rs.570 (2006: Rs.392) each		**98,561**	67,989
Unquoted			
Pakistan Tourism Development Corporation Limited			
10,000 (2006: 10,000) Ordinary shares of Rs.10 each		**100**	100
Duty Free Shops Limited - Pakistan			
87,512 (2006: 87,512) Ordinary shares of Rs.100 each		**269**	269
Equity held 11.31% (2006: 11.31%)			
		98,930	68,358
5.3.2 Held to maturity			
Promissory notes issued by the Nigerian Government		**44,147**	61,570
Current maturity thereof shown under short term investments	14	**(18,958)**	(17,839)
		25,189	43,731

This represents two promissory notes, issued by the Nigerian Government on May 8, 1988, amounting to US$ 1.32 million and US$ 2.94 million. These were issued in consideration of bank balance of the Group in Central Bank of Nigeria which was seized by the Nigerian Government at the time of coup and civil war in Nigeria. These notes and interest thereon are redeemable in fixed quarterly installments of US$ 58,676 and US$ 26,325, respectively, during the period commencing April 5, 1990 to January 5, 2010.

6. RECEIVABLE FROM CENTRE HOTEL

Receivable from Centre Hotel comprises share of net current assets of Centre Hotel, Abu Dhabi, Joint Venture as of April 21, 1997. This joint Venture was in the form of a partnership agreement between a shareholder (PIAC) and H.E. Sheikh Hamdan Bin Mohammed Al Nahyan. The shareholder had issued an assignment in favor of the Company (PIAIL) but the assignment was not registered.

The joint venture was for a period of 17½ years, which expired on April 21, 1997. According to the agreement, net current assets of the joint venture at end of the term were to be distributed to joint venture partners in the ratio of their investment. The amount for company's share of net current assets as at April 21, 1997 is based on the management accounts of the joint venture, as its audited accounts are not available. In arriving at the share of net current assets as at April 21, 1997, amounts spent on renovation programme, aggregating to Dh 35,565,345 and reserve for renovation, amounting to Dh 4,434,655, in total amounting to Rs.655.467 million (US$10,666,666) [company's share Rs.321.179 million (US$ 5,226,666)] have not been considered as these amounts have been spent without authorization from the company.

A notice of arbitration was served on Sheikh Hamdan's estate by the company on February 23, 1997. The dispute relates to the correct legal interpretation of joint venture agreement and partnership deed regarding the construction and subsequent operation of the hotel. The term of the joint venture and partnership expired on April 21, 1997, when the land and buildings comprising the hotel reverted to the estate of the late Sheikh Hamdan without payment or compensation to the partnership / joint venture. The partners are in dispute as to the partnership liability to reinstate the building prior to completion of joint venture period and expenses incurred on renovation and creation of reserve for renovation referred to above. In respect of suit filed against Sheikh Khalifa bin Hamdan Al Nahyan, the Abu Dhabi Federal Court (the Court) on January 26, 2004 decreed referring the case to arbitration and informing the Supreme Judicial Board to delegate one of the judges to act as an arbitrator for deciding the dispute. However, on 12 July 2004 Honourable Supreme Court had decided to stay the execution proceedings, pending the outcome of the cassation appeal lodged by the Sheikh Khalifa bin Hamdan Al Nahyan. The Honourable Supreme Court, at the hearing on November 17, 2007, in a short order remanded the case back to the Court of Appeals to be heard by a different panel. The appellant and the Company submitted their respective memorandums to be taken into consideration by the Court of Appeals at the next hearing.

7. LONG TERM LOANS, ADVANCES AND OTHER RECEIVABLE

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
Long term loans	7.1	**7,967**	9,880
Long term advances	7.2	**125**	197
Other receivable - pension fund	7.3	**1,283,000**	1,684,000
		1,291,092	1,694,077

7.1 Long term loans - unsecured

Employees	**11,534**	14,697
Current maturity	**(3,567)**	(4,817)
	7,967	9,880

The loans carry interest at the rate of 8% to 20% per annum. The loans are repayable within four years from the date of disbursement. The maximum aggregate balance due from employees at the end of any month during the year was Rs.14.330 (2006: Rs.15.98) million. There are no loans to directors, chief executive officers and other executives.

7.2 Long term advances - unsecured

Employees	**77**	164
Other	**48**	33
	125	197

7.2.1 This represents advance salary due to employees other than directors, chief executive officer and other executive and adjustable against future salary.

7.3 Other receivable - pension funds

Asset recognized in the balance sheet		
Present value of defined benefit obligation	**10,241,000**	9,466,000
Fair value of plan assets	**(11,524,000)**	(11,150,000)
	(1,283,000)	(1,684,000)
Expense recognised in profit and loss account		
Current service cost	**222,000**	214,000
Interest cost	**1,000,000**	925,000
Expected return on plan assets	**(1,191,000)**	(1,141,000)
Actuarial loss recognized - net	**468,000**	377,000
	499,000	375,000
Movement in asset during the year		
Balance at the beginning of the year	**1,684,000**	1,961,000
Charge for the year	**(499,000)**	(375,000)
Payments made during the year	**98,000**	98,000
	1,283,000	1,684,000
Actual return on plan assets	**1,042,000**	890,000

Amounts for the current period and previous four annual periods of the fair value of plan assets, present value of defined benefit obligation and surplus arising thereon are as follows:

	2007	2006	2005	2004	2003
	Rupees in '000'				
Fair value of plan assets	**11,524,000**	11,150,000	10,891,000	10,910,000	10,910,000
Present value of benefit Obligation	**10,241,000**	9,466,000	8,930,000	8,998,000	8,979,000
Surplus	**1,283,000**	1,684,000	1,961,000	1,912,000	1,931,000

7.3.1 Number of employees covered by the scheme as at December 31, 2007 was 11,661 (2006: 12,116).

7.3.2 The fair value of plan assets include investments in the Group's shares, amounting to Rs.3.760 (2006: Rs.4.000) million.

7.3.3 Actuarial valuation of pension funds was carried out at December 31, 2007. The valuation has been carried out using Projected Unit Credit method and the significant financial assumptions have been used (refer note 23.2).

8. LONG TERM DEPOSITS AND PREPAYMENTS	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
Deposits			
Aircraft fleet lease deposits		**2,314,125**	1,564,544
Engine maintenance		**56,505**	215,695
Rent		**31,489**	35,320
Utilities		**13,162**	9,697
Aircraft fuel		**6,984**	6,591
Guarantee deposit		**3,610**	3,222
Occupancy coefficient		**10,993**	9,589
Others		**96,953**	67,956
		2,533,821	1,912,614
Prepayments			
Finance fee	8.1	**58,606**	73,074
Rental commission		**29,760**	20,909
Rental income		**37,454**	32,226
Exposure fee to support financing	8.3	**1,805,498**	1,509,793
Others		**555**	6,900
		1,931,873	1,642,902
Current portion shown under short term prepayment	12.1	**(222,991)**	(149,119)
		4,242,703	3,406,397

8.1 The finance fee incurred in connection with the refinancing of the mortgage loans payable are being amortized over the term of the respective mortgage.

8.2 Many of the Roosevelt Hotel commercial leases provide for scheduled rent increases and free rent periods. The rental income receivable represents pro-rata future receipts.

8.3 This represents payment made by the Group to Ex-Im Bank, in consideration of a guarantee for 12 years issued by the Ex-Im Bank.

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
9. STORES AND SPARES			
Stores		**883,747**	839,848
Spares		**3,986,246**	3,387,842
		4,869,993	4,227,690
Provision for slow moving stores and spares	9.1	**(1,930,145)**	(1,604,338)
		2,939,848	2,623,352
Inventory held for disposal	9.2	**2,207,092**	2,266,825
Adjustment to write down surplus inventory to net realizable value		**(1,944,539)**	(1,935,827)
		262,553	330,998
Stores and spares-in-transit		**83,769**	427,978
		3,286,170	3,382,328

9.1 Movement in provision is as follows:

	Note	December 31, 2007	December 31, 2006
Balance at the beginning of the year		**1,604,338**	2,427,229
Provision written back		**(8,712)**	(922,891)
Provision made during the year	32	**334,519**	100,000
		1,930,145	1,604,338

The provision against slow moving stores and spares is being made in a manner whereby the book value of stores and spares at the end of each year is charged to the profit and loss account. Such provision is made in proportion to estimated average useful lives of the relevant category of the aircraft attained up to the balance sheet date.

9.2 This includes inventory held with a foreign third party, aggregating Rs.1,945 (2006: Rs.1,936) million for sale in the open market.

