



Annual Report 2007



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# Vision

PIA to be a world class profitable airline exceeding customer expectations through dedicated employees committed to excellence.

# Mission

Employee teams would contribute towards making PIA a global airline-of-choice:

- Offering quality customer services and innovative products
- Participating in global alliances
- Using state-of-the-art technologies
- Ensuring cost effective measures in procurement and operations
- Achieving adequate returns for all stake holders
- Being an equal opportunity employer
- Providing competitive compensation and a congenial working environment
- Adhering to business ethics and zero Tolerance for corruption
- Linking remote regions of Pakistan; and
- Fulfilling our Corporate Social Responsibility (CSR) in all fields

# Values

## **Customer Expectations**

Convenience, Care and Competitive tariff

## **Service**

(Personalized and Courteous)

## **Innovation**

(Cherishing new ideas, translating into actions)

## **Reliability**

(Loyalty and Consistency)

## **Safety**

(Passengers, Employees, Environment and Health)

## **Cohesiveness**

(Respect for individuals, Team Work and Effective Communication)

## **Integrity**

(Business Ethics, Accountability and Transparency)

118  
CAPACITY  
220.0 POUNDS  
CARTS ONLY  
NO LOADING OR UNLOADING  
ON BOARD AIRCRAFT



Emergency Exit  
Please do not use this exit  
until cleared by the Captain



Emergency Exit  
Please do not use this exit  
until cleared by the Captain

OPEN

EXIT

EXIT

# NOTICE OF 51<sup>ST</sup> ANNUAL GENERAL MEETING

**Notice is hereby given** that 51<sup>st</sup> Annual General Meeting of the Shareholders of Pakistan International Airlines Corporation will be held at 10:00 A.M. on Monday, March 31, 2008 at Pearl Continental Hotel, Club Road, Karachi to transact the following business:

1. To confirm the Minutes of 50th Annual General Meeting held on April 25, 2007.
2. To receive and adopt the Audited Accounts for the Financial Year ended December 31, 2007 together with the Auditors' and Directors' Reports.
3. To consider the recommendation of the Board of Directors for transmission of quarterly accounts through website in compliance with Section 245 of the Companies Ordinance 1984 and SECP Circular No. 19 of 2004 and if deemed fit, pass the following Resolution:

"Resolved that the Corporation is hereby authorized to place its quarterly accounts on its website instead of sending the same to members / Shareholders by post subject to compliance with the terms and conditions stipulated by the Securities & Exchange Commission of Pakistan (SECP) vide circular No. 19 of 2004"

4. To elect two Directors against vacancies as required under Sections 6 and 7 of PIAC Act 1956 in place of Mr. Kamal Afsar and Mr. S. Ali Raza who have completed their term of office of Directors.
5. To transact any other business with the permission of the Chair.

By order of the Board

**Karachi**  
March 7, 2008

**Muhammad Shuaib**  
Secretary-PIA

## Notes

1. **Candidature for election as Director:** As per Rule 21 of PIAC Rules 1958, a Shareholder not being a retiring elected Director, shall not be eligible for election as a Director unless he has been recommended by an elected Director for election as a Director, or unless he or some other Shareholder intending to propose his name has, at least seven clear days before the Meeting i.e. up to 05:30 P.M., Saturday, March 22, 2008 left at the office of Secretary-PIA, PIA Head Office, Karachi, a notice in writing duly signed signifying his candidature.
2. **Participation in Meeting and Appointment of Proxies:** A Shareholder entitled to attend and vote at the Meeting is entitled to appoint another Shareholder as Proxy. The duly executed instrument of Proxy or the Power of Attorney or a notarized copy of such Power of Attorney 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. up to 10:00 A.M. Saturday, March 29, 2008 unless the Power of Attorney has already been registered in the Corporation books. Any individual Beneficial Owner of CDC, entitled to attend and vote at the Meeting, must show his original CNIC or Passport to authenticate his identity along with Participant ID and CDC Account / Sub-Account Number. However, if proxy is granted by such a Shareholder, the Proxy holder shall show his original CNIC or Passport accompanied with an attested copy of CNIC or Passport of the grantor. 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.
3. **Book Closure:** The Shares Transfer Books of the Corporation will remain closed from Tuesday, March 18, 2008 to Monday, March 31, 2008 (both dates included) in order to update the register for the purpose of determining the voting rights of Shareholders. Transfer documents received in order at the office of Share Registrar, Corporate Support Services Pvt Ltd, 4th Floor, Al-Ameera Centre, Shakra-e-Iraq, Saddar, Karachi up to 05:30 P.M. Monday, March 17, 2008 will be treated as in time for registration of transfer of Shares.

# CORPORATE INFORMATION

as at March 7, 2008

## Board of Directors

Mr Kamran Rasool  
Secretary Defence & Chairman

Mr Kamal Afsar

Mr Mueen Afzal

Mr Syed Mohammad Fazal Agha

Mr Shahzad M. Husain

Mr M. Hidayatulla Khan Khaishgi

Maj Gen Mir Haider Ali Khan  
Additional Secretary-I, MOD

Dr Waqar Masood Khan  
Secretary Finance

Mr Javed Saifullah Khan

Mr Farooq Rahmatullah  
Director General CAA

Mr S. Ali Raza

## Managing Director

Mr Aslam R. Khan

## Chief Financial Officer

Mr Arif Majeed

## Corporate Secretary

Mr Muhammad Shuaib

## Chief Internal Auditor

Mr Shehrzad Aminullah

## Audit Committee

Mr Kamal Afsar  
Chairman

Mr Mueen Afzal

Mr Shahzad M. Husain

Maj Gen Mir Haider Ali Khan

Mr S. Ali Raza

Mr Shehrzad Aminullah  
Secretary

## Auditors

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

## Share Registrar

Corporate Support Services (Pvt.) Ltd.  
4th Floor, Al-Ameera Centre  
Shahrah-e-Iraq, Saddar  
Karachi – 74100  
PAKISTAN  
Ph. 5662023, 5662024 Fax. 5221192

## Head Office

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

## BOARD OF DIRECTORS' PROFILE



### **Kamran Rasool, Chairman**

Mr Rasool, working as Federal Secretary, Ministry of Defence, was appointed as ex-officio Chairman of PIA in February 2008. He brings with him four decades of civil service experience. He holds a Post Graduate Diploma in Development Administration from Manchester University, UK. Important assignments held by him include Chief Secretary-Punjab, Federal Secretary Industries, Production & Special Initiatives, and Federal Secretary, Cabinet Division. Mr Rasool is also ex-officio Chairman of Civil Aviation Authority, Fauji Foundation, and Defence Housing Authorities at Karachi, Lahore, and Islamabad.

### **Kamal Afsar, Director**

Mr Afsar is an elected Director since September 2004 and is presently Chairman Board's Audit Committee. A Post Graduate in Economics and Business Administration, Mr Afsar is a renowned former bureaucrat and a corporate leader. He is presently Chairman, State Life Insurance Corporation of Pakistan and is also Board Member of various other organizations. He has held important government positions including the post of Commerce Secretary, Government of Pakistan. He was also Consul General of Pakistan at Hong Kong in mid eighties.



### **Mueen Afzal, Director**

Mr Afzal is a nominated Director since October 2006. He is former Federal Secretary General Finance. As a renowned civil service officer, Mr Afzal has held various important assignments in provincial and federal governments. He is at present Chairman of the Board of Directors of Pakistan Tobacco Company Limited and also serves on the Boards of ICI Pakistan Limited, Pakistan Cricket Board, Pakistan Centre for Philanthropy, and Pakistan Poverty Alleviation Fund. He has also served as Director on PIA Board from January 2000 to November 2002. Mr Afzal is the recipient of Hilal-e-Imtiaz.

### **Syed Mohammad Fazal Agha, Director**

Mr Agha is a nominated Director since August 2003. He is a graduate civil engineer and LLB. Mr Agha is former Governor Balochistan and former Deputy Chairman, Senate of Pakistan. During his Senate Membership, he served as Chairman or member of various Committees of the Senate. He led Senate delegations to various countries in Europe and Asia. Mr Agha takes keen interest in the welfare activities and was Chairman of Children Hospital, Quetta. He had remained Board Member of Trust for Voluntary Affairs- an NGO engaged in the social welfare of the society.



### **Shahzad M. Husain, Director**

Mr Husain is a nominated Director since October 2006. He is a post graduate in international relations and law. Mr Husain, a renowned banker by profession, has spent over two decades with Citibank in various senior Management positions. He has been on the Board of Citicorp Investment Bank Limited and Central Depository Company of Pakistan Limited. Presently, he also serves as Director on the Boards of PICIC Ltd and Dadex Eternit Ltd.



**M. Hidayatulla Khan Khaishgi, Director**

Mr Khaishgi is a nominated Director since January 2000. He is a "Professional Engineer" registered with Pakistan Engineering Council and "Chartered Engineer" registered with Engineering Council of U.K. Mr Khaishgi is a Fellow of the Institute of Marine Engineers Science and Technology, U.K., and also a Fellow of the Institute of Logistics and Transport, Pakistan. He has over 45 years operational and management experience in industry including twenty years as Country Manager of American Bureau of Shipping USA, Pakistan office. He has worked in Pakistan, United Kingdom, Iran and Saudi Arabia. Presently, he is the Chief Executive of IMTECH (Pvt) Ltd., a technical service provider.



**Maj Gen Mir Haider Ali Khan, Director**

Maj Gen Haider Ali Khan is a nominated Director since November 2006. He has held various important command, staff and instructional appointments including tenures at the Pakistan Military Academy, Kakul, and Officers Training School, Mangla. Presently, he is Additional Secretary – I, Ministry of Defence. He is a graduate of the Command and Staff College, Quetta, National Defence University, Islamabad and Turkish War Academy, Istanbul. He was Defence Attaché of Pakistan at Ankara, Turkey with accreditation to countries in Eastern Europe and Central Asia. He has held the appointment of Deputy Chief of General Staff at the General Headquarters. He was actively involved in modernization and expansion of the Army aviation's combat, service support, maintenance and training systems. Maj Gen Haider Ali Khan is the recipient of Hilal-e-Imtiaz (Military).



**Dr Waqar Masood Khan, Director**

Dr Khan is a nominated Director since January 2008. He is M.A. political economy, economics, LLB and Ph.D. in Economics from Boston University, Massachusetts, USA. At present, Dr Khan is working as Federal Secretary, Ministry of Finance. Prior to this, he held various senior positions during his service with the Government of Pakistan, which include the position of Special Secretary to the Prime Minister, Secretary Economic Affairs Division, Additional Secretary Finance Division, and Additional Secretary Prime Minister's Secretariat.



**Javed Saifullah Khan, Director**

Mr Khan is a nominated Director since Aug. 03 and is presently Chairman Board's HR&CG Committee. An MBA from the Univ. of Pittsburgh, USA, he possesses diverse business experience of over 34 years. Presently, Chairman of the Saif Group, Mr Khan is multilingual and member of various government and social organizations having represented Pakistan at various international forums. He twice remained Chairman of All Pakistan Textile Mills Association and has also served as Director on HBL Board. He is the founder of Saifullah Foundation for Sustainable Development, Member Board of Pakistan Mobile Communications (Pvt.) Ltd., Member Board of Investment, and Senior Advisor to Galen Capital Group, LLC USA.



**Farooq Rahmatullah, Director**

Mr Rahmatullah is a nominated Director since October 2006. He is Director General CAA Pakistan. Earlier, he was Chairman and the Managing Director, Shell Pakistan Limited. Mr Rahmatullah who started his career by joining Burma Shell Oil Storage and Distributing Company in 1968 has wide experience of running the giant multi-national Corporations within and outside the country and has a track record to make these Corporations viable. Presently, Mr Rahmatullah also serves on the Boards of Pakistan Refinery Ltd., Pakistan State Oil, and Pakistan Cricket Board.



**S. Ali Raza, Director**

Mr Raza is an elected Director since September 2001. He holds a Masters Degree in Admin Sciences, Graduation from Business Centre London and a BSC (Econ) Hons. Degree from the London School of Economics. Mr Raza is a renowned banking professional and is presently Chairman/President, National Bank of Pakistan, the largest financial institution in Pakistan. Mr Raza has keen interest in promotion of sports, and is member of the Governing Committee of the Pakistan Cricket Board. He is also involved in welfare activities and is a member of the Rotary Club of Karachi, Metropolitan, Jinnah Society and Jinnah Foundation. In 2005, Business Week of The McGraw Hill Companies adjudged him as one of the twenty five Leaders of Asia at the forefront of Change. Mr Raza is the recipient of Sitara-e-Imtiaz.



## MANAGING DIRECTOR'S PROFILE



Notice of 51<sup>st</sup> Annual General Meeting

Corporate Information

Board of Directors' Profile

Managing Director's Profile

Board Committees

Directors' Report

## Mr. Aslam R. Khan

assumed the charge as the Managing Director, Pakistan International Airlines, on February 29, 2008.

A corporate aviation veteran with over three decades of multi-faceted airline experience, he started his career with Lufthansa and then moved to PIA. In the national carrier he held senior positions both in Pakistan and abroad. He held the important position of Deputy Managing Director (Marketing) and was responsible for the overall marketing and sales management of PIA. He was also the Managing Director of PIA Investments Limited for fourteen years, with the achievement of 700 million dollars successful turn around of the Roosevelt Hotel in New York city, transforming it into a highly profitable asset.

A keen sportsman and an avid Golfer, he is the President of Sindh Golf Association and Vice President of Pakistan Golf Federation. He is married, with two young sons.

Mr. Aslam R. Khan is also the recipient of the Italian civil award "**CAVALIERE**".

# BOARD COMMITTEES

## Audit Committee

In compliance with the Code of Corporate Governance, the Board has established an Audit Committee which comprises non-executive Chairman and four non-executive Directors. The Terms of Reference of the Committee include Safeguarding Assets, Review of Quarterly, Half Yearly and Annual Financial Statements as well as Statement on Internal Control prior to their approval by the Board of Directors. The Committee reviews Management Letter (ML) / Internal Control Memorandum (ICM) issued by the External Auditors and Management's responses thereto. It also reviews the scope and extent of Internal Audit, considers major findings of Internal Audit, and discusses major observations with External Auditors. The functions of Audit Committee also include the matters assigned by the Board from time to time.

## Human Resource and Corporate Governance Committee

Board has established an HR & CG Committee comprising non-executive Chairman and three non-executive Directors. The Terms of Reference of the Committee include recommendation to PIA Board on human resource management, organizational development, policies to attract and retain quality personnel, assessment of corporate culture and recommendation of change management. The Committee oversees implementation of policies related to the senior Management and also the compliance with best practices of Code of Corporate Governance set out in the Listing Regulations of the Stock Exchanges.



# DIRECTORS' REPORT TO THE SHAREHOLDERS

## Year End Review

Year 2007 turned out to be an exceptionally difficult year for the Corporation. During the period under review, your airline experienced a series of financial, operational and marketing problems.

In the early part of the year, imposition of operating restrictions by EU caused considerable disruption in the PIA schedule as well as significant curtailment in capacity. With the airline brand severely dented, PIA lost market share as well as growth in business which made the situation still more difficult.

The unprecedented hike in oil prices, which reached a peak of US\$ 95/barrel in 2007 adversely impacted PIA's bottom line and neutralized the efforts for recovery. Those carriers which had hedged fuel at the right time enjoyed protection from this impact while PIA being a late starter missed the opportunity and thus had to absorb the burden of expensive fuel.

PIA, however, made efforts for containing the fuel bill by reducing utilization of older fuel in-efficient fleet. Apart from the fuel cost, increases in pay to certain categories of personnel and depreciation of the Rupee vis-a-vis the US Dollar towards the end of the year also adversely affected the financial results.

The airline could not remain immune to ever-increasing competition due to an over supplied capacity environment including entry of new operators in certain key markets. PIA managed to increase the yields despite competition. However, this improvement was offset by reduced level of traffic. PIA's revenues, thus, remained static for the year.

On the other hand, the operating expenses showed an overall reduction by Rs. 2.6 billion, but this was insufficient to bring about improvement in the bottom line as the financial cost rose by almost 50%, owing to increased borrowing for the induction of the new fleet and to finance losses.

The cash position of the company remained under strain throughout the year and was managed by short/medium term borrowings from the market based on GoP guarantees.

However, a positive development during the last quarter of 2007 was the withdrawal of EU operating restrictions, as PIA was able to satisfactorily address the issues highlighted by the EU Air Safety Committee.

The continuation of high level of losses necessitated a re-look at the route structure and, therefore, a route rationalization plan was implemented in the second half, whereby services on some of the non-performing sectors were discontinued while capacity on other routes was realigned with available traffic.

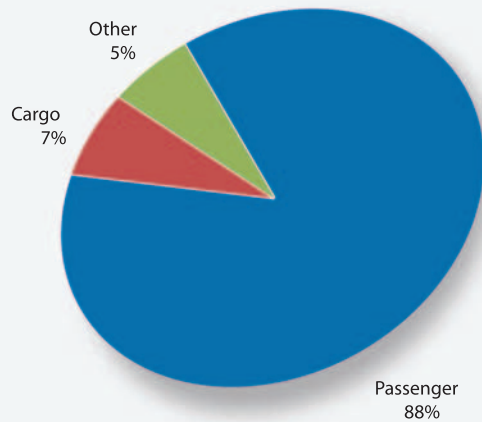
PIA management took several initiatives to drive down the cost and increase the revenue in the wake of a difficult business environment. However, the efforts made did not yield the desired results though it helped to reduce the quantum of operational losses.

Despite its financial difficulties, the airline remained on track on its fleet modernization plan and by December 2007, the average age of PIA's fleet was reduced to 13 years.

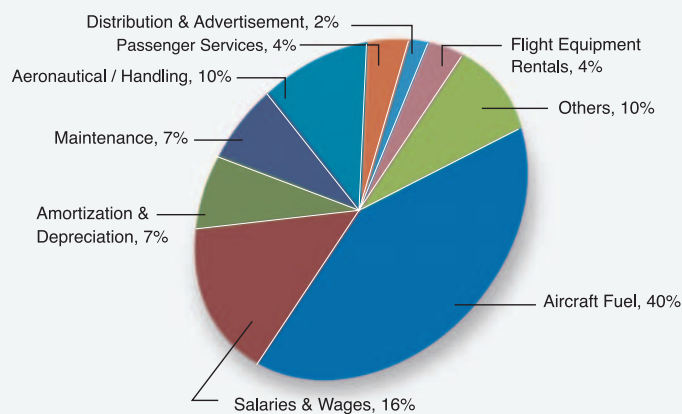
The **KEY FINANCIAL RESULTS** for the year ended December 31, 2007 are reflected below:

|                                | 2007     | 2006     |
|--------------------------------|----------|----------|
| (Rupees in million)            |          |          |
| Revenue                        | 70,481   | 70,587   |
| Cost of Services               | 66,222   | 69,882   |
| Gross Profit                   | 4,259    | 705      |
| Other Operating Expenses – net | 10,194   | 9,152    |
| Loss from Operations           | (5,935)  | (8,447)  |
| Financing Cost                 | 7,136    | 4,768    |
| (Loss) / Profit before Tax     | (13,071) | (13,215) |
| (Loss) / Profit after Tax      | (13,399) | (12,763) |

### Revenue Composition



### Operating Expenses Composition



## Successful Recovery from EU Restrictions

The imposition of operational restrictions on PIA's A310 and B747 aircraft in European airspace by the European Union's Air Safety Committee (ASC), in March 2007, posed a big challenge to the Airline.

Contingent measures were immediately taken whereby European operations were trimmed and sustained by B777 aircraft. Notwithstanding the ensuing media onslaught, the Airline's management steadfastly continued working on wide ranging corrective actions, giving air safety the highest priority.

Confident of the Airline's innate capabilities and safety soundness, the management team undertook focused steps to deal with EU's concerns. Technical teams from Boeing and Airbus were invited and their recommendations on maintenance management and other aspects were incorporated in a 'Recovery Action Plan' that was finalized with inputs from AVISA, a renowned British Aviation Consultancy.

This plan, with clear milestones was duly endorsed by Pakistan Civil Aviation Authority and submitted to ASC in May 2007 and implemented with vigour and in a record time.

PIA's holistic approach was vindicated by the EU decision of November 2007 withdrawing its restrictions on PIA fleet within 9 months of their imposition. All PIA aircraft can now fly to EU destinations subject to CAA Pakistan's clearance.

## Route Rationalization

A detailed review of the network was carried out to identify economically non-viable flights and as a result thereof a number of routes were dropped altogether or frequencies curtailed based on the contribution of the route over and above its variable operating cost (VOC) and direct operating cost (DOC).

As a corollary to route rationalization, decisions were taken to close down some stations and cut down expensive foreign/overseas staff. The routes/stations that were closed down included:

|           |           |
|-----------|-----------|
| Athens    | Amsterdam |
| Chicago   | Colombo   |
| Frankfurt | Glasgow   |
| Moscow    | Rome      |
| Singapore |           |

At the same time frequencies to New York were reduced.

Resultantly, the downsizing has enabled reduction of 98 foreign/overseas staff, leading to a saving of Rs. 163 million per annum. The exercise is still in the process of completion. Also, PIA is now able to withdraw two B747-200 and one B747-300 aircraft in 2008 which are surplus to PIA requirement. Cumulatively, all these measures are expected to improve the economics of the airline.

The dynamics of route economics are such that they require constant review of all variables impacting each route and not just the difference between costs and revenues in a static one-time analysis. The airline remained attuned to the market place with respect to market developments, pricing and competition, as it was important to capitalize on opportunities offered by the changed market conditions. Recently we revived Glasgow and Moscow routes based on such a review. At the same time we also decided to participate in the opportunity resulting from the opening of Sialkot airport.

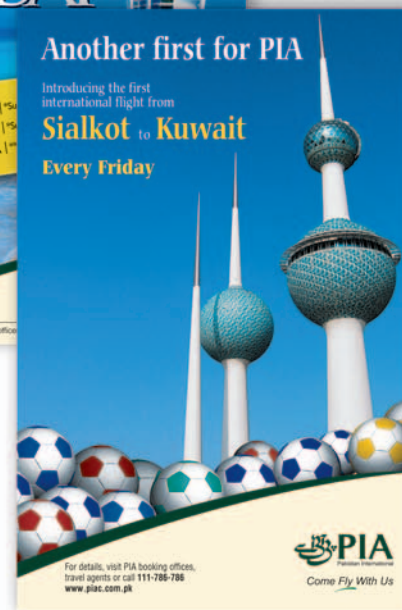
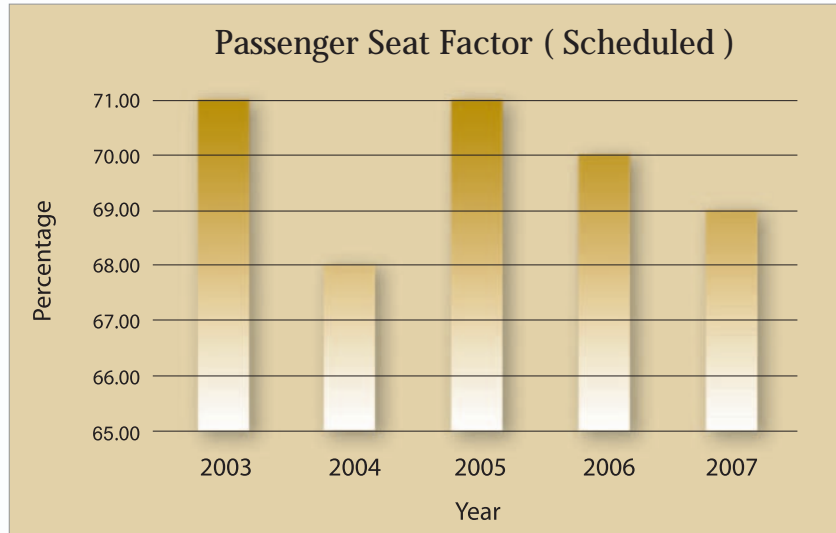
## Sales and Marketing

The worldwide trend in aviation deregulation continued in 2007. The foreign and domestic private airlines floated additional capacity and flights which led to pressures on market pricing.

PIA's sales were affected with the imposition of EU restrictions which resulted in suspension of operations to several stations in the UK and Europe along with an adverse impact on the airline's brand image.

The total international passenger traffic to and from Pakistan increased by 5.7% over the last year but due to EU restrictions on our flights and the damage to our brand image, PIA's international passengers declined by 4.2%. Thus against an international market share of 48% in 2006, PIA's market share dropped to 43.5%. In the Domestic market, despite an overall traffic decline of 6.4%, PIA was able to retain its market share at 69.4%. On a system-wide basis, PIA's market share was 51.2% against 54.9% last year. In terms of capacity utilization, the System Passenger Seat Factor (excluding Hajj) was 69.0% against 70.0% last year while with Hajj inclusion, the System Seat Factor was 67.4% against 68.5% last year. Though the Airline faced shortfall in ASKs by 8% in 2007 as against 2006, it registered an increase of Rs. 1.1 billion in passenger revenue as compared to 2006. PIA's cargo traffic in terms of RFTKs was significantly down by 17.9% over last year.

Our traditional Cargo markets in the UK and USA were hit hard due to withdrawal of B747 Combi operation as a result of EU restrictions. Freight Load Factor was 55.5% against 61.9% last year. After a fresh economic evaluation of Freighter Operations based on leased capacity, PIA decided to stop operating pure cargo flights so as to reduce losses on the aggregate. All these factors led to a drop of Rs. 0.9 billion in the cargo revenue.





## Revenue Management (RM)

Modern airlines today maximize their revenues from floated capacity with a robust Revenue Management (RM) system. PIA, in line with the best industry practice acquired SABRE RM system called AirMax.

Revenue Management system is primarily a computer based decision support system that stores the historical reservations data and based upon the historical trends and existing booking patterns forecasts demand and allocates the seats for each of the multiple fare level.

Accurate demand forecasting by RM system ensures the optimum utilization of capacity thereby ensuring that the seats are sold at relatively lower and attractive fares when the market demand is low and at higher fares when the market demand is high.

The system caters for different market segments by offering lower fares to price sensitive passengers who plan and buy tickets early i.e. "earlier you buy, cheaper you fly".

The time conscious passengers who desire to get seats closer to flight departure and are not very price sensitive are also ensured availability of seats at relatively higher fares.

In this way both the passengers and the airline benefit i.e. passengers getting fares of their choice and airline optimizing revenues through healthy seat factor.