10. TRADE DEBTS

	Note	December 31, 2007	December 31, 2006
Considered good		**5,395,745**	6,521,586
Considered doubtful		**721,000**	455,325
Provision against debts considered doubtful	10.1	**(721,000)**	(455,325)
		-	-
		5,395,745	6,521,586

10.1 Movement in provision is as follows:

	Note	December 31, 2007	December 31, 2006
Balance at the beginning of the year		**455,325**	408,213
Provision written back		**(136,211)**	(198)
Provision made during the year	32	**402,211**	47,310
		721,000	455,325

10.2 Trade debts include debts due from the Government agencies, other airlines and approved agents of International Air Transport Association (IATA). Certain portion of trade debts is secured by bank guarantees received from agents but due to very large number of agents spread around the globe, the amount of secured trade debts is not determinable.

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
11. ADVANCES			
Considered good			
Amount due to related party of PIAIL		**22,445**	21,895
Current portion of long term loans		**3,567**	4,817
Others			
Employees		**154,361**	140,476
Suppliers		**363,538**	383,070
Others		**5,989**	2,598
		523,888	526,144
Considered doubtful		**31,319**	28,985
Provision for advances considered doubtful	11.1	**(31,319)**	(28,985)
		-	-
		549,900	552,856
11.1 Movement in provision is as follows:			
Balance at the beginning of the year		**28,985**	25,048
Provision made during the year	32	**2,334**	3,937
		31,319	28,985
12. TRADE DEPOSITS AND PREPAYMENTS			
Trade deposits		**42,866**	280,954
Prepayments	12.1	**1,215,114**	1,195,191
		1,257,980	1,476,145
12.1 Prepayments			
Current portion of long term prepayment	8	**222,991**	149,119
Commission to agents		**340,657**	425,367
Interest on leased aircraft		**340,667**	284,190
Insurance		**68,742**	78,824
Rent		**240,048**	252,855
Others		**2,009**	4,836
		1,215,114	1,195,191

13. OTHER RECEIVABLES

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
Considered good			
Insurance and other claims		**312,261**	283,899
Excise duty	27.1(b)	**100,000**	100,000
Sales tax		**258,609**	121,521
Receivables against commercial development of land		**122,696**	233,045
Receivables against manufacturers' credits		**119,450**	166,312
Others		**257,850**	195,899
		1,170,866	1,100,676
Considered doubtful		**30,257**	38,381
Provision for receivables considered doubtful		**(30,257)**	(38,381)
		-	-
		1,170,866	1,100,676

13.1 The above includes US$711,549 receivable from Pakistan Cricket Board (PCB) formerly Board of Cricket Control in Pakistan (BCCP) on account of various payments made during 1980 to 1981 in terms of an agreement dated October 07, 1980 between the Company and the PCB for commercial development of and owned by the PCB. Later, the project could not go through and on September 13, 1987, the PCB transferred a piece of land, measuring 5 acres, through a sub-lease agreement in full and final settlement of the debt. Due to certain legal reasons, the land was registered in the name of one of the shareholders of the company, Pakistan International Airlines Corporation. The lease is for a period of 92 years 6 months and thirteen days. However, in 1990, PCB demolished the boundary wall on the land and instituted legal proceedings against PIAC. On May 13, 2004, the above legal proceedings were dismissed by the High Court of Sindh, Pakistan.

The Company, on October 11, 2007, signed a Joint Venture Agreement with the PCB to form a limited liability company (NEWCO) with the objective of establishing a new five star hotel/mixed use building in Karachi.PCB would provide a 5.8 acres plot, adjacent to National Stadium Karachi, through a sub-lease to NEWCO in settlement of above receivable and the NEWCO would issue shares to the Company and PCB in the ratio of 62.5% and 37.5% against the value of land so transferred. The formation/incorporation of NEWCO is in progress.

14. SHORT TERM INVESTMENTS

	Note	December 31, 2007	December 31, 2006
Held to maturity			
Current portion of other investment	5.3.2	**18,958**	17,839
Held for trading			
Bred Institution			
29 Ordinary shares (2006: 47 shares)	20.1	**150,678**	185,474
Available for sale			
Quoted			
France Telecom, France	14.1	**-**	390,556
Nil shares (2006: 232,791 Ordinary shares), having a market value of Nil Euro (2006: 20.95 Euro) each			
Unquoted			
SITA INC N.V.	14.2	**19,220**	19,220
325,491 Ordinary shares (2006: 325,491 Ordinary shares)			
Provision for diminution in the value of investment	14.3	**(6,085)**	(6,221)
		13,135	12,999
		182,771	606,868

14.1 During the current year, the Group sold the shares of France Telecom at a consideration of Rs.427.491 (2006: Nil) million.

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

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
14.3 Movement in provision is as follows:			
Balance at the beginning of the year		**6,221**	6,438
Provision written back during the year		**(136)**	(217)
		6,085	6,221
15. CASH AND BANK BALANCES			
In hand		**8,973**	6,586
In transit		**68,862**	105,450
		77,835	112,036
With banks			
In current accounts			
Collection		**4,959,513**	4,984,869
Overdrawn bank balances		**(2,741,112)**	(1,080,139)
		2,218,401	3,904,730
In short term deposit accounts		**1,936,944**	3,062,339
		4,155,345	6,967,069
		4,233,180	7,079,105

16. SHARE CAPITAL

No. of shares December 31, 2007	No. of shares December 31, 2006		December 31, 2007	December 31, 2006
		Authorized capital		
		Ordinary share capital		
2,949,250,000	2,949,250,000	'A' class shares of Rs.10 each	**29,492,500**	29,492,500
1,500,000	1,500,000	'B' class shares of Rs.5 each	**7,500**	7,500
2,950,750,000	2,950,750,000		**29,500,000**	29,500,000
		Preference share capital		
50,000,000	50,000,000	Preference shares of Rs.10 each	**500,000**	500,000
3,000,750,000	3,000,750,000		**30,000,000**	30,000,000
		Issued, subscribed and paid up share capital		
		Ordinary share capital		
		'A' class shares of Rs.10 each		
1,852,191,870	1,711,747,563	Issued for consideration in cash (note 16.1)	**18,521,919**	17,117,476
931,028	931,028	Issued for consideration other than cash for acquisition of shares	**9,310**	9,310
233,934,482	233,934,482	Issued as bonus shares	**2,339,345**	2,339,345
2,087,057,380	1,946,613,073		**20,870,574**	19,466,131
		'B' class shares of Rs.5 each		
1,003,374	1,003,374	Issued for consideration in cash	**5,017**	5,017
2,625	2,625	Issued for consideration other than cash for acquisition of shares	**13**	13
494,000	494,000	Issued as bonus shares	**2,470**	2,470
1,499,999	1,499,999		**7,500**	7,500
			20,878,074	19,473,631

16.1 Under the terms of the financial package, as discussed in note 1, a sum of Rs.1,404 (2006: Rs.1,493) million was received from the GoP as equity contribution. Accordingly, 140,444,307 Ordinary shares of Rs.10 each (2006: 149,297,214 Ordinary shares of Rs.10 each) have been issued to the GoP during the current year.

16.2 The GoP held 1,876,903,846 and 1,462,515 'A' class Ordinary shares and 'B' class Ordinary shares, respectively, (2006: 1,736,459,539 and 1,462,515 'A' class Ordinary shares and 'B' class Ordinary shares respectively) at the close of the current year.

17. RESERVES

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
Capital reserves			
Reserve for replacement of fixed assets	17.1	**1,966,779**	1,966,779
Capital redemption reserve fund		**250,000**	250,000
Others		**284,259**	284,259
		2,501,038	2,501,038
Revenue reserve		**1,779,674**	1,779,674
		4,280,712	4,280,712

17.1 Up to June 1988, depreciation on fully depreciated aircraft was charged and credited to the reserve for replacement of fixed assets. In addition, the excess of sale proceeds over cost of fixed assets disposed off was also credited to the aforesaid account. With effect from 1989 - 90, the Group changed this policy to comply with the International Accounting Standards and the excess proceeds over cost of relevant assets are credited to the profit and loss account.