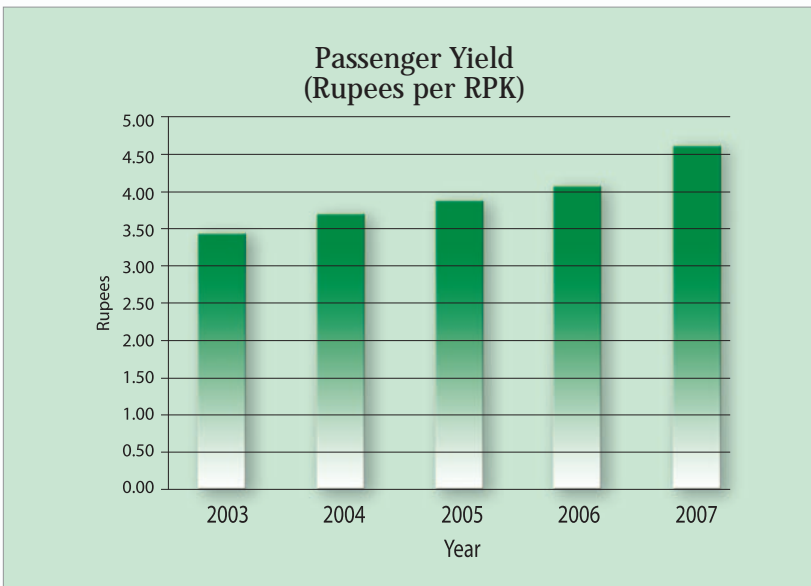
The RM multiple pricing structure also provides the flexibility to move the inventory freely among different fare classes to promptly combat the competition.

The AirMax suite of the RM system has been implemented on nearly 60% of the network and its extension to remaining network is underway. Once all features of RM are implemented in entirety, the RM is likely to result in incremental revenues without floating additional capacity.

Appropriate capacity deployment based upon market requirement and route profitability in the form of optimal flight schedule is an essential pre-requisite for effective Revenue Management system.



PIA has also acquired network planning suite called AirFlite from SABRE to effectively deploy the available aircraft on the network based upon the route profitability. The AirFlite suite covering route profitability, aircraft deployment and schedule planning has been planned for a full scale launch in 2008.



## Other Developments in Marketing

With the induction of ATRs, PIA continued with the mission of fulfilling its social responsibility of providing air link to the country's remote areas. Gwadar was initially linked to Karachi through fourteen weekly services. However, in order to provide services to other smaller cities, some adjustments have now been made in the ATR schedule. Presently eight weekly services are operated between Gwadar and Karachi. Gwadar and Turbat have been linked with Quetta as well. Daily service was provided to Rahim Yar Khan, while Dera Ghazi Khan, which was served with eight weekly services, is now being served with 10 weekly flights. Bahawalpur, which was initially linked with Karachi through five weekly flights, now has six weekly services. For convenience of passengers, Sukkur and Karachi are now linked by ten weekly flights with a combination of ATRs and B737.

Frequency between Lahore and Peshawar was increased from three per week to daily service. ATRs were inducted between Lahore and Islamabad to provide a service every three hours.

Immediately after the inauguration of Sialkot Airport in December 2007, PIA launched two weekly flights between Karachi and Sialkot.

## Code Sharing with Other Airlines

In order to increase its selling base and to provide flexibility of itinerary and increase in frequencies, PIA moved toward further enhancement of partnerships and alliances. During 2007, PIA's code share agreements increased from two to four and the number of code shared weekly frequencies from nine to twenty nine. Code share with Thai Airways is applicable on all flights between Pakistan and Bangkok, a total of 15 frequencies per week from Karachi, Lahore and Islamabad to Bangkok. Agreement with China Southern Airlines covers 2 flights to Beijing and three flights to Urumqi. Earlier, PIA had concluded Code share agreements with Turkish Airlines and AeroSvit of Ukraine.

## Hajj Operation

Hajj 2007/2008 operation was substantially conducted with PIA's own fleet, from Karachi, Islamabad, Lahore, Peshawar, Quetta directly and from Faisalabad, Multan and Sukkar through onward connections via Karachi. In all, PIA carried 121,447 Hajjis on 364 pre-Hajj flights with on time departure punctuality of 93%. On return, PIA operated 362 flights carrying 119,947 Hajjis with on time punctuality of 82.3%. The drop in punctuality on the return legs is attributed to public unrest caused by tragic assassination of Mohtarma Benazir Bhutto which impaired operational logistics.

By the grace of Allah, the whole operation was completed between 13 November 2007 and 24 January 2008 without any hiccups, and minimal customer complaints and is deemed to be one of the most successful Hajj operations in our history.

Hajj, however, is not a profitable business for PIA as the fares allowed to it are not commercially viable to ensure recovery of operational cost. In the 2007/2008 Hajj operation, PIA had to absorb a loss of Rs 1.1 billion because of uneconomic fare levels.



## E-Solutions

### Web Ticketing

Web Ticketing is fast becoming the preferred choice of customers world over for purchase of tickets. More customers today prefer to buy tickets online than ever before due to a convenient process and swift ticket reservation. Web ticketing has thus made the airline industry extremely competitive. PIA has risen to the challenge of the market demands and will commence Web Ticketing in the first quarter of 2008 for its domestic network and in the second quarter for international network. With this move, PIA hopes to provide its customers an efficient, fast and reliable ticketing facility.

### E-Ticketing

The world airlines are moving from paper tickets to e-tickets. IATA, the airlines' association, has set the deadline of May 31, 2008 for all airlines to move to 100% E-ticketing. PIA achieved 67% E-Ticketing on its network in 2007 and is on the course to meeting the IATA deadline.

### Global Distribution Reservation Systems

PIA has agreements with major Global Distribution Reservation Systems (GDRS). This ensures travel agents across the globe to access PIA's reservation inventory to facilitate passengers. This, not only makes the purchase of tickets more accessible for customers but also results in increased revenue through enhanced sales.



## Fleet Modernization

Following the acquisition of six new Boeing 777 family aircraft, PIA inducted two more Boeing 777s during the year 2007 – one acquired directly from Boeing and the other leased from International Lease Finance Corporation (ILFC).

Apart from Boeing aircraft, PIA also added four ATR 42 turboprops in the first half of 2007 thus increasing its ATR-42 fleet to a total of seven.

With these additions, the average age of the fleet has come down from 14 years in 2006 to 13 years in December 2007.

Fleet Position as on December 31, 2007 was:

| <u>Aircraft Type</u> | <u>Available (Nos)</u> | <u>Age (years)</u> |
|----------------------|------------------------|--------------------|
| 747-300              | 6                      | 21                 |
| 747-200              | 2                      | 28                 |
| 777-300 ER           | 2                      | 1                  |
| 777-200 ER           | 4                      | 3                  |
| 777-200 LR           | 2                      | 3                  |
| A310-300             | 12                     | 15                 |
| 737-300              | 7                      | 21                 |
| ATR 42-500           | 7                      | 1                  |
| <b>Total</b>         | <b><u>42</u></b>       | <b><u>13</u></b>   |

PIA remains on track to acquire one more Boeing 777-300ER from Boeing in March 2008.

During the course of the year, PIA concluded an agreement with Aviation Lease and Finance Company (ALAFCO), Kuwait, for the leasing of seven new A320-200 aircraft to replace Boeing 737-300 fleet concurrent with the new induction in 2009.

The younger fleet will bring efficiency in fuel consumption, reduction in aircraft maintenance cost and improved customer comfort.



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## Engineering and Maintenance

### Upgrading Quality Control (QC)

Following the "Safety Assessment of Foreign Aircraft" (SAFA) inspections of PIA aircraft operating in the European region by European regulatory authorities and the visit of European Union observers at PIA engineering facilities, EU showed concerns on processes and procedures in the Engineering Department.

Since then QC functions have been reviewed and structurally reorganized as Quality Assurance and Airworthiness Management. Engine Trend Monitoring Program was fully established, the Reliability Program was revived (now Aircraft and components' reliabilities are being monitored through reliability view boards and control boards) and extensive trainings, covering all aspects in relation to safety, human factors and desired standard practices of the aviation field were imparted to the engineering human resource.

### Capabilities Enhancement

For establishing new in-house capabilities, feasibility studies were conducted and capabilities enhancement plan was developed to reduce overseas repair cost, turn around time and to facilitate transfer of technology.

In 2007, Automatic Test Equipment, ATEC 6000 was installed, leading to in-house testing of state-of-the-art high cost airborne components of B777. Moreover, the management also approved the business plan of the Automatic Test Equipment (ATEC 5000).

This has also been adopted at the OEM "EADS" facility and is expected to be fully installed by mid 2008 and will help enhance our capability to test/repair A310 LRUs presently being sent abroad. The CF680C2 Engine test cell was also established and PIA is currently testing these engines in-house.

### Resource Management/Improvements

The Engineering Department thoroughly reviewed its available resources to determine how the goal of achieving quality and airworthy maintenance of aircraft and its associated Engines/Components would be accomplished by the workforce.

Keeping in view the dearth of skilled human resource, six monthly induction plans for Trainee Engineers and Technicians were developed and achieved. In addition, 94 Aircraft Engineers were promoted, while 244 Technicians and 23 Trainee Engineers were recruited.

Airworthiness Management Division was established for ensuring airworthiness of PIA aircraft. Material Management Division "Organization" got Senior Management approval for ensuring just-in-time inventory and reducing turnaround time of aircraft parts.

In order to meet the desired levels of quality standard as per EASA regulation requirements, a plan was chalked out for the up-gradation of Engineering hangars and shop facilities. A sum of Rs. 70 million was thus earmarked and approved by the Management for renovating the existing hangars and shop facilities.

### Performance

Since dispatch reliability and fleet availability are regarded as major key performance indicators of the Engineering Department, with proactive approach and extensive planning of parts, manpower and schedule maintenance etc, dispatch reliability and fleet availability increased by 5% and 16% respectively. The Engineering Department utilized its available resources for generating revenue from third party business. However, the level in 2007 stood significantly reduced over 2006 as it remained focused on enhancing maintenance standard of PIA's own fleet in the wake of EU restrictions.

### PIA and EU-SAARC

PIA is endeavoring to establish a long-term strategic relationship with EU through the EU-SAARC program. PIA intends to co-finance training in safety and other operational areas with EU that will not only benefit the company, but also the local industry and regional operators -- by sharing PIA's knowledge base and training infrastructure -- for which, funding will be provided by the EU-SAARC.

### Recertification of IOSA (IATA Operational Safety Audit)

PIA is proud to have achieved recertification of IOSA as a result of strict adherence to the required standards. A detailed and comprehensive audit was carried out by an IATA approved Australian audit organization in Feb 2007, which validated PIA's IOSA certification up to June 2009. However, IATA had recently enhanced the scope of IOSA audit by making some optional recommended practices into compulsory standards. A robust framework has thus been formulated to first create awareness of IOSA ISM 2nd Edition and then to implement new requirements, followed by a series of internal audits to evaluate the level of compliance.

### ISO 9001:2000 QMS Certification

In 2007, the scope of ISO 9001:2000 Certification, which previously covered only the Flight Services Department, was increased; thereby including the sales department under the certification domain.

In the year 2008, certification of flight services and surveillance of Sales Departments are planned for which systems evaluation and development exercise is in progress.

**European Aviation Safety Agency**

**APPROVAL CERTIFICATE**

REFERENCE: EASA.145.0004

Pursuant to Commission Regulation (EC) N°2042/2003 for the time being in force and subject to the conditions specified below, the Agency hereby certifies:

**PAKISTAN INTERNATIONAL AIRLINES ENGINEERING AND MAINTENANCE**  
**JINNAH INTERNATIONAL AIRPORT**  
**KARACHI**  
**75200**  
**PAKISTAN**

As a Part-145 maintenance organisation approved to maintain the products listed in the attached approval schedule and issue related certificates of release to service using the above reference:

1. This approval is limited to that specified in the scope of approval section of the Part-145 approved maintenance organisation exposition, and
2. This approval requires compliance with the procedures specified in the Part-145 approved maintenance organisation exposition, and
3. This approval is valid whilst the approval maintenance organisation remains in compliance with Part-145
4. Subject to compliance with the foregoing conditions, this approval shall remain valid for an unlimited duration until the approval is surrendered, superseded, suspended or revoked.

Date of issue: 27th March 2003

Signed: 

For the Agency

Date of attached schedule of Approval: \_\_\_\_\_ (optional) \_\_\_\_\_ for the Agency

EASA Form 3 page 1 / 3

**BUREAU VERITAS**  
Certification

**Certification**  
Awarded to  
**PIA Karachi Flight Kitchen**  
Karachi Airport, Pakistan

The HACCP-system has been assessed by Bureau Veritas Certification and found to be in accordance with the standard defined by the "Dutch National Board of Experts HACCP"

STANDARD

**Requirements for a HACCP based Food Safety System, September 2002**

SCOPE OF SUPPLY


Safe processing, packing, storage, delivery and transportation of meals from flight kitchen to Aircraft.

Original Approval Date: **19 December 2007**  
 Subject to the continued satisfactory operation of the organisation's HACCP System.  
 This certificate is valid until: **19 December 2010**  
 To check the validity of this certificate please call +31 (0)11 4391 000.  
 Further clarification regarding the scope of this certificate and the applicability of the HACCP system requirements may be obtained by consulting the regulations.  
 Certificate Number: **NL8000024** Date: **9 January 2008**

  
 Managing Office: Bureau Veritas Certification (Netherlands) B.V.,  
 Tolweg 15, 3821 AG Amersfoort,  
 Trading Office: Bureau Veritas Certification (Netherlands) B.V.,  
 Tolweg 15, 3821 AG Amersfoort



**PAKISTAN** CAA-463

  
 سول اېروا اېن انجنيئرنگ  
**CIVIL AVIATION AUTHORITY**

**CERTIFICATE OF APPROVAL** DUPLICATE

APPROVAL No. CAA/AW/01

*This is to certify that*

**M/S. PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
*of*  
**JINNAH INTERNATIONAL AIRPORT, KARACHI - 75200**  
*is approved for the purpose of*

- Engineering, maintenance, repair, overhaul modification, Test House, Processes and supply of Aircraft parts owned by PIAC as per company's Engineering and Procedures Manuals
- Repair, Overhaul and modification of equipment / components and accessories, installed on PIAC Aircraft as per company's Engineering and Procedure Manual.

The above approval is subject to following conditions and limitations:-


1. This approval is subject to compliance with Civil Aviation Rules 1994, applicable Air Navigation Orders and Directives / Instructions issued by the Civil Aviation Authority from time to time.
2. This Certificate shall be displayed in a prominent position in the approved premises.
3. All work for Pakistan Registered Aircraft is performed to the satisfaction of CAA (Pakistan).

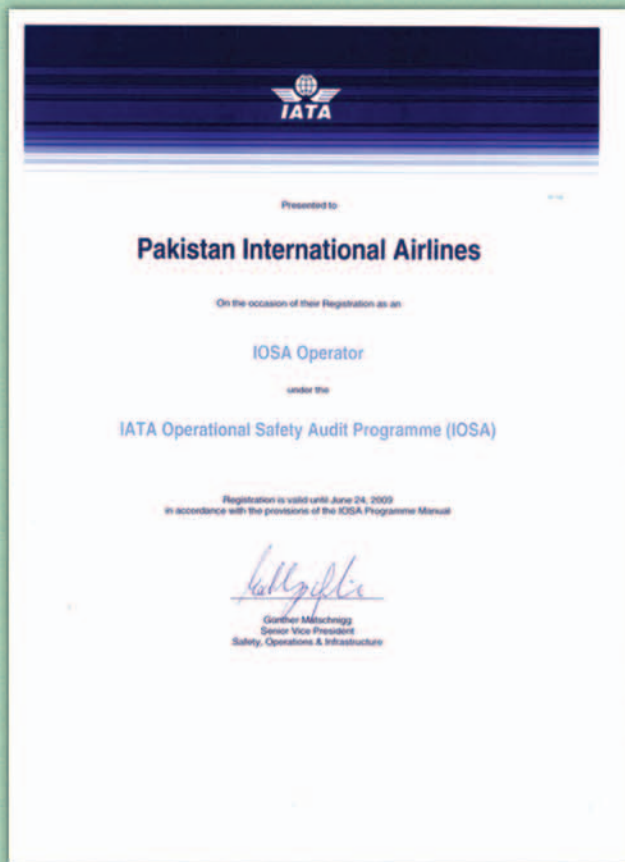
**NOTES:-**

1. Any proposed change(s) in the organisational set up or personnel in executive positions shall be notified to the Airworthiness Directorate in writing. The Airworthiness Directorate may require the organisation to supply further information in order that it may satisfy itself as to the suitability of the proposed change(s) in so far as it may effect this approval.
2. The approval is valid for organisation(s) engaged on work related to Pakistan Registered Aircraft.
3. CAA may revoke, suspend or vary the terms of Approval if the conditions prescribed for the Approval are not maintained.
4. Validity of the approval is given on back side of the certificate.

Issued this 27th day of February, 2003.

This Certificate is issued pursuant to Civil Aviation Rules, 1994.

  
**(Engr. ZAFARULLAH KHAN)**  
**DIRECTOR AIRWORTHINESS**  
 for DIRECTOR GENERAL CIVIL AVIATION AUTHORITY





## Customer Service and Care

During the year 2007, the customer comfort, care and convenience remained the focal-point of airlines activities on ground and on-board. Some of the major initiatives taken in this regard are as follows:

To improve and enhance Passenger check-in facilities at Foreign Airports and ensure proper implementation of advance choices accepted from passengers in respect of specific seats and special meals, ten stations across the network were linked to PIA's own Airport check-in system (ACSI) during the year 2007. These included Abu Dhabi, Al-Ain, Bangkok, Copenhagen, Dhaka, Hong Kong, Kuwait, Oslo, Beijing and Kuala Lumpur during the year 2007. Six more stations are planned to be integrated to ACSI during 2008.

Another area in which transit passengers faced problems was waiting in long queues for re-check-in at transfer points viz Karachi, Lahore & Islamabad. In order to facilitate them through check-in facility was introduced across the network and such passengers are now issued boarding passes for the whole itinerary at the station of origin. Due to this initiative, they do not have to face inconvenience while in transit.

In view of the increasing passenger traffic and to bring convenience to its Business travellers who depart in the morning and return to originating station within 12 hours, same day return check-in facility was introduced on domestic routes. This facility enables them to acquire boarding passes for their return flight (s) when they get checked-in at the point of origin.

During the year 2008, more visible improvements in the area of airport check-in are planned.

## Cabin Service

The tangible improvements in our In-flight cabin service have been well taken by our customers. This has been reflected in the customer feedback which indicates that during the year 2007, 97% passengers appreciated the cabin service while only 3% complained.

## In-flight Entertainment System

In the area of on-board in-flight service, PIA has introduced a number of audio and video programs on its interactive In-flight Entertainment Program and has increased media contents by enhancing its media library. This activity will continue during the year 2008 and our media library will be further expanded.

## Customer Complaint System

The airline being in the service industry takes customer feedback very seriously to make improvements in its performance. Despite adverse factors like EU operating restrictions on PIA and the ground engineers strike during the year 2007, which caused denied boarding and operational disruptions, the over-all complaints trend vis-à-vis number of passengers flown remained within industry standards.

## HACCP (Hazard Analysis and Critical Control Point) Certification

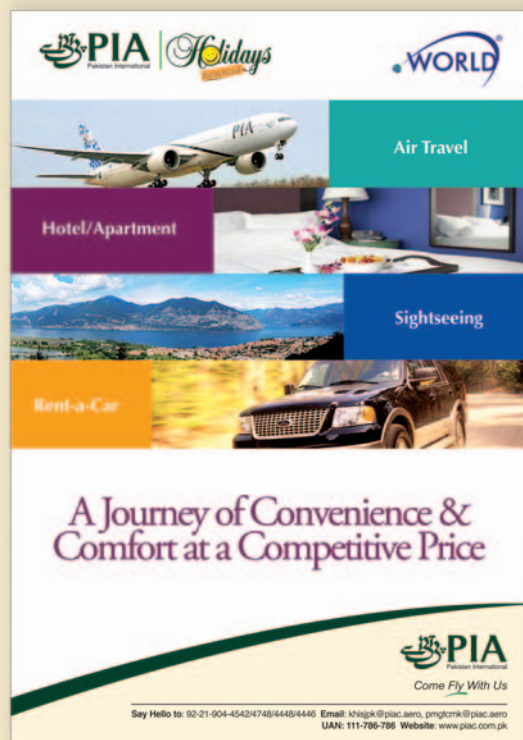
In December 2007 PIA earned the distinction of achieving HACCP Certification for its Flight Kitchen at Karachi. HACCP is

an international food safety standard which is recognized all over the world including agencies like IATA, WHO and EU. This certification is expected to open new avenues for acquiring foreign airline business. As a first major initiative we have commenced catering facilities to Etihad Airways and are in sight of obtaining more airline business.

## Information Technology

In order to achieve modernization through Information Technology, innovation at all core system development activities is aimed for at the in-house IT facility. Following are some of the key projects carried out by IT during the year 2007:

- Automation of remote locations on PIA's domestic network.



- Implementation of Enterprise Resource Planning (ERP) in Finance, HR and Procurement functions. The first phase of this programme comprising Business Process Study and Business Process Re engineering has been completed.
- Progress was made on E-filing (Paperless environment). This will allow electronic movement of files and gradually the paper files will be eliminated and all office correspondence will be handled electronically.
- Initiation of implementation of Maintenance, Repair and Overhaul (MRO) module of ERP in PIA Engineering and Maintenance with the consultation services provided by Lufthansa Systems.
- Use of Controller-Pilot Data Link Control (CPDLC) on Boeing 777 Fleet, making PIA one of the 30 airlines of the world to incorporate this technology over European Air

Space. CPDLC is also viewed as a technology that will become mandatory on all Over Oceanic Flights in the future.



## Flight Operations

- Direct routes (Flight Plan) were planned on Domestic and International flights to achieve efficient fuel utilization.
- Extensive training of crew on the state-of-the-art / high-tech newly inducted fleet was carried out in record time.
- Technical expertise from Boeing/ other foreign companies provided the necessary support towards optimum utilization of new aircraft.
- SATCOM and CPDLC communication system made operational on B777 aircraft for efficient / safe flight operation and to cater to the Future Air Navigation System (FANS) requirements.
- The flight punctuality during 2007 was maintained at 88 percent against a target of 90 percent. The aviation industry average is 85.6 percent.
- Birmingham and Manchester International Airport Authority has declared and awarded PIA with the Best Track Keeping Performance Record for the year 2007.

PIA is also in the process of evaluating Flight Simulators for its Boeing 777 and ATR aircraft so as to improve standards of cockpit crew training by providing an in-house simulator facility. This will also result in savings in costs, higher crew availability and prospective revenues through third party training contracts.

## GoP Support and Financial Restructuring

Government of Pakistan, the owner of 89.93% of shares in the airline, continued to support PIA in its financial restructuring according to the plan approved in 2007. The Government support to PIA is not by way of cash subsidy but by way of guaranteeing PIA's borrowings.

In pursuance of the plan, the Government of Pakistan shall be guaranteeing the re-profiling of PIA's non-fleet debt of up to Rs. 26.5 billion into long-term debt with tenors up to eight years. Within this context, GoP has since approved PIA's mandating of a consortium of MCB/Meezan Bank /Bank Islami /Emirates Global Islamic Bank for an eight year financing of Rs. 13.8 billion with an underwritten amount of Rs. 6.8 billion and inclusive of a green shoe option of Rs. 6.9 billion. This financing will be through a Shariah compliant Sukuk.

As part of the financial restructuring, PIA has also initiated disinvestment in non-core assets. Shares of France Telecom were disposed off fetching US \$ 7.07 million. Similarly unutilized property in Pakistan is being evaluated for disposal.

GoP is also assisting PIA in the sale of its prime properties overseas. This process entails complex, legal, tax and financial issues and has therefore been entrusted to professional firms under the supervision of the Privatization Commission of Pakistan.

## US Dollar Financing

PIA availed financing of US \$150 million for the purchase of the second Boeing 777-300ER delivered in February 2007. This financing was arranged through ABN AMRO with US EXIM cover and was contracted at historically lowest pricing levels of up to fourteen basis points below floating LIBOR. Additionally, in 2007 the

acquisition of four ATRs with spares was financed by Citibank with ECA cover in the amount of US\$ 43 million.

During the year, PIA also tested its ability to tap the international market to diversify its funding sources. In February 2007, PIA successfully closed a 3-year off shore syndicated loan facility of US\$ 50 million from international lenders. The deal was arranged by the Standard Chartered Bank and was heavily over subscribed. Participation by international financial institutions such as Standard Chartered Bank plc (South Africa), DC Bank AG, Arab Bank PLC, The Arab Investment Company S.A.A and others reflected the confidence shown by international lenders in PIA.

## Risk Management

PIA continued its risk management strategy with a portfolio approach in managing exposure to interest rate risks. Of the US Dollar one billion long-term fleet debts contracted at various times, just over half of it is on floating LIBOR while the remainder on varying fixed levels.

PIA was able to secure reduction in premium rates on its fleet insurance for the third successive year. Considering the restriction slapped by the European Union on PIA operations into European airspace, it was apprehended that the underwriters in London would take an unfavorable stance. However, PIA presented its

case competently to the underwriters who felt persuaded to renew the coverage with a reduction of 10% in the rates of premium.

In an environment where trends in the Aviation Insurance market were not favoring the airlines, the reduction in premium rates was reflective of the underwriters' positive perception of the state of PIA's Safety standards.

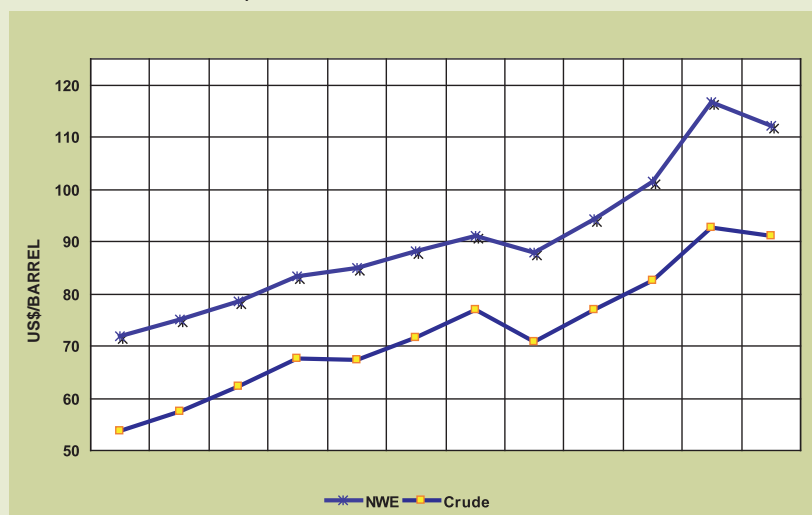
## Fuel Prices

Volatility in oil prices remained a source of concern during the year. Below is the graphical trend for the year 2007, which shows the movement of UK Brent and Jet fuel prices in the Northwest Europe (NWE) Market.