18. SURPLUS ON REVALUATION OF FIXED ASSETS - net of tax

Surplus on revaluation of fixed assets - Group	**10,009,693**	3,538,171
Surplus on revaluation of fixed assets - Minority	**180,364**	63,669
	10,190,057	3,601,840

19. LONG TERM FINANCING - secured

Financier	Type of facility	Limit (Rupees in million)	Payment year	Number of installments/ mode	Mark-up %	December 31, 2007	December 31, 2006
From Banking Companies						Rupees in '000'	
United Bank Limited (notes 19.1 & 19.2)	Syndicate Finance	1,650	2005-2010	6 half-yearly	6 months KIBOR + 0.79%	**1,215,825**	1,621,098
Citibank / DVB Bank (notes 19.3 & 19.4)	Syndicate Finance	6,603	2006-2008	Bullet	1 month LIBOR + 0.77%	**3,184,462**	3,491,443
Habib Bank Limited (note 19.5)	Demand Finance	530	2006-2009	36 monthly	1 month KIBOR + 1.50%	**267,000**	456,389
Citibank N.A (notes 19.6 & 19.7)	Demand Finance	4,895	2006-2017	20 half-yearly	5.28% fixed	**4,599,184**	2,180,178
Habib Bank Limited (note 19.8)	Demand Finance	200	2006-2009	36 monthly	1 month KIBOR + 1.75%	**122,222**	194,444
ABN AMRO Bank (note 19.9)	Demand Finance	3,538	2009-2013	19 quarterly	3 months LIBOR + 1.6%	**3,132,458**	1,556,842
National Bank of Pakistan/ Habib Bank Limited (note 19.10)	Syndicate Finance	7,260	Bullet	1 Bullet	3 months LIBOR + 1.325%	**7,374,000**	-
Standard Chartered Bank DXB (note 19.11)	Demand Finance	3,025	2007-2009	12 quarterly	3 months LIBOR + 1.325%	**2,304,375**	-
National Bank of Pakistan (note 19.12)	Demand Finance	500	2007-2010	12 quarterly	3 months KIBOR + 1.5%	**500,000**	-
JP Morgan Chase (note 19.13)	Loan	6,087	2006-2009	variable	6.025%pa	**5,938,567**	5,882,516
JP Morgan Chase (notes 19.14,19.15 & 19.16)	Mezzanine Finance	3,652	2006-2009	variable	6.025%pa	**3,687,000**	3,652,200
Hong Kong Shanghai Banking Corporation	Loan	2,362	2004-2012	variable	3 months EURIBOR +1.15%	**2,515,190**	2,362,274
						34,840,283	21,397,384
Current maturity						**(5,845,349)**	(2,714,555)
						28,994,934	18,682,829

19.1 Following are the participating banks:

United Bank Limited
National Bank of Pakistan
Habib Bank Limited

19.2 The finance is secured by way of hypothecation of capital spares and traffic equipment.

19.3 Following are the mandated lead arrangers:

Citigroup
DVB Bank AG (DVB)

19.4 The finance is secured against the first charge in the assignment of the purchase contracts relating to three new B777 aircraft. Repayment is to be made at the time of delivery of each aircraft.

19.5 The finance is secured by way of hypothecation charge lien in receivables of Peshawar, Islamabad and Rawalpindi booking offices and sinking fund account amounting to Rs.267 million.

19.6 Following are the lenders:

Citibank International Plc. - Paris
Citibank, N.A. - London

19.7 The finance is secured by way mortgage over each ATR aircraft and European Credit Agencies / GoP guarantees.

19.8 The finance is secured by way of first charge hypothecation over all present and future receivables/ book debts from various travel agents and booking offices in respect of tickets sales from Peshawar, Islamabad and Rawalpindi.

19.9 The Group has entered into an arrangement with the bank to finance 15% balance of the purchase price of two B777-300 aircraft acquired from Boeing Company.

This Finance is secured against GoP Guarantee.

19.10 Three years term finance provided by National Bank of Pakistan and Habib Bank Limited against GoP Guarantee.

19.11 Three years term finance secured against GoP Guarantee.

19.12 Three years term finance against current assets.

19.13 On September 08, 2006, the Roosevelt Hotel Corporation (RHC) Operating LLC entered into loan agreement and three mezzanine loan agreements in the amounts of Rs.5.939 billion (US$ 96,640,641) and Rs.3.687 billion (US$60,000,000) Rs.1.229 billion ($20,000,000 each) respectively. The loan agreements mature on November 09, 2008 with an option for three separate one year extensions. These loans are secured, by amongst other things the company's property and equipment and require annual interest at LIBOR plus a spread as defined in the agreement (1.65% for 2007 and 2006). The carrying value of the loans payable to banks approximates the fair value of these instruments.

19.14 RHC Operating LLC has entered into an interest rate cap agreement with the intent of managing its exposure to interest rate risk. This interest rate cap agreement, with a notional amount of Rs.10.200 billion (US$166 million) expires on September 08, 2008 and effectively caps the variable rate debt at a maximum rate of 7% per annum. The cost of interest rate cap was Rs.1.782 million (US$29,000). The Company entered into this contract with a large financial institution and considers the risk of non-performance to be remote. Management has determined the fair value of this derivative at December 31, 2007 approximates the carrying value.

19.15 A loan of EURO 22,867,353 was obtained from HSBC CCF on March 20, 2002 by Minhal France S.A. to partially finance the acquisition of Scribe Gestion and Canadian National France. The loan was initially granted for 18 months with quarterly principal repayment of Rs.27.238 million (EURO 300,000) plus interest and the balance as bullet payment on maturity. During the year 2004, the bullet payment due on March 22, 2004 was extended for four years (i.e. March 22, 2008), with a condition for payment of Rs.27.238 billion (EURO 300,000) plus interest quarterly commencing from June 2004 and the balance on maturity. The loan bears interest at a variable rate indexed on the EURIBOR plus 1.15%. The loan is secured by pledge of 99.99 percent shares of Minhal France SA.

The above loan has been classified under non-current liabilities as the company expects and is in the process of finalising with the lender to refinance the loan up to 2017.

Further during the year 2006, the Group obtained a fresh loan of Rs.1.090 billion (Euro 12,000,000) for renovation works. The loan bears interest at a variable rate indexed on the EURIBOR three months plus 1.15% and is secured by way of first-ranking mortgage up to Rs.594.768 billion (Euro 6,000,000) on the building located at 1 rue Scribe and pledge of the business up to Rs.594.768 billion (Euro 6,000,000). The loan matures on May 13, 2017.

19.16 Minhal France S.A. has entered into an interest rate cap agreement with the intent of managing its exposure to interest rate risk. This interest rate cap agreement, with a notional amount of Rs.1.071 billion (Euro 11.8 million) expires on May 13, 2017 and effectively caps the variable rate debt at a maximum rate of 5% per annum. The cost of interest rate cap was Rs.14.527 million (Euro 160,000).The Company entered into this contract with a large financial institution and considers the risk of non-performance to be remote.

19.17 All the aforementioned charges are un-registered with SECP.

	Note	December 31, 2007	December 31, 2006
20. TERM FINANCE CERTIFICATES (TFCs)		Rupees in '000'	
TFCs - secured (non participatory)		**13,246,970**	14,003,940
Current maturity		**(2,523,232)**	(756,970)
		10,723,738	13,246,970

During the year 2003, the Group, through the private placement, issued 151,400 fully paid scrips of TFCs, having a denomination of Rs.100,000 each. The salient features of the TFCs are as follows:

Installment payable:	Semi - annually in arrears
Repayment period:	2003-2011
Rate of profit:	50 basis points above the base rate* with a floor of 8% and a cap of 12.50% per annum. Average rate prevailed during the year is 10.50% (2006: 9.75%) per annum.
	* Base rate is the State Bank of Pakistan (SBP) discount rate prevailing at two working days before the commencement of the period for which the profit rate is being computed.

The issue of TFCs is secured by a guarantee given by the GoP. In order to protect the interest of the TFC holders, United Bank Limited has been appointed as the Trustee under the trust deed. In case the Group defaults on any of its obligations, the Trustee may enforce the Group's obligations in accordance with the terms of the trust deed. The proceeds of any such enforcements shall be distributed to the TFC holders at that time on a pari passu basis in proportion to the amounts owed to them pursuant to the TFCs.

The TFCs have an embedded call option for early redemption exercisable by the Group at 24, 48 and 72 months from the date of issue with a 90 days notice period. The TFCs will be redeemed at a premium, which will be calculated at a flat rate of 0.25% of the outstanding amount at the time of the exercise of call option.

The above TFCs have been obtained as part of a financial package of Rs.20 billion approved by GoP and are secured against guarantees issued by GoP. An amount equal to mark up on TFCs is provided by GoP as its equity contribution (refer notes 1 and 16.1).

21. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
Present value of future rental obligations - aircraft fleet			
A 310-300	21.2	**5,149,590**	5,665,539
B 777-200 ER	21.3	**15,101,574**	16,593,380
B 777-200 LR	21.4	**14,156,116**	15,118,103
B 777-300 ER	21.5	**16,794,148**	8,947,013
		51,201,428	46,324,035
Present value of future rental obligations - vehicles	21.6	**47,091**	93,900
		51,248,519	46,417,935
Current portion thereof		**(4,724,495)**	(3,914,491)
		46,524,024	42,503,444

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

	2007			2006		
	Minimum lease payment	Finance Cost	Present value of minimum lease payments	Minimum lease payment	Finance Cost	Present value of minimum lease payments
	Rupees in '000'			Rupees in '000'		
Not later than one year	**7,210,461**	**2,485,966**	**4,724,495**	6,223,436	2,308,945	3,914,491
Later than one year and not later than five years	**28,040,174**	**7,418,773**	**20,621,401**	24,420,386	7,120,824	17,299,562
Later than five years	**29,212,634**	**3,310,011**	**25,902,623**	29,028,598	3,824,716	25,203,882
	64,463,269	**13,214,750**	**51,248,519**	59,672,420	13,254,485	46,417,935

21.2 In 2003, the Group entered into an aircraft lease agreement with the Airbus Leasing Inc. USA, to acquire six A310-300 aircraft. The salient features of the lease are as follows:

	December 31, 2007	December 31, 2006
Discount rate	**5.2%**	5.2%
Lease period	**144 months**	144 months
Security deposit (Rupees in thousand)	**199,098**	197,219

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

Discount rate - two aircraft	**4.65%**	4.65%
Discount rate - one aircraft and spare engines	**Three months LIBOR**	Three months LIBOR
Lease period - aircraft	**144 months**	144 months
Lease period - spare engines	**96 months**	96 months
Security deposit (Rupees in thousand)	**582,816**	577,315

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

	December 31, 2007	December 31, 2006
Discount rate - aircraft and propulsor	**Three months LIBOR- 0.02%**	Three months LIBOR- 0.02%
Lease period - aircraft	**144 months**	144 months
Lease period - propulsor	**96 months**	96 months
Security deposit (Rupees in thousand)	**470,450**	466,009

21.5 In 2006, the Group arranged an Ex-Im Bank guaranteed financing of US$ 472 million to acquire three Boeing B 777-300 ER aircraft from White Crescent Limited, a special purpose entity incorporated in Amsterdam, Netherlands. The guaranteed lender is ABN Amro Bank. Salient features of the lease are as under:

Discount rate - one aircraft	**5.25%**	-
Discount rate - one aircraft	**Three months LIBOR – 0.04%**	Three months LIBOR – 0.04%
Lease period - aircraft	**144 months**	144 months
Lease period - engine	**96 months**	96 months
Security deposit (Rupees in thousand)	**593,078**	319,568

21.6 The salient features of other lease arrangements are as follows:

Discount rate	**7.71% - 13.32%**	7.71% - 13.32%
Lease period	**48 to 60 months**	48 to 60 months

21.7 The ownership of all these assets will be transferred to the Group by the end of lease term.

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
22. LONG TERM DEPOSITS			
Deposits from agents		**118,000**	112,500
Retention money		**202,579**	149,211
Others		**1,100**	132
		321,679	261,843
23. DEFERRED LIABILITIES			
Deferred custom duties		**178,588**	178,588
Deferred gratuity		**49,102**	38,560
Deferred taxation	23.1	**11,571,497**	5,191,522
Obligation for compensated absences	23.2	**1,445,000**	1,284,000
Post retirement medical benefits		**1,425,578**	1,353,000
		14,669,765	8,045,670
23.1 Deferred taxation			
Roosevelt Hotel Corporation, N.V	23.1.1	**8,032,066**	1,808,612
Minhal France, S.A	23.1.2	**3,539,431**	3,382,910
		11,571,497	5,191,522

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	

23.1.1 Roosevelt Hotel Corporation, N.V

The components of the net deferred tax liability are as follows:

Excess of book over tax depreciation	**305,224**	281,592
Allowance for doubtful accounts	**2,154**	2,496
Alternative minimum tax credit	**23,349**	49,788
Net operating loss carry forward	**57,561**	54,862
Accrued vacation	**-**	56,755
Deferred tax asset excluding affect of revaluation surplus	**388,288**	445,493
Deferred tax liability relating to revaluation of land and building	**(8,420,354)**	(2,254,105)
	8,032,066	1,808,612

23.1.2 Minhal France, S.A

The net deferred tax liability as at 31 December was computed as follows:

Excess of fair value at acquisition over cost	**1,945,273**	1,851,205
Revaluation of land and building	**1,494,019**	1,479,917
Fiscal depreciation provisions	**89,285**	42,328
Provision for major repairs	**15,106**	12,827
Employees pension plan	**(4,252)**	(3,367)
	3,539,431	3,382,910

In 2006, the Group recognized deferred tax liability on land owned by Minhal France S.A. and Roosevelt Hotel Corporation N.V. Previously this liability was not accounted for. Prior year figures have been restated.

23.2 Obligation for compensated absences

Liability recognised in the balance sheet		
Balance at beginning of the year	**1,284,000**	1,364,000
Charge for the year	**161,000**	11,915
	1,445,000	1,375,915
Payments made during the year	**-**	(91,915)
	1,445,000	1,284,000

Actuarial valuation of liability for compensated absences has been carried out at December 31, 2007. The valuation has been carried out, using the Projected Unit Credit Method and the following assumptions have been used:

	2007	2006
	Per annum	
Discount rate	**11.00%**	11.00%
Expected long term rate of increase in salary level	**8.90%**	8.90%
Utilization of leaves	As leave prior to retirement	

	December 31, 2007	December 31, 2006
	Rupees in '000'	
23.3 Post retirement medical benefits		
Liability recognised in the balance sheet		
Present value of defined benefit obligation	**1,425,578**	1,353,000
Movement in liability during the year		
Balance at the beginning of the year	**1,353,000**	1,211,000
Charge for the year	**173,300**	218,000
Payments made during the year	**(100,722)**	(76,000)
	1,425,578	1,353,000
Expense recognized in profit and loss account		
Current service cost	**26,000**	22,000
Interest cost	**143,300**	127,000
Net actuarial loss recognized	**4,000**	69,000
	173,300	218,000

Amounts for the current period and previous four annual periods of the present value of defined benefit obligation are as follows:

	2007	2006	2005	2004	2003
	Rupees in '000'				
Present value of benefit Obligation	**1,426,000**	1,353,000	1,211,000	925,000	771,000

Actuarial valuation of pension funds and post retirement medical benefit scheme was carried out at December 31, 2007. The valuation has been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2007	2006
	Per annum	
Discount rate	**11.00%**	10.00%
Expected long term rate of increase in salary level	**8.90%**	8.90%
Expected rate of increase in pension cost	**2.80%**	2.80%
Expected rate of medical cost trend	**5.70%**	5.70%
Expected rate of return on plan assets	**10.00%**	11.00%

Number of employees covered by the scheme as at December 31, 2007 was 11,661 (2006: 12,116).

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
24. TRADE AND OTHER PAYABLES			
Trade			
Creditors			
Goods		**3,078,367**	2,809,858
Services		**2,729,197**	2,170,524
Airport related charges		**621,384**	626,551
Others		**355,463**	408,591
		6,784,411	6,015,524
Other payables			
Accrued liabilities		**4,506,500**	2,864,686
Advance against transportation (unearned revenue)			
Normal		**4,762,490**	5,290,835
Hajj		**1,342,673**	1,222,732
		6,105,163	6,513,567
Advances from customers		**304,388**	268,192
Amount due to related party		**85,661**	95,438
Advances and deposits		**110,761**	141,973
Earnest money		**-**	1,482
Payable to Employees' Provident Fund		**201,800**	136,796
Unclaimed dividend		**8,507**	3,297
Collection on behalf of others		**802,273**	827,416
Custom and central excise duty		**507,662**	578,826
Capital value tax		**608,823**	51,855
Stamp duties		**-**	5
Income tax deducted at source		**37,134**	44,173
Provision for frequent flyer programme	24.1	**99,776**	61,664
Sales tax payable		**4,052**	2,771
Bed tax		**5,021**	1,725
Payable to EOBI/SESSI		**5,689**	6,112
Provision for construction of University Road, Karachi	24.2	**215,000**	215,000
Short term deposits		**149,332**	166,044
Liabilities acquired from subsidiaries - net		**18,690**	18,690
Murabaha financing	24.3	**921,751**	-
Others		**169,978**	7,949
		21,652,372	18,023,185

24.1 Provision for frequent flyer programme

		December 31, 2007	December 31, 2006
Balance at the beginning of the year		**61,664**	-
Charge for the year		**38,112**	61,664
		99,776	61,664

24.2 Provision for construction of University Road, Karachi

		December 31, 2007	December 31, 2006
Balance at the beginning of the year		**215,000**	100,000
Charge for the year		**-**	200,000
		215,000	300,000
Payments made during the year		**-**	(85,000)
		215,000	215,000

24.3 The Group has arranged a short term murabaha financing facility from a commercial bank for an aggregate sum of US$ 15 million equivalents to Rs.921.751 million. The said facility is secured against the promissory note issued by the Group, carrying mark-up at LIBOR + 1.25%.

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
25. ACCRUED INTEREST / MARK-UP / PROFIT			
On long term financing		**164,177**	48,361
On term finance certificates		**506,833**	484,767
On murabaha		**-**	3,493
On short term borrowings		**307,307**	275,657
		978,317	812,278
26. SHORT TERM BORROWINGS – secured			
Short term loans	26.1	**16,033,876**	10,580,640
Running finances under mark-up arrangements	26.2	**2,072,008**	4,962,806
		18,105,884	15,543,446

26.1 Short term loans – secured

Financier	Security	Repayment period	Mark-up rate	December 31, 2007	December 31, 2006
From Banking Companies					
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%	**1,359,997**	58,840
Habib Allied Bank Limited - London	Euro Receivables	1 year	1 month LIBOR + 2.25%	**553,050**	-
United Bank Limited - Bahrain	UAE Receivables	1 year	1 month LIBOR + 2.25%	**802,375**	-
				-	-
Habib Bank Limited - Karachi	GoP Guarantee/ Domestic Receivables	1 year	1 month KIBOR + 0.25% - 1.5%	**2,850,000**	-
National Bank of Pakistan - Bahrain Habib Bank Limited - Export Processing Zone	GoP Guarantee	1 year	1 month LIBOR + 0.60%	**-**	4,260,900
Standard Chartered Bank – Dubai	GoP Guarantee	1 year	3 months LIBOR + 1%	**3,072,500**	3,043,500
Standard Chartered Bank – Dubai	Remittance Routings	1 year	1 month LIBOR + 1.5%	**553,050**	-
Standard Chartered Bank – Dubai	GoP Guarantee	3 months	3 months LIBOR + 1.325%	**-**	1,217,400
Habib Bank Limited- Karachi	Hypothecation charge over current assets/GoP Guarantee	1 Year	3-6 months KIBOR + 0.25% - 1.25%	**1,843,500**	-
Standard Chartered Bank Pakistan Limited- Karachi	GoP Guarantee	6 months	6 months KIBOR + 0.75%	**2,999,404**	-
				16,033,876	10,580,640

26.2 Running finances under mark-up arrangements – secured

Financier	Security	Repayment period	Mark-up rate	December 31, 2007	December 31, 2006
From Banking Companies					
United Bank Limited – Karachi	First pari passu hypothecation charge over stock & trade debts	1 Year	1 month KIBOR + 1.5%	**1,497,008**	365,372
National Bank of Pakistan - Karachi	First pari passu hypothecation charge over stock & trade debts	1 Year	1 month KIBOR + 1.25%	**575,000**	50,000
Habib Allied International Bank Limited – London	Receivables in Europe	1 Year	1 month LIBOR + 2.25%	**-**	547,830
Habib Bank Limited - Karachi	Lien over US$20 million deposited with Habib Allied International Bank Limited - London	6 months	1 month KIBOR + 0.50%	**-**	1,000,000
Standard Chartered Bank - Karachi	GoP Guarantee	6 months	6 months KIBOR + 0.75%	**-**	2,999,604
				2,072,008	4,962,806

The rate of mark-up ranges between 7.50% and 11.50% (2006: 5.50% and 11.50%) per annum, payable monthly, quarterly or semi-annually.

Facilities amounting to Rs.1,073 (2006: Rs.1,417) million remained un-utilized as of the balance sheet date.

27. CONTINGENCIES AND COMMITMENTS

27.1 Contingencies

(a) The Civil Aviation Authority (CAA), Pakistan has claimed additional amounts, aggregating to Rs.3,008 (2006: Rs.4,135) 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 financial statements.

(b) The Collector Central Excise had raised a demand of Rs.717 (2006: Rs.1,046) million in respect of duties levied on tickets provided by the Group to its staff either free of charge or at concessional rates, repair / replacement of re-imported aircraft engines, non-availability of invoices, import related to miscellaneous consignments, printed material sent at its various stations abroad for utilization, late / short payment of sales tax and central excise duty and excess baggage tickets. On protest by the Collector Central Excise, the Group has already paid an amount of Rs.100 million (note 13) 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. The management is confident that the decision would be made in Group's favour. Consequently, no provision has been made in these financial statements.

(c) The Group is contesting litigations relating to suits filed against it on dispute over throughput charges aggregating to Rs.125 (2006: Rs.125) million against which it has filed appeals with the Honourable High Court of Sindh, Karachi and District Court which are pending. The management is of the view that the ultimate outcome would be in favour of the Group. Accordingly, no provision in this respect has been made in these financial statements.

(d) The Group is contesting several litigations mainly relating to suits filed against it for unlawful termination of contracts, breach of contractual rights and obligations, non-performance of servicing stipulations due to negligence or otherwise. The Group's management is of the view that these cases have no sound legal footings and it does not expect these contingencies to materialize Accordingly, no provision has been made in these financial statements against these claims amounting to Rs.2,112 (2006: Rs.2,549) million.

(e) Various ex-employees of the Group have lodged claims against the Group for their dues specifically relating to their re-instatements. However, the liability that may arise in these cases cannot bedetermined and consequently, no provision has been made in these financial statements.

(f) Contingencies relating to income tax matters are referred in note 34.1.

(g) Contingencies in respect of the tax matters relating to the Group's subsidiaries, PIA Holdings (Private) Limited and PIA Shaver Poultry Breeding Farms (Private) Limited amounted to Rs.11.2 (2006: Rs.11.2) million.

(h) A number of lawsuits which arose in the normal course of business are pending against the Roosevelt Hotel Corporation, N.V. The eventual disposition of these legal actions, in the opinion of management based upon available insurance coverage and assessment of the merits of such actions by counsel, will not have a material adverse effect on the financial position of the company.

(i) A suit has been filed by Travel Automation (Private) Limited (the claimant) against the Company, the parent company and PIAC in the Honourable High Court of Sindh. The case relates to the termination of a distributorship agreement by the parent company, where under the claimant was the distributor of the parent company in Pakistan. The claimant has sought an injunction to the effect that distributorship agreement cannot be revoked due to the distributorship having been coupled with interest and has also sought injunction to restrain the parent company from entering into any further distributorship agreement with other parties. The claimant seeks a declaration, permanent and mandatory injunction and damages in the sum of Rs 350 million upto November 10, 2004 and US$ 25,000 per month thereafter.

The defendants pleaded that the matter was required to be referred to arbitration as per the Arbitration Clause contained in the Distributorship Agreement and has wrongly been instituted in the court of Pakistan. Accordingly, the parent company has obtained stay order against the proceedings of the suit. However, the claimant has filed an appeal to the High Court of on interpretation of certain provisions of the Constitution of Pakistan, 1973. However, the said appeal was dismissed for non-prosecution by the honourable High Court. The claimant's counsel has filed a Restoration Application seeking to restore the said Appeal. If the Appeal is restored, then it will be heard on merits. If the said appeal is granted, the suit proceedings will be reactivated in Pakistan. However, if the said appeal is dismissed, suit proceeding will be stayed and the matter referred to arbitration in Singapore. It is further contended that the termination was accepted by the claimant who is now seeking to belatedly challenge the same and is estopped from doing so. Further, there are various other legal objections raised by the Company in respect of the above mentioned suit. The Company and its legal advisor are confident that, on the merit of the case, the outcome of the case will be in the Company's favour and hence no provision in respect of this matter is required in these financial statements.

(j) Income tax department passed an order under section 161/205 of the Income Tax Ordinance, 2001 whereby the Company was treated as an assessee in default for non deduction of tax on remittances to the parent company in respect of transaction processing fee (shown under communication charges) by treating the same as Royalty. The Company filed an appeal against the said order before the commissioner of Income Tax (Appeals). The commissioner confirmed the view point of the taxation officer. Thereafter, the Company has filed an appeal before the Income Tax Appellate Tribunal, which is pending for adjudication. The total amount of tax stands at Rs. 556,491. The Company is confident that, on the merit of the case, the outcome of the appeal will be in favour of the Company and hence no provision is required in these financial statements.