While PIA's average into plane price rose by 8%, the quantity decreased by 15%. The reduction in fuel consumption emanated from management's route rationalization strategy and substitution of older aircraft with newer and fuel efficient fleet. PIA's fuel bill for 2007 was thus lower than 2006 by Rs 3.1 billion or 9.2%.

## Fuel Hedging

Fuel Hedging is adopted by airlines to manage the risk associated with



price volatility of what is now the single largest cost component of the airline's expense. Pursuant to the approval by the Board in 2006 to hedge up to 20% of our annual fuel purchases, PIA's management had set up an organizational structure for decision-making and executing hedging transactions. An overseas consultant was also engaged to provide specialist advice on regular basis. However, the tax regime in the country did not provide comfort to the parties to enter into hedging transactions until the Finance Bill was passed in 2007. Because of the volatility of the market, PIA waited for an opportune time and the first hedging transaction, albeit of a small quantity was executed in February 2008.

## PIA Subsidiaries

For the year 2007 PIA is required to present consolidated financial statements, the statements comprise PIA, Skyrooms (Private) Limited (100% owned subsidiary) and PIA Investments Limited (99% owned subsidiary).

PIAIL owns Roosevelt Hotel in New York and Scribe Hotel in Paris. Both of the hotels are situated at prime



locations. During the year 2007 PIAIL earned revenues of US \$ 129.608 million and a profit of US \$ 11.803 million. Both hotels are in reasonably good renovated condition and are professionally managed by leading hotel operators. The hotels enjoy a good reputation with high occupancy rate and a competitive room tariff.

PIA received its first dividend payment from PIA-IL since its inception amounting to US\$ 9.1 million for 2007. The future prospects of earnings and dividend payout are promising.



## Human Resources

The total human resource strength of PIA was 18,231 at year end which was marginally below the last year's figure. Based on the current fleet size of 42 aircraft, this translates into 434 employees per aircraft. When compared with other major airlines, the comparison should recognize the differences in activities that the airlines undertake. PIA is a fully integrated airline which aside from its core activity of flying also performs all major associated functions such as Engineering, Ramp Services, and Flight Kitchen, etc. Nevertheless, PIA's employees to aircraft ratio is considered to be quite high compared to other major airlines.

Over the past few years, PIA has been working to bring about greater efficiency in the organization and to improve the corporate culture based on principles of merit and fair play. Some progress has been made but a lot more needs to be done. Recruitment and training to enrich the skill base of the organization was an important area of focus during 2007. In addition, initiatives were taken to review the performance appraisal and compensation structure of employees. This will be a sustained activity in 2008 to rationalize and improve the existing systems.

A major employee engagement workshop was undertaken with a cross-section of management employees including the top management. The theme of the workshop was "The Kind of Airline We Wish To Be". It was an interactive program in which 250 people participated and offered constructive criticism and suggestions for the future. During 2007, the aircraft engineers went on a one day country wide strike which severely disrupted PIA's flight schedule. Other than this unfortunate event, there was industrial peace throughout the year.

## International Best Practices for Financial Reporting

During the year, the management of your Corporation has further considered international best practices while preparing financial statements for the year, which resulted in changes in accounting estimates and a change in accounting policy in accordance with the International Accounting Standards (IASs).

Changes in accounting estimates relate to depreciation charge based on separate components of aircraft i.e. air frame and engine and depreciation charge for the year, other than aircraft, which is now calculated according to the proportionate period of usage. The change in accounting policy relates to capitalization of refurbishment cost of engines, which was previously charged to profits of the Corporation in the year in which incurred. Now, the benefit of this spending, which results in increased economic benefits associated with the aircraft, is amortized till the period of next refurbishment.

The changes discussed above would better reflect the pattern of utilization of economic benefits and the performance of the Corporation in accordance with the international best practices and IASs.

## Changes in Board of Directors

Since the publication of Annual Report 2006, Mr Kamran Rasool joined and Mr Tariq Kirmani relinquished as Chairman. Mr. Zaffar A. Khan joined and subsequently relinquished as Chairman. Dr Waqar Masood Khan, Secretary Finance joined and Mr Nawid Ahsan Secretary General Finance relinquished as Director. Mr. Ahmad Waqar joined and subsequently relinquished as Director during the period. The Board wishes to record its appreciation for the valuable services rendered by the outgoing Chairmen and Directors.

## Corporate and Financial Reporting Framework

To comply with the Code of Corporate Governance, the Directors, to the best of their knowledge and belief, state that:

- a. The Financial Statements prepared by the Management of Pakistan International Airlines Corporation fairly present its state of affairs, the result of its operations, cash flows and changes in equity.
- b. Proper books of account of the Corporation have been maintained.



- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Corporation's ability to continue as a going concern.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the Listing Regulations.
- h. Key operating and financial data of last six years in summarized form is annexed to this Report.
- i. The reason for non-declaration of dividend / non-issuance of bonus shares is operating loss during the year.
- j. During the year, the Board of Directors held nine Meetings. The attendance record of Directors is annexed to this Report.
- k. The pattern of shareholding as required under Section 236 of Companies Ordinance 1984 and Article XIX of the Code of Corporate Governance is annexed to the Report.
- l. The Directors, CEO, CFO, Corporate Secretary and their spouses and minor children have not traded in PIA shares during the year.

## Compliance with Best Practices of Corporate Governance

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

## Statement of Internal Control

The Corporation has a system of internal control that is sound in design and has been effectively implemented and monitored. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives, and by its nature can provide only reasonable and not absolute assurance against material mis-statement or loss. The principal features of the system include:

- i. An Audit Committee, comprising non-executive Directors and operating under terms of reference set out in the code of corporate governance. It reviews the approach adopted by the internal audit division and the scope of and relationship with the external auditors. It receives the reports from the internal audit division and the external auditors on the system of internal control and any identified material weaknesses. The Committee also discusses the actions to be taken in areas of concern with relevant executives.
- ii. An internal audit function, which carries out on a continuing basis, reviews of internal control and reports to the Audit Committee.
- iii. Business Plan and Strategic Plan
- iv. An organization structure, which supports clear lines of communication and tiered level of authority with delegation of responsibility and accountability.

## Future Outlook

The corner stone of PIA's strategy would be vigorous pursuit of higher revenue generation and continued focus on cost rationalization. On the revenue side, a series of actionable programs to strengthen PIA's marketing position would be implemented. This includes, inter-alia, much stronger interaction with travel agents, sharper checks on reservation system, development of new routes and fare packages, web ticketing, brand promotion activities etc. In addition, new initiatives would be launched to increase revenue through third party Engineering Sales, revamping of Cargo business by improving physical and technological infrastructure, development and launch of innovative products to maximize revenue generation and increase in market share. The airline will also continue its focus on containing operating costs with renewed vigor and zeal.

The Board and the Management are deeply concerned about the current position of PIA. However, as overall situation in regional aviation industry is buoyant, management is confident that with the implementation of planned measures, the overall performance of the airline will gradually improve.

**Kamran Rasool**  
Chairman  
March 01, 2008.

## Attendance of Directors at Board Meetings

During the Financial Year 2007, nine Meetings of the Board of Directors were held and the number of Meetings attended by each Director is given hereunder:

| S. No. | Name                                  | Meetings Held | Meetings Attended |
|--------|---------------------------------------|---------------|-------------------|
| 1.     | Mr Zafar A. Khan*<br>Chairman & CEO   | 07            | 07                |
| 2.     | Mr Tariq Kirmani **<br>Chairman & CEO | 02            | 02                |
| 3.     | Mr Kamal Afsar                        | 09            | 08                |
| 4.     | Mr Mueen Afzal                        | 09            | 06                |
| 5.     | Syed Mohammad Fazal Agha              | 09            | 05                |
| 6.     | Mr Nawid Ahsan ***                    | 04            | 02                |
| 7.     | Mr Shahzad M. Husain                  | 09            | 09                |
| 8.     | Maj Gen Mir Haider Ali Khan           | 09            | 05                |
| 9.     | Mr M. Hidayatulla Khan Khaishgi       | 09            | 05                |
| 10.    | Mr Javed Saifullah Khan               | 09            | 05                |
| 11.    | Mr Farooq Rahmatullah                 | 09            | 06                |
| 12.    | Mr S. Ali Raza                        | 09            | 07                |
| 13.    | Mr Ahmad Waqar ****                   | 03            | 02                |

\* Took over as Chairman & CEO on April 9, 2007.

\*\* Relinquished as Chairman & CEO on April 9, 2007.

\*\*\* Relinquished on July 5, 2007.

\*\*\*\* Nominated on September 26, 2007.

Leave of absence was granted to Directors who could not attend some of the Board Meetings.

## Attendance of Directors at Audit Committee Meetings

During the Financial Year 2007, six Meetings of the Audit Committee were held and the number of Meetings attended by each Director is given hereunder:

| S. No. | Name                        | Meetings Held | Meetings Attended |
|--------|-----------------------------|---------------|-------------------|
| 1.     | Mr Kamal Afsar, Chairman    | 06            | 06                |
| 2.     | Mr Mueen Afzal              | 06            | 05                |
| 3.     | Mr Shahzad M. Husain        | 06            | 06                |
| 4.     | Maj Gen Mir Haider Ali Khan | 06            | 05                |
| 5.     | Mr S. Ali Raza              | 06            | 04                |

Leave of absence was granted to Directors who could not attend some of the Audit Committee Meetings.

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Ford Rhodes Sidat Hyder & Co,  
Chartered Accountants  
6th Floor, Progressive Plaza  
Beaumont Road  
Karachi

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

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## Review Report To The Members On Statement Of Compliance With Best Practices Of Code Of Corporate Governance

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We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of **Pakistan International Airlines Corporation (the Corporation)** to comply with the Listing Regulation No. 37 (Chapter XI), No. 43 (Chapter XIII) and No. 36 (Chapter XI) of the Karachi, Lahore and Islamabad Stock Exchanges respectively where the Corporation is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Corporation. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Corporation's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Corporation personnel and review of various documents prepared by the Corporation to comply with the code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's Statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement does not appropriately reflect the Corporation's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Corporation for the year ended **December 31, 2007**.

**Ford Rhodes Sidat Hyder & Co.**  
Chartered Accountants

**Anjum Asim Shahid Rahman**  
Chartered Accountants

Karachi: March 01, 2008



## Statement of Compliance

This Statement is being presented to comply with the Code of Corporate Governance (Code) contained in Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed Corporation is managed in compliance with the best practices of corporate governance.

PIA has applied the principles contained in the Code in the following manner:

1. According to Pakistan International Airlines Corporation Act, 1956. Chairman and eight Directors are nominated by the Federal Government whereas two Directors are elected by the Shareholders other than the Federal Government. Presently all the Directors are non-executive except the Chairman who is the Chief Executive of the Corporation and whose terms and conditions are determined by the Federal Government.
2. None of the Directors is serving on the Boards of more than ten listed companies inclusive of the Corporation.
3. All the Directors are registered tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or being a member of a Stock Exchange, has been declared as defaulter by that Stock Exchange.
4. Casual vacancies occurred in the Board during the year were filled in by appointments by the Federal Government.
5. The Corporation has developed a 'Statement of Ethics and Business Practices'. The Statement has been signed by Directors whereas signatures of employees are being obtained.
6. The Board has developed Vision, Mission, and Values Statements, overall corporate strategy and significant policies of the Corporation. A complete record of particulars of significant policies along with the dates on which these were approved or amended is available with relevant departments.
7. The Board exercised powers and took decisions in the general direction and the administration of the Corporation and its affairs inclusive of material transactions in accordance with PIAC Act 1956, PIAC Rules & Regulations 1958, and the Code.
8. The Meetings of the Board held during the Financial Year ended December 31, 2007 were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board Meetings, along with the agenda and working papers were circulated, Minutes of the Meetings were appropriately recorded and signed by the Chairman.
9. The Directors are aware of their duties and responsibilities. An orientation course was arranged in the past and will be arranged in future if so required.
10. The Board has approved the appointment of Head of Internal Audit including his remuneration and terms and conditions of employment, as determined by the CEO. Board has endorsed the appointment of Acting Corporate Secretary whereas the appointment against the vacancy recently caused in the office of CFO is under process.
11. The Directors' Report for financial year 2007 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Corporation were presented to the Board by the CEO and the CFO / SVP Finance duly endorsed under their respective signatures.