27.2 Commitments

(a) Commitments for purchase of aircraft amounted to Rs.18,873 (2006: Rs.23,842) million.

(b) Commitments for capital expenditure amounted to Rs.436.4 (2006: Rs.10.6) million.

(c) Outstanding letters of credit amounted to Rs.200 (2006: Rs.141) million.

(d) Outstanding letters of guarantee amounted to Rs.176.4 (2006: Rs.141) million.

(e) Rentals under operating lease commitments amounted to Rs.7,011 (2006: Rs.962.7) million.

	Rs. in million
Not later than one year	779
Later than one year and not later than five years	3,116
Later than five years	3,116

(f) Outstanding letters of guarantee of Minhal France SA amounted to Rs.0.183 (2006: Rs.0.183) million.

(g) Commitments in respect of staff retirement indemnities of Minhal France S.A. amounts to Rs.9.989 (2006: Rs.9.989) million.

(h) The Abacus has entered into various operating lease agreements in respect of vehicles. Rentals are payable in equal monthly installments whereas repairs and insurance costs are borne by the lessor. The amount of future lease payments and the period during which they fall due are as follows:

Note later than one year	**2,618**	2,625
Later than one year but not later than five years	**-**	2,618
	2,618	5,243

(i) The Roosevelt Hotel, as lessor under the various net leases at the Hotel, will receive rental income over the next five years, and thereafter as follows:

Years	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
2007		-	132,676
2008		**178,307**	131,591
2009		**174,916**	130,452
2010		**147,874**	102,475
2011		**130,584**	84,047
Thereafter		**520,354**	251,027
		1,152,035	832,268

28. REVENUES - net

	Note	December 31, 2007	December 31, 2006
Passenger		**62,002,315**	60,901,468
Cargo		**4,849,735**	5,741,014
Excess baggage		**865,657**	808,259
Charter		**163,806**	388,272
Engineering services		**718,733**	1,043,635
Handling and related services		**712,686**	634,143
Mail and telephone		**305,265**	350,706
Room sales		**7,992,107**	4,329,631
Food and beverages		**80,014**	1,330,330
Shop and other rentals		**1,439**	155,435
Others		**862,726**	752,296
		78,554,483	76,435,189

29. COST OF SERVICES - others

	Note	December 31, 2007	December 31, 2006
Salaries, wages and allowances		**6,977,240**	5,839,712
Welfare and social security costs		**94,953**	78,848
Retirement benefits		**375,208**	331,545
Compensated absences		**97,800**	7,149
Mandatory retirement	31.4	-	30,988
Legal and professional charges		**7,879**	10,378
Stores and spares consumed		**2,188,619**	2,196,152
Maintenance and overhaul		**3,275,218**	6,403,941
Flight equipment rental		**3,124,857**	3,431,059
Landing and handling		**7,690,712**	8,343,403
Passenger services		**2,848,517**	2,803,712
Crew layover		**2,004,869**	2,011,703
Hotel running expenses		**5,410,723**	4,131,885
Staff training		**80,743**	87,157
Food cost		**23,163**	25,411
Utilities		**21,206**	21,197
Communication		**65,234**	63,501
Insurance		**1,038,223**	1,039,418
Rent, rates and taxes		**344,491**	308,747
Printing and stationery		**133,061**	109,397
Amortization	4.2	**13,788**	2,568
Depreciation	3.1.4	**6,105,680**	3,852,103
Others		**272,554**	223,190
		42,194,738	41,353,164

30. DISTRIBUTION COSTS

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
Salaries, wages and allowances		**1,440,391**	1,370,247
Welfare and social security costs		**177,831**	167,512
Retirement benefits		**192,492**	170,092
Compensated absences		**30,022**	2,264
Mandatory retirement	31.4	**-**	9,813
Distribution and advertising expenses		**1,595,112**	1,738,570
Legal and professional charges		**14,905**	19,632
Repairs and maintenance		**73,566**	51,586
Insurance		**8,782**	12,279
Printing and stationery		**33,543**	28,820
Communication		**373,332**	356,137
Staff training		**35,959**	45,693
Rent, rates and taxes		**276,196**	258,191
Utilities		**31,942**	25,737
Amortization	4.2	**1,604**	2,203
Depreciation	3.1.4	**69,111**	55,884
Others		**93,886**	81,174
		4,448,674	4,395,834

31. ADMINISTRATIVE EXPENSES

	Note	December 31, 2007	December 31, 2006
Salaries, wages and allowances		**1,641,565**	1,518,815
Welfare and social security costs		**703,396**	661,136
Retirement benefits		**379,371**	335,223
Compensated absences		**33,178**	2,502
Mandatory retirement	31.4	**-**	10,846
Legal and professional charges		**290,471**	382,174
Repairs and maintenance		**242,155**	224,954
Insurance		**23,238**	16,071
Printing and stationery		**77,550**	66,027
Staff training		**44,149**	64,933
Rent, rates and taxes		**372,245**	315,545
Utilities		**429,863**	381,010
Auditors' remuneration	31.1 & 31.2	**18,672**	20,480
Communication		**523,180**	430,533
Amortization	4.2	**31,051**	26,234
Depreciation	3.1.4	**152,618**	141,770
Donations	31.3	**3,288**	3,825
Others		**327,664**	308,650
		5,293,654	4,910,728

31.1 Auditors' remuneration

	Note	December 31, 2007	December 31, 2006
Audit fee - Holding company	31.2	**6,726**	6,726
Fee for review of interim financial statements	31.2	**2,016**	2,016
Remuneration of subsidiaries auditor		**8,029**	8,041
Consolidation	31.2	**1,000**	1,000
Other certification		**-**	2,000
Out of pocket expenses		**901**	697
		18,672	20,480

31.2 Auditors' remuneration is equally shared by the two firms of auditors.

31.3 Directors including Chairman / CEO and their spouse do not have any interest in the donee.

31.4 The Group implemented a mandatory retirement scheme for certain category of employees. These employees are entitled to all the benefits as per Group's rules.

		Note	December 31, 2007	December 31, 2006
			Rupees in '000'	
32.	**OTHER PROVISIONS AND ADJUSTMENTS - net**			
	Scrappage		**28,678**	-
	Provision for slow moving stores and spares	9.1	**334,519**	100,000
	Provision for doubtful debts	10.1	**402,211**	47,310
	Provision for the construction of University Road, Karachi		**-**	200,000
	Provision for doubtful advances		**2,334**	3,937
	Change in accounting estimates		**-**	(1,933)
	Amortization of goodwill		-	102,350
	Exchange loss - net		**720,151**	504,300
			1,487,893	955,964
33.	**OTHER OPERATING INCOME**			
	Income from financial assets			
	Profit on bank deposits		**207,464**	213,579
	Interest income on advance to pension and provident funds		**-**	13,568
	Income from subsidiary			
	Interest income on advances		**-**	103,928
	Income from investment			
	Interest income on held to maturity investment		**-**	3,708
	Gain on disposal of short term investments		**19,650**	-
	Income from assets other than financial assets			
	Gain on disposal of fixed assets		**104,582**	257,006
	Insurance claims		**12,497**	255,674
	Loss on disposal of associate		**-**	(50,717)
	Liabilities no longer payable - written back			
	Reversal of liabilities no longer payable		**73,384**	56,974
	Dividend on investments		**17,548**	-
	Others		**179,398**	1,994
			614,523	855,714
34.	**FINANCE COSTS**			
	Mark-up on long term financing		**1,168,250**	979,838
	Profit on term finance certificate		**1,378,177**	1,357,869
	Interest on liabilities against assets subject to finance lease		**2,966,224**	1,942,027
	Mark-up on long term murabaha		**47,644**	117,067
	Mark-up on short-term borrowings		**1,436,326**	780,058
	Arrangement, agency and commitment fee		**97,717**	56,341
	Bank charges, guarantee commission and other related charges		**844,026**	42,160
			7,938,364	5,275,360
35.	**INCOME TAX EXPENSE**			
	Current	35.1	**724,240**	382,743
	Prior		**2,150**	(295,700)
	Deferred		**-**	(649,498)
			726,390	(562,455)

35.1 In view of available tax losses for the year, provision for minimum taxation has been made at 0.5% of turnover under section 113 of the Income Tax Ordinance, 2001. No numeric tax rate reconciliation is given as the Group is liable for turnover tax.

Return for the tax year 2003 to tax year 2007 have been deemed to be finalised under the provisions of the Income Tax Ordinance, 2001.