## Statement of Compliance

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13. The Directors, CEO and executives do not hold any interest in the Shares of the Corporation other than that disclosed in the pattern of shareholding.
14. The Corporation has complied with all corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee comprising five non-executive Directors including the Chairman of the Committee.
16. The Meetings of the Audit Committee were held to review quarterly, half-yearly, and annual financial statements of the Corporation prior to their approval by the Board, as per requirement of the Code. The Audit Committee operates under terms of reference setout in the Code.
17. The Corporation has an Internal Audit Division which carries out, on a continuing basis, the audit of various Head Office / station functions.
18. The statutory Auditors of the Corporation have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), and that they or any of the partners of the firms, their spouses and minor children do not hold Shares of the Corporation and that the firms and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
19. The statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the Auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

**Kamran Rasool**

Chairman

Karachi: March 1, 2008

## Pattern of Shareholding as at December 31, 2007

| NO. OF SHAREHOLDERS | SHAREHOLDING |        | TOTAL SHARES ORDINARY 'A' CLASS SHARES OF RS. 10/- EACH | TOTAL SHARES ORDINARY 'B' CLASS SHARES OF RS. 5/- EACH |
|---------------------|--------------|--------|---|--|
|                     | FROM         | TO     |   |  |
| 12332               | 1            | 100    | 269,572   | 13,100   |
| 31887               | 101          | 500    | 9,141,114   | 9,635  |
| 5150                | 501          | 1000   | 4,440,505   | 2,242  |
| 5318                | 1001         | 5000   | 12,906,953  | 12,507   |
| 870                 | 5001         | 10000  | 6,626,479   | 0  |
| 216                 | 10001        | 15000  | 2,744,813   | 0  |
| 175                 | 15001        | 20000  | 3,201,248   | 0  |
| 99                  | 20001        | 25000  | 2,371,237   | 0  |
| 55                  | 25001        | 30000  | 1,544,639   | 0  |
| 33                  | 30001        | 35000  | 1,088,338   | 0  |
| 37                  | 35001        | 40000  | 1,446,648   | 0  |
| 24                  | 40001        | 45000  | 1,038,376   | 0  |
| 49                  | 45001        | 50000  | 2,435,327   | 0  |
| 18                  | 50001        | 55000  | 952,920   | 0  |
| 13                  | 55001        | 60000  | 754,490   | 0  |
| 11                  | 60001        | 65000  | 694,013   | 0  |
| 12                  | 65001        | 70000  | 824,391   | 0  |
| 7                   | 70001        | 75000  | 514,439   | 0  |
| 8                   | 75001        | 80000  | 628,500   | 0  |
| 3                   | 80001        | 85000  | 253,500   | 0  |
| 5                   | 85001        | 90000  | 441,361   | 0  |
| 5                   | 90001        | 95000  | 468,500   | 0  |
| 22                  | 95001        | 100000 | 2,192,543   | 0  |
| 6                   | 100001       | 105000 | 615,924   | 0  |
| 2                   | 105001       | 110000 | 215,419   | 0  |
| 2                   | 110001       | 115000 | 223,235   | 0  |
| 2                   | 115001       | 120000 | 240,000   | 0  |
| 1                   | 125001       | 130000 | 130,000   | 0  |
| 4                   | 130001       | 135000 | 529,635   | 0  |
| 4                   | 135001       | 140000 | 557,000   | 0  |
| 1                   | 140001       | 145000 | 141,500   | 0  |
| 6                   | 145001       | 150000 | 900,000   | 0  |
| 3                   | 150001       | 155000 | 456,210   | 0  |
| 1                   | 160001       | 165000 | 165,000   | 0  |
| 2                   | 165001       | 170000 | 337,500   | 0  |
| 1                   | 170001       | 175000 | 172,006   | 0  |
| 1                   | 175001       | 180000 | 180,000   | 0  |
| 2                   | 180001       | 185000 | 362,900   | 0  |
| 1                   | 185001       | 190000 | 189,308   | 0  |
| 3                   | 195001       | 200000 | 592,050   | 0  |
| 1                   | 200001       | 205000 | 205,000   | 0  |
| 2                   | 205001       | 210000 | 416,000   | 0  |
| 2                   | 210001       | 215000 | 426,826   | 0  |
| 1                   | 225001       | 230000 | 229,000   | 0  |
| 1                   | 230001       | 235000 | 234,000   | 0  |
| 3                   | 245001       | 250000 | 750,000   | 0  |
| 1                   | 265001       | 270000 | 268,767   | 0  |
| 3                   | 295001       | 300000 | 899,030   | 0  |
| 1                   | 310001       | 315000 | 311,500   | 0  |
| 1                   | 325001       | 330000 | 329,500   | 0  |
| 1                   | 330001       | 335000 | 332,500   | 0  |
| 1                   | 370001       | 375000 | 372,500   | 0  |
| 1                   | 395001       | 400000 | 400,000   | 0  |
| 1                   | 400001       | 405000 | 401,000   | 0  |
| 1                   | 405001       | 410000 | 407,758   | 0  |
| 2                   | 420001       | 425000 | 848,500   | 0  |
| 1                   | 445001       | 450000 | 450,000   | 0  |
| 1                   | 465001       | 470000 | 466,500   | 0  |
| 1                   | 490001       | 495000 | 490,500   | 0  |
| 5                   | 495001       | 500000 | 2,499,500   | 0  |
| 1                   | 560001       | 565000 | 563,500   | 0  |
| 2                   | 565001       | 570000 | 1,133,504   | 0  |
| 1                   | 580001       | 585000 | 585,000   | 0  |
| 1                   | 605001       | 610000 | 608,000   | 0  |
| 1                   | 630001       | 635000 | 630,067   | 0  |
| 1                   | 645001       | 650000 | 648,000   | 0  |
| 1                   | 750001       | 755000 | 750,500   | 0  |
| 1                   | 760001       | 765000 | 765,000   | 0  |
| 2                   | 895001       | 900000 | 1,798,500   | 0  |

## Pattern of Shareholding as at December 31, 2007



| NO. OF SHAREHOLDERS | SHAREHOLDING |            | TOTAL SHARES ORDINARY 'A' CLASS SHARES OF RS. 10/- EACH | TOTAL SHARES ORDINARY 'B' CLASS SHARES OF RS. 5/- EACH |
|---------------------|--------------|------------|---|--|
|                     | FROM         | TO         |   |  |
| 1                   | 995001       | 1000000    | 1,000,000   | 0  |
| 1                   | 1120001      | 1125000    | 1,122,500   | 0  |
| 1                   | 1210001      | 1215000    | 1,213,500   | 0  |
| 1                   | 1275001      | 1280000    | 1,279,311   | 0  |
| 1                   | 1360001      | 1365000    | 1,360,500   | 0  |
| 1                   | 2220001      | 2225000    | 2,220,500   | 0  |
| 1                   | 2380001      | 2385000    | 2,381,038   | 0  |
| 1                   | 2450001      | 2455000    | 2,452,666   | 0  |
| 1                   | 2495001      | 2500000    | 2,497,778   | 0  |
| 1                   | 2700001      | 2705000    | 2,700,500   | 0  |
| 1                   | 3195001      | 3200000    | 3,198,000   | 0  |
| 1                   | 3240001      | 3245000    | 3,241,466   | 0  |
| 1                   | 3545001      | 3550000    | 3,550,000   | 0  |
| 1                   | 3715001      | 3720000    | 3,717,500   | 0  |
| 1                   | 3915001      | 3920000    | 3,916,884   | 0  |
| 1                   | 4025001      | 4030000    | 4,029,000   | 0  |
| 1                   | 5495001      | 5500000    | 5,500,000   | 0  |
| 1                   | 5945001      | 5950000    | 5,950,000   | 0  |
| 1                   | 9210001      | 9215000    | 9,212,000   | 0  |
| 1                   | 9735001      | 9740000    | 9,736,500   | 0  |
| 1                   | 15745001     | 15750000   | 15,750,000  | 0  |
| 1                   | 16875001     | 16880000   | 16,876,347  | 0  |
| 1                   | 26035001     | 26040000   | 26,039,500  | 0  |
| 1                   | 1876900001   | 1876910000 | 1,876,903,845   | 1,462,515  |
| <b>56,457</b>       |              |            | <b>2,087,057,380</b>                                    | <b>1,499,999</b>                                       |

## Categories of Shareholders as at December 31, 2007

| Shareholders Category   | Number of Shareholder | Number of Shares Held                     |  | Percentage    |
|---|-----------------------|---|--|---------------|
|   |                       | Ordinary 'A' Class Shares of Rs.10/- Each | Ordinary 'B' Class Shares of Rs.5/- Each |               |
| <b>Associated Companies, undertakings related parties</b>   |                       |   |  |               |
| <b>NIT and ICP</b>  |                       |   |  |               |
| National Investment Trust   | 1                     | 100                                       |  | ---           |
| NBP Trustee Department  | 1                     | 4,833,704                                 |  | 0.23          |
| Investment Corporation of Pakistan  | 1                     | 10,325                                    | 100                                      |               |
| <b>Directors, CEO and their spouse and minor children</b>   |                       |   |  |               |
| <b>Zaffar A. Khan, Chairman-PIA</b>   | 1                     | 680                                       |  | ---           |
| <b>Syed Ali Raza, Director</b>  | 1                     | 1,100                                     |  | ---           |
| <b>Mr Kamal Afsar, Director</b>   | 1                     | 136                                       |  | ---           |
| <b>Executives</b>   | 142                   | 18,998                                    |  | ---           |
| <b>Public Sector Companies and Corporations</b>   | ----                  | ----                                      |  |               |
| Banks, DFIs, NBFIs, Insurance Companies, Modarabas and Mutual Funds                                 | 91                    | 62,536,696                                | 2,633                                    | 3.00          |
| Shareholders holding 10% or more voting interest (Secretary-Ministry of Defence, Govt. of Pakistan) | 1                     | 1,876,903,845                             | 1,462,515                                | 89.93         |
| Individuals   | 55,931                | 80,438,143                                | 33,537                                   | 3.85          |
| Others  | 286                   | 62,313,653                                | 1,214                                    | 2.99          |
| <b>TOTAL</b>  | <b>56,457</b>         | <b>2,087,057,380</b>                      | <b>1,499,999</b>                         | <b>100.00</b> |

The above two statements include 8,520 Shareholders holding 180,944,946 'A' Class Ordinary Shares and 2,415 'B' Class Ordinary Shares through the Central Depository Company of Pakistan Limited.

## Six Year Summary

|   | 2007        | 2006        | 2005       | 2004       | 2003       | 2002       |
|---|-------------|-------------|------------|------------|------------|------------|
| <b>OPERATION</b>                                |             |             |            |            |            |            |
| Route Kilometers                                | 383,574     | 446,570     | 343,525    | 354,664    | 290,129    | 257,858    |
| Revenue Kilometers Flown (000)                  | 80,759      | 88,302      | 82,550     | 80,087     | 68,851     | 61,921     |
| Revenue Hours Flown                             | 132,416     | 141,479     | 134,039    | 130,977    | 115,017    | 105,553    |
| Available Tonne Kilometers (000)                | 3,125,558   | 3,369,288   | 3,102,805  | 2,973,437  | 2,475,904  | 2,242,157  |
| Available Seat Kilometers (000)                 | 20,313,265  | 22,092,475  | 20,816,469 | 20,353,863 | 17,259,080 | 15,775,960 |
| <b>TRAFFIC</b>                                  |             |             |            |            |            |            |
| Revenue Passengers Carried (000)                | 5,415       | 5,732       | 5,499      | 5,120      | 4,556      | 4,166      |
| Revenue Passengers Kilometers (000)             | 13,680,916  | 15,124,413  | 14,506,683 | 13,519,847 | 12,009,419 | 10,779,496 |
| Passenger Load Factor (%)                       | 67.4        | 68.5        | 69.7       | 66.4       | 69.6       | 68.3       |
| Revenue Freight Tonne Kilometers (000)          | 350,758     | 427,006     | 410,991    | 402,359    | 350,713    | 346,944    |
| Kgs. of Excess Baggage & Cargo (000)            | 115,229     | 121,174     | 124,852    | 118,151    | 102,180    | 100,717    |
| Kgs. of Mail (000)                              | 1,127       | 1,410       | 1,433      | 1,649      | 1,771      | 1,586      |
| Revenue Tonne Kilometers (000)                  | 1,593,349   | 1,801,026   | 1,729,220  | 1,634,825  | 1,447,906  | 1,330,803  |
| Revenue Load Factor (%)                         | 51.0        | 53.5        | 55.7       | 55.0       | 58.5       | 59.3       |
| Avg. Pax Stage Distance<br>(Statute Kilometers) | 2,527       | 2,639       | 2,638      | 2,641      | 2,636      | 2,587      |
| <b>FINANCIAL</b>                                |             |             |            |            |            |            |
| Operating Revenue (Rs. in million)              | 70,480.73   | 70,587.15   | 64,074.47  | 57,788.08  | 47,951.82  | 43,673.97  |
| Operating Expenses (Rs. in million)             | 76,415.81   | 79,164.37   | 67,075.58  | 55,872.08  | 42,574.23  | 38,097.11  |
| Operating Profit/(loss) (Rs. in million)        | (5,935.08)  | (8,577.22)  | (3,001.11) | 1,916.00   | 5,377.59   | 5,576.86   |
| Profit/(loss) after tax (Rs. in million)        | (13,398.71) | (12,763.42) | (4,411.66) | 2,306.60   | 1,298.65   | 1,873.32   |
| Fixed Assets (Rs. in million)                   | 95,600.63   | 79,062.44   | 51,376.33  | 49,604.39  | 29,724.14  | 23,782.66  |
| Current Assets (Rs. in million)                 | 13,251.33   | 18,353.43   | 12,756.55  | 19,716.29  | 20,470.00  | 14,696.31  |
| Current Liabilities (Rs. in million)            | 52,049.54   | 41,025.29   | 21,237.10  | 18,990.09  | 23,197.88  | 30,905.08  |
| Long-Term Debts (Rs. in million)                | 74,284.84   | 62,650.89   | 38,099.18  | 42,517.85  | 22,033.73  | 8,921.13   |
| Net Worth (Rs. in million)                      | (11,903.56) | (788.03)    | 10,446.30  | 13,441.19  | 6,673.50   | 569.99     |
| Jet Fuel Prices (Rs. per US Gallon)             | 132.93      | 123.55      | 102.05     | 71.68      | 51.86      | 45.27      |
| Cost per A. T. K. (Rs.)                         | 24.29       | 23.49       | 21.62      | 18.79      | 17.19      | 16.99      |
| <b>RATIOS</b>                                   |             |             |            |            |            |            |
| Earnings per share (Rs.)                        | (6.61)      | (6.80)      | (2.55)     | 1.76       | 1.57       | 4.10       |
| Net assets per share (Rs.)                      | 32.91       | 35.08       | 29.85      | 45.59      | 40.27      | 25.89      |
| Debt equity ratio                               | NA          | NA          | 4.15       | 3.52       | 4.72       | 20.83      |
| Current ratio                                   | 0.25        | 0.45        | 0.60       | 1.04       | 0.97       | 0.48       |
| <b>SHARE PRICES (Rs. 10 Share)</b>              |             |             |            |            |            |            |
| High  | 11.30       | 16.30       | 14.65      | 26.70      | 23.30      | 12.75      |
| Low   | 6.10        | 7.05        | 6.50       | 9.90       | 7.30       | 2.95       |
| Closing   | 6.30        | 7.05        | 12.30      | 13.70      | 20.55      | 11.70      |
| <b>PERSONNEL</b>                                |             |             |            |            |            |            |
| Average No. of Employees                        | 18,149      | 18,282      | 19,263     | 19,634     | 18,570     | 16,689     |
| Revenue per Employee (Rs.)                      | 3,883,450   | 3,861,019   | 3,326,298  | 2,943,266  | 2,582,220  | 2,616,932  |
| A. T. K. per Employee                           | 172,217     | 184,295     | 161,076    | 151,443    | 133,328    | 134,349    |

# FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

## Auditors' Report To The Members

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We have audited the annexed balance sheet of PAKISTAN INTERNATIONAL AIRLINES CORPORATION (the Corporation) as at December 31, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) In our opinion, proper books of account have been kept by the Corporation as required by the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984;
- b) In our opinion:
  - i) The balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change, as stated in note 2.5.1, to the accompanying financial statements, with which we concur;
  - ii) The expenditure incurred during the year was for the purpose of the Corporation's business; and
  - iii) The business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Corporation;
- c) In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Corporation's affairs as at December 31, 2007 and of the loss, its cash flows and changes in equity for the year then ended; and

## Auditors' Report To The Members

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d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

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

- i) Note 26.1 (a) to the financial statements, explaining the difference between the amount due as per the Corporation's records and amounts claimed by the Civil Aviation Authority in respect of which a reconciliation and settlement exercise is currently in progress through the Ministry of Defence; and
- ii) Note 1 to the financial statements, which indicates that the Corporation 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 Corporation'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 Corporation's ability to continue as a going concern. Accordingly, these financial statements have been prepared on a going concern basis.

**Ford Rhodes Sidat Hyder & Co.**  
Chartered Accountants

**Anjum Asim Shahid Rahman**  
Chartered Accountants

Karachi : March 01, 2008



## Balance Sheet As At December 31, 2007

|   | Note | December<br>31, 2007 | December<br>31, 2006 | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|----------------------|----------------------|
|   |      | Rupees in '000'      |                      | US\$ in '000'        |                      |
| <b>ASSETS</b>                           |      |                      |                      |                      |                      |
| <b>NON - CURRENT ASSETS</b>             |      |                      |                      |                      |                      |
| <b>Fixed assets</b>                     |      |                      |                      |                      |                      |
| Property, plant and equipment           | 3    | 95,497,151           | 78,964,162           | 1,554,063            | 1,297,259            |
| Intangibles                             | 4    | 103,475              | 98,275               | 1,684                | 1,615                |
|   |      | <b>95,600,626</b>    | 79,062,437           | <b>1,555,747</b>     | 1,298,874            |
| Long term investments                   | 5    | 4,540,229            | 4,528,198            | 73,885               | 74,391               |
| Long term advances and other receivable | 6    | 1,283,000            | 1,684,000            | 20,879               | 27,666               |
| Long term deposits and prepayments      | 7    | 4,098,388            | 3,263,699            | 66,695               | 53,618               |
|   |      | <b>105,522,243</b>   | 88,538,334           | <b>1,717,206</b>     | 1,454,549            |
| <b>CURRENT ASSETS</b>                   |      |                      |                      |                      |                      |
| Stores and spares                       | 8    | 3,251,940            | 3,371,040            | 52,920               | 55,381               |
| Trade debts                             | 9    | 5,012,778            | 6,129,673            | 81,575               | 100,701              |
| Advances                                | 10   | 604,470              | 592,068              | 9,837                | 9,727                |
| Trade deposits and prepayments          | 11   | 1,023,312            | 1,229,333            | 16,653               | 20,196               |
| Accrued interest                        |      | 32,789               | 51,010               | 534                  | 838                  |
| Other receivables                       | 12   | 1,043,971            | 865,255              | 16,989               | 14,215               |
| Short term investments                  | 13   | 32,093               | 421,394              | 522                  | 6,923                |
| Taxation – net                          |      | 274,519              | 233,738              | 4,466                | 3,840                |
| Cash and bank balances                  | 14   | 1,975,459            | 5,459,924            | 32,147               | 89,698               |
|   |      | <b>13,251,331</b>    | 18,353,435           | <b>215,643</b>       | 301,519              |
| <b>TOTAL ASSETS</b>                     |      | <b>118,773,574</b>   | 106,891,769          | <b>1,932,849</b>     | 1,756,068            |

The annexed notes 1 to 44 form an integral part of these financial statements.

**Kamran Rasool**  
Chairman

**Kamal Afsar**  
Director

# 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'     |                   |                 |
| <b>EQUITY AND LIABILITIES</b>                        |                   |                     |                   |                   |                 |
| <b>SHARE CAPITAL AND RESERVES</b>                    |                   |                     |                   |                   |                 |
| Share capital  | 15                | 20,878,074          | 19,473,631        | 339,757           | 319,922         |
| Reserves   | 16                | 4,280,712           | 4,280,712         | 69,662            | 70,326          |
| Unrealized gain on remeasurement of investments      |                   | 97,366              | 21,013            | 1,584             | 345             |
| Accumulated losses                                   |                   | (37,159,710)        | (24,563,386)      | (604,715)         | (403,538)       |
| <b>TOTAL EQUITY</b>                                  |                   | <b>(11,903,558)</b> | <b>(788,030)</b>  | <b>(193,712)</b>  | <b>(12,945)</b> |
| Surplus on revaluation of fixed assets – net         | 17                | 972,040             | 926,318           | 15,818            | 15,218          |
|  |                   | <b>(10,931,518)</b> | 138,288           | <b>(177,894)</b>  | 2,273           |
| <b>NON CURRENT LIABILITIES</b>                       |                   |                     |                   |                   |                 |
| Long term financing                                  | 18                | 17,037,075          | 6,900,478         | 277,251           | 113,364         |
| Term finance certificates                            | 19                | 10,723,738          | 13,246,970        | 174,512           | 217,627         |
| Liabilities against assets subject to finance leases | 20                | 46,524,024          | 42,503,444        | 757,104           | 698,266         |
| Long term deposits                                   | 21                | 321,547             | 261,711           | 5,233             | 4,300           |
| Deferred liabilities                                 | 22                | 3,049,166           | 2,815,588         | 49,620            | 46,256          |
|  |                   | <b>77,655,550</b>   | 65,728,191        | <b>1,263,720</b>  | 1,079,813       |
| <b>CURRENT LIABILITIES</b>                           |                   |                     |                   |                   |                 |
| Trade and other payables, including provisions       | 23                | 20,055,163          | 16,617,024        | 326,366           | 272,992         |
| Accrued interest / mark-up / profit                  | 24                | 978,317             | 812,278           | 15,920            | 13,344          |
| Short term borrowings                                | 25                | 18,105,884          | 15,543,446        | 294,644           | 255,355         |
| Current maturities of:                               |                   |                     |                   |                   |                 |
| Long term financing                                  |                   | 5,662,451           | 2,599,916         | 92,147            | 42,713          |
| Term finance certificates                            |                   | 2,523,232           | 756,970           | 41,062            | 12,436          |
| Liabilities against assets subject to finance leases |                   | 4,724,495           | 3,914,491         | 76,884            | 64,309          |
| Long term murabaha                                   |                   | -                   | 781,165           | -                 | 12,833          |
|  |                   | <b>52,049,542</b>   | 41,025,290        | <b>847,023</b>    | 673,982         |
| <b>CONTINGENCIES AND COMMITMENTS</b>                 | 26                |                     |                   |                   |                 |
| <b>TOTAL EQUITY AND LIABILITIES</b>                  |                   | <b>118,773,574</b>  | 106,891,769       | <b>1,932,849</b>  | 1,756,068       |

The annexed notes 1 to 44 form an integral part of these financial statements.

**Kamran Rasool**  
Chairman

**Kamal Afsar**  
Director

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

|   | Note | December<br>31, 2007 | December<br>31, 2006 | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|----------------------|----------------------|
|   |      | Rupees in '000'      |                      | US\$ in '000'        |                      |
| <b>REVENUE – Net</b>                    | 27   | <b>70,480,734</b>    | 70,587,146           | <b>1,146,961</b>     | 1,159,638            |
| <b>COST OF SERVICES</b>                 |      |                      |                      |                      |                      |
| Aircraft fuel                           |      | <b>30,315,159</b>    | 33,370,101           | <b>493,330</b>       | 548,219              |
| Others                                  | 28   | <b>35,906,817</b>    | 36,512,116           | <b>584,326</b>       | 599,838              |
|   |      | <b>66,221,976</b>    | 69,882,217           | <b>1,077,656</b>     | 1,148,057            |
| <b>GROSS PROFIT</b>                     |      | <b>4,258,758</b>     | 704,929              | <b>69,305</b>        | 11,581               |
| Distribution costs                      | 29   | <b>4,448,674</b>     | 4,395,061            | <b>72,395</b>        | 72,204               |
| Administrative expenses                 | 30   | <b>5,256,700</b>     | 4,887,088            | <b>85,544</b>        | 80,287               |
| Other provisions and adjustments – net  | 31   | <b>1,487,893</b>     | 855,547              | <b>24,213</b>        | 14,055               |
|   |      | <b>11,193,267</b>    | 10,137,696           | <b>182,152</b>       | 166,546              |
| Other operating income                  | 32   | <b>999,433</b>       | 986,046              | <b>16,264</b>        | 16,199               |
| <b>LOSS FROM OPERATIONS</b>             |      | <b>5,935,076</b>     | 8,446,721            | <b>96,583</b>        | 138,766              |
| Finance costs                           | 33   | <b>7,135,845</b>     | 4,768,436            | <b>116,124</b>       | 78,338               |
| <b>LOSS BEFORE TAXATION</b>             |      | <b>13,070,921</b>    | 13,215,157           | <b>212,707</b>       | 217,104              |
| Income tax expense                      | 34   | <b>327,785</b>       | (451,737)            | <b>5,334</b>         | (7,421)              |
| <b>LOSS FOR THE YEAR</b>                |      | <b>13,398,706</b>    | 12,763,420           | <b>218,041</b>       | 209,683              |
|   |      |                      |                      |                      |                      |
|   |      | (Rupees)             |                      | (US\$)               |                      |
| <b>LOSS PER SHARE</b>                   | 35   |                      |                      |                      |                      |
| 'A' class Ordinary shares of Rs.10 each |      | <b>6.61</b>          | 6.80                 | <b>0.11</b>          | 0.11                 |
| 'B' class Ordinary shares of Rs. 5 each |      | <b>3.31</b>          | 3.40                 | <b>0.05</b>          | 0.06                 |

The annexed notes 1 to 44 form an integral part of these financial statements.