The minimum tax on turnover, under section 80D of the repealed Act, was levied by the tax authorities up to the assessment year 2002-03, after adding 10% of net turnover on estimated basis. The Group filed appeals thereagainst for the assessment years 1991-92, 1992-93 and 1997-1998 to 2002-2003. CIT (Appeal) deleted the above referred enhancement, vide Orders No. 4 to 8 dated October 10, 2006 for tax years 1991-92, 1992-93 and 1997-98 to 1999-2000, whereas appeals for remaining tax years are pending for adjudication.

The Department thereafter filed an appeal in the office of the Income Tax Appellate Tribunal (ITAT) against the aforesaid orders, which is also pending adjudication. The ITAT has deleted enhancement of turnover tax for the years 2001-2002 and 2002-2003, vide its order ITA No.1668/KB/2005, dated August 08, 2007. However, appeal effect order against the said order is currently awaited. In respect of the remaining years, the Group anticipates favourable outcome of the appeal filed by the Department.

The Group had also made a representation to Secretary - Ministry of Law, GoP and also applied to the Federal Board of Revenue to constitute a committee under Section 134A of the Income Tax Ordinance, 2001 for the resolution of above hardship and dispute. During the year, proceeding of the said committee has been commenced and its decision is currently in pending.

	December 31, 2007	December 31, 2006
	---------------Rupees in '000'---------------	
36. LOSS PER SHARE		
Loss for the year	**12,664,655**	12,422,816
	Number of shares	
Weighted average number of ordinary shares outstanding	**2,027,508,768**	1,877,566,277
	Rupees	
Loss per share		
'A' class Ordinary share	**6.25**	6.62
'B' class Ordinary share	**3.12**	3.31

36.1 Loss per share has no dilution effect.

	Note	December 31, 2007	December 31, 2006
		Rupees in '000'	
37. CASH (USED IN) / GENERATED FROM OPERATIONS			
Loss before taxation		**(12,489,265)**	(12,985,271)
Adjustments for:			
Depreciation	3.1.4	**6,327,409**	4,049,757
Gain on disposal of property, plant and equipment	33	**(104,582)**	(257,006)
Amortization	4.2	**46,443**	31,006
Amortization of goodwill		**-**	102,350
Provision for slow moving stores and spares	9.1	**334,519**	100,000
Provision for doubtful debts	10.1	**402,211**	47,112
Provision for doubtful advances and other receivable	11.1	**2,334**	11,122
Provision for the construction of University Road, Karachi		**-**	200,000
Provision for employees' benefits		**1,108,071**	848,775
Finance costs	34	**7,938,364**	5,275,360
Gain on disposal of short term investments			
Share of loss/(profit) from associates		**(20,211)**	15,023
Dividend on investments		**(17,548)**	-
Interest income on advances to an associated company		**-**	(103,928)
Profit on bank deposits	33	**(207,464)**	(213,579)
Interest income on advance to pension and provident funds		**-**	(13,568)
Interest income on held to maturity investment		**-**	(3,708)
Provision for exchange loss and scrappage		**99,606**	-
Gain on sale of investment	33	**(19,650)**	-
Liabilities no longer payable written back	33	**(73,384)**	(56,974)
		3,326,853	(2,953,529)
Working capital changes			
(Increase) / Decrease in stores and spares		**96,158**	(679,680)
(Increase) / Decrease in trade debts		**1,125,841**	(1,330,254)
(Increase) / Decrease in advances		**2,956**	(90,823)
(Increase) / Decrease in trade deposits and prepayments		**218,165**	(894,970)
(Increase) / Decrease in short term investments		**424,097**	-
(Increase) in other receivables		**(70,190)**	75,456
Increase in trade and other payables		**3,629,187**	2,003,964
		5,426,214	(916,307)
		8,753,067	(3,869,836)

38. REMUNERATION OF CHAIRMAN / CEO AND EXECUTIVES

	CHAIRMAN / CEO		EXECUTIVES	
	2007	2006	2007	2006
	Rupees in '000'		Rupees in '000'	
Managerial remuneration	**5,431**	7,896	**1,291,003**	949,953
Corporation's contribution to provident fund	**101**	396	**47,588**	37,777
Other perquisites	**79**	282	**719,622**	390,855
	5,611	8,574	**2,058,213**	1,378,585
Number	**1**	1	**930**	643

Directors, other than the Chairman / CEO, are non-executive directors. Aggregate amount charged in the financial statements for fee to directors was Rs.0.485 (2006: Rs.0.18) million. Chairman / CEO, SVPs and certain executives are also provided with the Group maintained cars and facilities as per the Group's rules.

39. SEGMENTS INFORMATION

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the services provided. Secondary information is reported geographically. The operating businesses are organised and managed separately accordingly to the nature of services provided, with each segment representing a strategic business unit that serves different markets.

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

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

Transaction between business segments, other than services provided by Sky Rooms (Private) Limited to the Holding company's transit passengers, are set on arm's length basis at price determined under "Comparable Uncollected Price Method". Segment revenue, segment expenses and segment results include transaction between business segments. Those transactions are eliminated in consolidation.

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

39.1 Primary reporting format – business segments

	Airlines Operations		Hotel Operations		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	Rupees in '000'							
Revenue								
External sales	**70,480,734**	70,587,146	**8,073,749**	5,848,043	**-**	-		
Inter segment sales	**-**	-	**161,745**	13,055	**(161,745)**	(13,055)		
Total revenue	**70,480,734**	70,587,146	**8,235,494**	5,861,098	**(161,745)**	(13,055)	**78,554,483**	76,435,189
Results								
Segment results	**(6,693,540)**	(8,863,113)	**2,036,259**	839,970	**(80,873)**	(6,528)	**(4,738,154)**	(8,029,671)
Interest expense							**(7,938,364)**	(5,275,360)
Interest income							**207,464**	334,783
Share of associates' (loss) / profit			**(20,211)**	(15,023)			**(20,211)**	(15,023)
Income taxes							**(726,390)**	562,455
Loss							**(13,215,655)**	(12,422,816)

	Airlines Operations		Hotel Operations		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	Rupees in '000'							
Other information								
Segment assets	**118,773,178**	106,891,373	**38,450,827**	24,537,262	**(80,358)**	(65,924)	**157,143,647**	131,362,711
Investment in associates			**396**	44,135			**396**	44,135
							157,144,043	131,406,846
Segment liabilities	**129,705,092**	106,753,481	**25,458,443**	18,688,588	**(80,358)**	(65,924)	**155,083,177**	125,376,145
Capital expenditure	**15,560,911**	33,398,915	**387,314**	1,294,383				
Depreciation	**5,617,195**	3,449,601	**710,214**	600,156				
Amortisation	**34,595**	31,006	**11,848**	-				

39.2 Secondary reporting format – geographical segments

	2007				
	Pakistan	United States	Europe	Others	Total
	Rupees in '000'				
Segment revenue	**32,625,748**	**11,874,559**	**16,981,464**	**17,072,712**	**78,554,483**
Carrying amount of assets	**116,483,390**	**27,396,762**	**12,678,664**	**585,227**	**157,144,043**

	2006				
	Pakistan	United States	Europe	Others	Total
	Rupees in '000'				
Segment revenue	33,288,381	12,457,645	16,400,370	14,288,793	76,435,189
Carrying amount of assets	104,728,342	14,223,428	12,105,868	346,208	131,403,846

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

40.1 Capital management

Refer note 1 in respect of capital management.

40.2 Risk management

(a) Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. All financial assets except cash in hand are subject to credit risk.The Group minimizes the credit risk by diversifying business with IATA approved agents and by obtaining bank guarantees from other agents.

(b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency risk arises on receivable and payable transactions at foreign stations and on foreign currency loans. The Group manages its currency risk by effectively utilizing its foreign currency receipts to satisfy its foreign currency obligations.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk in respect of borrowings and bank balances.

(d) Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group manages its liquidity risk by maintaining sufficient cash and cash equivalents and through support of GoP to meet its liabilities when due, through a financial package, whereby GoP has issued guarantees to secure long-term finances and TFCs. Further, GoP has agreed to provide equity contribution as mentioned in note 1.

(e) Fuel price risk

Fuel price risk is the risk attributable to fluctuation in the international oil prices arising from external factors. The Group plans to manage this issue to the extent possible by taking certain measures including hedging of fuel prices.

40.3 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair value except for investment held to maturity which is carried at amortized cost.

41. FINANCIAL INSTRUMENTS

	2007								
	Interest / mark-up bearing				Non-Interest / mark-up bearing				
	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Total
	(Rupees in '000')				(Rupees in '000')				
Financial assets									
Investment	18,958	25,189	-	44,147	163,813	-	98,930	262,743	306,890
Advances and other receivables	-	1,291,092	-	1,291,092	1,358,590	-	-	1,358,590	2,649,682
Deposits	-	-	-	-	42,866	-	2,533,821	2,576,687	2,576,687
Trade debts	-	-	-	-	5,395,745	-	-	5,395,745	5,395,745
Accrued interest	-	-	-	-	32,789	-	-	32,789	32,789
Cash and bank balances	1,936,944	-	-	1,936,944	2,296,236	-	-	2,296,236	4,233,180
	1,955,902	1,316,281	-	3,272,183	9,290,039	-	2,632,751	11,922,790	15,194,973
Financial liabilities									
Long term financing	5,845,349	20,549,391	2,600,194	28,994,934	-	-	-	-	28,994,934
Term finance certificates	2,523,232	10,723,738	-	13,246,970	-	-	-	-	13,246,970
Liabilities against assets subject to finance lease	4,724,495	20,621,401	25,902,623	51,248,519	-	-	-	-	51,248,519
Deposits	-	-	-	-	-	321,679	-	321,679	321,679
Deferred liabilities	-	-	-	-	-	2,870,578	-	2,870,578	2,870,578
Trade and other payables	-	-	-	-	13,280,587	-	-	13,280,587	13,280,587
Accrued interest / markup/ profit	978,317	-	-	978,317	-	-	-	-	978,317
Borrowings	18,105,884	-	-	18,105,884	-	-	-	-	18,105,884
	32,177,277	51,894,530	28,502,817	112,574,624	13,280,587	3,192,257	-	16,472,844	129,047,468
Net financial (liabilities) / assets	(30,221,375)	(50,578,249)	(28,502,817)	(109,302,441)	(3,990,548)	(3,192,257)	2,632,751	(4,550,054)	(113,852,495)

	2006								
	Interest / mark-up bearing				Non-Interest / mark-up bearing				
	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Total
	(Rupees in '000')				(Rupees in '000')				
Financial assets									
Investment	17,839	43,731	-	61,570	589,029	-	68,358	657,387	718,957
Loans, advances and other receivables	169,786	1,694,077	-	1,863,863	1,143,881	-	-	1,143,081	3,006,944
Deposits	-	-	1,564,544	1,564,544	280,954	771,192	3,222	1,055,368	2,619,912
Trade debts	-	-	-	-	6,521,586	-	-	6,521,586	6,521,586
Accrued interest	-	-	-	-	51,010	-	-	51,010	51,010
Cash and bank balances	3,045,494	-	-	3,045,494	4,016,766	-	-	4,016,766	7,062,260
	3,233,119	1,737,808	1,564,544	6,535,471	12,602,426	771,192	71,580	13,445,198	19,980,669

	2006								
	Interest / mark-up bearing				Non-Interest / mark-up bearing				
	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Maturity Up to one year	Maturity One year to five years	Maturity Five years and above	Sub Total	Total
	(Rupees in '000')				(Rupees in '000')				
Financial liabilities									
Long term financing	2,714,555	12,583,535	6,099,294	21,397,384	-	-	-	-	21,397,384
Term finance certificates	756,970	13,246,970	-	14,003,940	-	-	-	-	14,003,940
Liabilities against assets subject to finance lease	3,914,491	17,299,562	25,203,882	46,417,935	-	-	-	-	46,417,935
Murabaha	781,165	-	-	781,165	-	-	-	-	781,165
Deposits	-	-	-	-	-	261,843	-	261,843	261,843
Deferred liabilities	-	-	-	-	-	2,637,000	-	2,637,000	2,637,000
Trade and other payables	-	-	-	-	9,756,879	-	-	9,756,879	9,756,879
Accrued interest / markup/ profit	812,278	-	-	812,278	-	-	-	-	812,278
Borrowings	15,543,446	-	-	15,543,446	-	-	-	-	15,543,446
	24,522,905	43,130,067	31,303,176	98,956,148	9,756,879	2,898,843	-	12,655,722	111,611,870
Net financial (liabilities) / assets	(21,289,786)	(41,392,259)	(29,738,632)	(92,420,677)	2,845,547	(2,127,651)	71,580	789,476	(91,631,201)

Effective interest rates (a)	Percentage
Investment	5.20
Advances	2.78 - 11.00
Deposits	4.00 - 5.00
Cash and bank balances	3.00 - 4.00

Effective interest rates (b)	Percentage
Long term financing	5.28 - 11.33
Term finance certificates	10.00–10.50
Murabaha	7.06 - 8.02
Liabilities against assets subject to finance lease	4.70-11.00
Mark-up / interest accrued on loans	4.7-11.33

42. TRANSACTIONS WITH RELATED PARTY

The related parties comprise of directors, key management personnel and employees' benefits funds. GoP despite being the major shareholder is not treated as a related party. The Group in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties, amounts due from executives and remuneration of directors and executives are disclosed in the relevant notes.

Terms and conditions of transactions with related parties

The transactions with the related parties are made at normal market prices. Outstanding balances are disclosed in the respective notes. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2007, the Group has not made provision for doubtful debts relating to amounts owed by related parties amounting to Rs.Nil (2006: Rs.Nil). An assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Other material transactions with related parties are given below:

	December 31, 2007	December 31, 2006
	Rupees in '000'	
Retirement funds		
Contribution	**533,190**	689,590
Interest on advances	**16,901**	24,013

The Group's sales of transportation services to subsidiaries and associates are not determinable.

43. CORRESPONDING FIGURES

The following comparative figure has been reclassified for the purposes of better presentation.

From	To	Rupees in '000'
Other provisions and adjustments - net	**Other operating income**	
Liabilities no longer payable – written back	Liabilities no longer payable – written back	56,974

44. AUTHORISATION OF FINANCIAL STATEMENTS

These consolidated financial statements were authorised for issue in the Board of Directors meeting held on March 01, 2008.

45. GENERAL

45.1 The information as to the available capacity and utilization thereof during the year has been disclosed in the statistics annexed to the consolidated financial statements.

45.2 Figures have been rounded off to the nearest thousand rupee.

Kamran Rasool
Chairman

Kamal Afsar
Director

PIA
Pakistan International
Come Fly With Us

PROXY FORM FOR 51ST AGM OF PIA

I/ We .... of ....

being Shareholder(s) of Pakistan International Airlines Corporation holding the following Shares:

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

do hereby appoint .... o f

.... or failing him ....

of.. who is also a Shareholder of the Corporation vide Folio/Participant ID No.

.... Account No. .... as my/our Proxy in my/our absence to attend and vote for me/us and on my/our behalf at the 51st Annual General Meeting of the Corporation to be held on Monday, March 31, 2008 and at any adjournment thereof.

As witness my/our hand/seal this .... day of March 2008.

Signed by the said .... in the presence of

Witnesses

1.
Name: ....
CNIC No. ....

2.
Name: ....
CNIC No. ....

Signature
(Affix Revenue Stamp of Appropriate Value)

NOTES

(1) This Proxy Form, duly executed, must be lodged at the office of Secretary-PIA, PIA Head Office, Karachi, not less than 48 hours before the time fixed for holding the Meeting i.e. upto 10:00 A.M. Saturday, March 29, 2008.

(2) No person shall act as Proxy unless he himself is a Shareholder of the Corporation except that a corporate entity may appoint a person who is not a Shareholder.

(3) Proxies without Folio / Participant ID Number and Account / Sub-Account number will not be entertained.

(4) The authorized representative of corporate Shareholders shall bring the documents detailed in (7)(iii) below.

(5) Signature of the appointer Shareholder should agree with his specimen signature registered with the Corporation.

(6) If a Shareholder appoints more than one proxy and more than one instruments of proxy are deposited by a Shareholder with the Corporation, all such instruments shall be rendered invalid.

(7) In addition to the above the following requirements have to be met by CDC Account Holders / Corporate Entities:

(i) Attested copies of CNIC or Passport of the Beneficial Owner and the Proxy holder shall be furnished with the Proxy Form whereas the Proxy holder shall also show his original CNIC or Passport at the Meeting.

(ii) In case of corporate entity, the Board of Directors' Resolution / Power of Attorney with specimen signature of the Nominee / Attorney shall be produced at the Meeting unless these documents have already been provided.

(iii) Authorized representatives of corporate Shareholders shall produce at the Meeting, the Board of Directors' Resolution or Power of Attorney with specimen signature of the Nominee / Attorney unless these documents have already been provided.

PIA
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