**Kamran Rasool**  
Chairman

**Kamal Afsar**  
Director

# Cash Flow Statement

## For The Year Ended December 31, 2007



|   | Note | December<br>31, 2007 | December<br>31, 2006 | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|----------------------|----------------------|
|   |      | Rupees in '000'      |                      | US\$ in '000'        |                      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |      |                      |                      |                      |                      |
| Cash generated from / (used in) operations<br>after working capital changes | 36   | 4,587,257            | (5,670,789)          | 74,650               | (93,162)             |
| Profit on bank deposits received  |      | 225,685              | 201,938              | 3,673                | 3,318                |
| Deferred custom duty paid   |      | -                    | (71,101)             | -                    | (1,168)              |
| Finance costs paid  |      | (6,969,806)          | (4,563,927)          | (113,422)            | (74,978)             |
| Taxes paid  |      | (393,185)            | (131,700)            | (6,399)              | (2,164)              |
| Staff retirement benefits paid  |      | (874,493)            | (694,860)            | (14,231)             | (11,415)             |
| Compensated absences paid   |      | -                    | (91,915)             | -                    | (1,510)              |
| Payments made for construction of University<br>Road, Karachi               |      | -                    | (85,000)             | -                    | (1,396)              |
| Long term deposits – net  |      | (774,853)            | (1,487,247)          | (12,610)             | (24,433)             |
| <b>Net cash used in operating activities</b>                                |      | <b>(4,199,395)</b>   | <b>(12,594,601)</b>  | <b>(68,339)</b>      | <b>(206,908)</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |      |                      |                      |                      |                      |
| Capital expenditure incurred  |      | (10,863,154)         | (4,011,100)          | (176,781)            | (65,899)             |
| Proceeds from disposal of property, plant<br>and equipment                  |      | 110,049              | 267,158              | 1,791                | 4,389                |
| Investments – net   |      | 100,781              | (3,938,488)          | 1,640                | (64,703)             |
| Received from associated company  |      | -                    | 4,573,385            | -                    | 75,134               |
| Dividend income received  |      | 568,548              | -                    | 9,252                | -                    |
| Proceeds from sale of investment  |      | 427,491              | -                    | 6,957                | -                    |
| Long term advances and other receivable                                     |      | 401,000              | 277,000              | 6,526                | 4,551                |
| <b>Net cash used in investing activities</b>                                |      | <b>(9,255,285)</b>   | <b>(2,832,045)</b>   | <b>(150,615)</b>     | <b>(46,528)</b>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |      |                      |                      |                      |                      |
| Proceeds from issue of share capital  |      | 1,404,443            | 1,492,972            | 22,855               | 24,527               |
| Proceeds of long term financing – net                                       |      | 13,199,132           | 6,258,192            | 214,795              | 102,812              |
| Redemption of term finance certificates                                     |      | (756,970)            | (756,970)            | (12,319)             | (12,436)             |
| Repayment of obligations under finance lease                                |      | (5,657,663)          | (3,078,876)          | (92,069)             | (50,581)             |
| Repayment of long term murabaha   |      | (781,165)            | (824,810)            | (12,712)             | (13,550)             |
| <b>Net cash from financing activities</b>                                   |      | <b>7,407,777</b>     | <b>3,090,508</b>     | <b>120,550</b>       | <b>50,772</b>        |
| <b>Decrease in cash and cash equivalents</b>                                |      | <b>(6,046,903)</b>   | <b>(12,336,138)</b>  | <b>(98,404)</b>      | <b>(202,664)</b>     |
| <b>CASH AND CASH EQUIVALENTS AT THE<br/>BEGINNING OF THE YEAR</b>           |      | <b>(10,083,522)</b>  | <b>2,252,616</b>     | <b>(164,093)</b>     | <b>37,007</b>        |
| <b>CASH AND CASH EQUIVALENTS AT THE END<br/>OF THE YEAR</b>                 |      | <b>(16,130,425)</b>  | <b>(10,083,522)</b>  | <b>(262,497)</b>     | <b>(165,657)</b>     |
| <b>CASH AND CASH EQUIVALENTS</b>  |      |                      |                      |                      |                      |
| Cash and bank balances  | 14   | 1,975,459            | 5,459,924            | 32,147               | 89,698               |
| Short term borrowings   | 25   | (18,105,884)         | (15,543,446)         | (294,644)            | (255,355)            |
|   |      | <b>(16,130,425)</b>  | <b>(10,083,522)</b>  | <b>(262,497)</b>     | <b>(165,657)</b>     |

The annexed notes 1 to 44 form an integral part of these financial statements.

**Kamran Rasool**  
Chairman

**Kamal Afsar**  
Director

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

|   | Issued,<br>subscribed,<br>and paid-up<br>capital | RESERVES            |                     |                   | Unrealized<br>gain on<br>remeasur-<br>ement of<br>investments | Accumulated<br>losses | Total               |
|---|--|---------------------|---------------------|-------------------|---|-----------------------|---------------------|
|   |  | Capital<br>reserves | Revenue<br>reserves | Total<br>reserves |   |                       |                     |
| Rupees in '000'   |  |                     |                     |                   |   |                       |                     |
| <b>Balance as at December 31, 2005</b>  | 17,980,659                                       | 2,501,038           | 1,779,674           | 4,280,712         | (15,107)  | (11,799,966)          | <b>10,446,298</b>   |
| Issue of Ordinary 'A' class shares<br>of Rs.10 each (note 15.1)   | 1,492,972  | -                   | -                   | -                 | -   | -                     | <b>1,492,972</b>    |
| Unrealised gain on re-measurement<br>of investments recognised directly<br>in equity  | -  | -                   | -                   | -                 | 36,120  | -                     | <b>36,120</b>       |
| Loss for the year   | -  | -                   | -                   | -                 | -   | (12,763,420)          | <b>(12,763,420)</b> |
| <b>Balance as at December 31, 2006</b>  | <b>19,473,631</b>                                | <b>2,501,038</b>    | <b>1,779,674</b>    | <b>4,280,712</b>  | <b>21,013</b>   | <b>(24,563,386)</b>   | <b>(788,030)</b>    |
| Issue of Ordinary 'A' class shares<br>of Rs.10 each (note 15.1)   | 1,404,443  | -                   | -                   | -                 | -   | -                     | <b>1,404,443</b>    |
| Unrealised gain on re-measurement<br>of investments   | -  | -                   | -                   | -                 | 76,353  | -                     | <b>76,353</b>       |
| Surplus on revaluation of aircraft<br>fleet realised during the year<br>on account of incremental<br>depreciation charged thereon | -  | -                   | -                   | -                 | -   | 802,382               | <b>802,382</b>      |
| <b>Net income recognised directly<br/>in equity</b>   | <b>-</b>   | <b>-</b>            | <b>-</b>            | <b>-</b>          | <b>76,353</b>   | <b>802,382</b>        | <b>878,735</b>      |
| Loss for the year   | -  | -                   | -                   | -                 | -   | (13,398,706)          | <b>(13,398,706)</b> |
| <b>Balance as at December 31, 2007</b>  | <b>20,878,074</b>                                | <b>2,501,038</b>    | <b>1,779,674</b>    | <b>4,280,712</b>  | <b>97,366</b>   | <b>(37,159,710)</b>   | <b>(11,903,558)</b> |

The annexed notes 1 to 44 form an integral part of these financial statements.

**Kamran Rasool**  
Chairman

**Kamal Afsar**  
Director

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



## 1. THE CORPORATION AND ITS OPERATIONS

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.

During the current year, the Corporation 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 Corporation exceeded its current assets by Rs.38,798 (2006: Rs.22,672 ) million. As a result of the adverse financial position of the Corporation during the last few years, the Ministry of Finance, after considering the financial constraints and future funding requirements of the Corporation, agreed in a letter issued to the Corporation on December 29, 2006 to jointly develop a robust operational and financial restructuring plan with the objective of converting the Corporation 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 Corporation 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 Corporation and asked the Corporation to initiate the required actions for its financial and other operational restructuring measures.

Consequently, the Corporation 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 Corporation has embarked upon includes:

- (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 Corporation has also commenced taking certain operational measures, which includes:

- (a) Fleet modernization;
- (b) Marketing efforts;
- (c) Route rationalization;
- (d) Improved non-core businesses; and
- (e) Organizational strengthening.

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

Further, the Corporation 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 Corporation'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 Corporation, as evident by the GoP issuing guarantees to secure certain long term finances and TFCs. Hence, the Corporation 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 Corporation in the form of equity and guarantees for the acquisition of eight new Boeing 777 aircraft and seven ATRs.

Moreover, the Corporation 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 Corporation, as evidenced by the Corporation receiving a dividend of Rs.551 million from its subsidiaries.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Statement of compliance

These financial statements are the separate financial statements of the Corporation and 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 financial statements have been prepared on accrual basis of accounting except for cash flow statement.

### 2.2 Basis of preparation

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

- Corporation's aircraft fleet is stated at revalued amounts less accumulated depreciation and impairment, if any, as referred to in notes 3.1.1 and 3.1.2;
- Available for sale investments are stated at fair values in accordance with the requirements of IAS- 39 "Financial Instruments: Recognition and Measurement", as referred to in notes 5.4.1 and 13; and

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.

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



## 2.3 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 Corporation'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 Corporation's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

### **Property, plant and equipment**

The Corporation 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 Corporation revalues its aircraft fleet and engines, 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 6.2, 22.1 and 22.2 to the financial statements.

### **Stores and spares**

The Corporation 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 Corporation, the Corporation 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 Corporation 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.



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

## 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.

## 2.4 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 Corporation expects that the adoption of the above standards and interpretations will have no material impact on the Corporation'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

## 2.5 Fixed assets

### 2.5.1 Property, plant and equipment

#### Owned

Leasehold land is stated at cost.

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.

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



Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. 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 Corporation 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 arising on revaluation of fixed assets is credited 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.

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

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 Corporation 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 Corporation 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 Corporation, 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 Corporation 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.

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



## 2.6 Intangibles

Intangible assets acquired separately are measured on initial recognition at cost. Costs that are directly associated with identifiable software products controlled by the Corporation 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 amortisation 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 amortised 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 amortisation period and the amortisation 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 amortisation 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 4.2.

Intangible assets with indefinite useful lives are tested for impairment annually. Such intangibles are not amortised. 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.

## 2.7 Investments

### **Subsidiaries, associates and joint venture**

Investments in subsidiaries, associates and joint venture are initially recognized at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognized as expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognized in the profit and loss account.

### **Available for sale**

All of the Corporation's investments other than fixed maturity investments and investments in subsidiaries, associates and joint venture are classified as available for sale as the Corporation 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 investments 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.

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

## **Held to maturity**

Investments with fixed or determinable payments and fixed maturity for which the Corporation 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.

## **2.8 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.

## **2.9 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 Corporation's policy. Known bad debts are written-off as and when identified.

## **2.10 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 Corporation's cash management.

## **2.11 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 Corporation.

## **2.12 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.

## **2.13 Employee benefits**

### **Provident Fund**

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

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



## **Pension funds**

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

## **2.14 Equity instruments**

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

## **2.15 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 asset 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.

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

## 2.16 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 Corporation's revenue accounting system, the value of unutilized passenger tickets (other than Hajj operations) 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.

### Interest / Mark-up and dividend income

- The Corporation 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.

## 2.17 Borrowing costs

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

## 2.18 Provision

A provision is recognized in the balance sheet when:

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

## 2.19 Impairment

The carrying amount of the Corporation'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.

## 2.20 Foreign currency translation

The financial statements are presented in Pak Rupee, which is the Corporation'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.

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



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.

## 2.21 Frequent flyer programme

The Corporation 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.

## 2.22 Financial instruments

Financial assets and financial liabilities are recognized at the time when the Corporation 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 Corporation 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.

## 2.23 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet if the Corporation 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.

## 2.24 Segment reporting

A segment is a distinguishable component within the Corporation 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 Corporation's primary format for segment reporting is based on geographical segment.

|   | Note | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|
| ..... Rupees in '000'.....              |      |                      |                      |
| <b>3. PROPERTY, PLANT AND EQUIPMENT</b> |      |                      |                      |
| Operating fixed assets                  | 3.1  | <b>88,075,893</b>    | 72,326,396           |
| Capital work-in-progress                | 3.2  | <b>7,421,258</b>     | 6,637,766            |
|   |      | <b>95,497,151</b>    | 78,964,162           |



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

## 3.1 Operating fixed assets

|  | COST / REVALUED AMOUNT        |                           |                            |                               |                                | ACCUMULATED DEPRECIATION     |                                    |                                  |                               | WRITTEN<br>DOWN<br>VALUE      |
|--|-------------------------------|---------------------------|----------------------------|-------------------------------|--------------------------------|------------------------------|------------------------------------|----------------------------------|-------------------------------|-------------------------------|
|  | As at<br>January<br>01, 2007  | Additions/<br>(Disposals) | Adjustment/<br>(write-off) | As at<br>December<br>31, 2007 | Annual<br>depreciation<br>Rate | As at<br>January<br>01, 2007 | For the<br>year/<br>(on disposals) | Revaluation/<br>*<br>(write-off) | As at<br>December<br>31, 2007 | As at<br>December<br>31, 2007 |
|  | ..... (Rupees in '000') ..... |                           |                            |                               |                                | %                            | ..... (Rupees in '000') .....      |                                  |                               |                               |
| <b>December 31, 2007</b>   |                               |                           |                            |                               |                                |                              |                                    |                                  |                               |                               |
| <b>Owned</b>   |                               |                           |                            |                               |                                |                              |                                    |                                  |                               |                               |
| Leasehold land   | 66,821                        | 313                       | -                          | 67,134                        | -                              | -                            | -                                  | -                                | -                             | 67,134                        |
| Buildings on leasehold land  | 1,030,225                     | 45,975                    | -                          | 1,076,200                     | 2.5                            | 339,275                      | 27,478                             | -                                | 366,753                       | 709,447                       |
| 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                             | -                                | 454,552                       | 112,376                       |
|  |                               |                           | (1,525)                    |                               |                                |                              |                                    | (1,525)                          |                               |                               |
| Aircraft fleet (notes 2.5.1,<br>3.1.1, 3.1.2 and 3.1.3)                                | 27,362,335                    | 3,226,351<br>(585,035)    | 4,362,652                  | 34,366,303                    | 3.85-4.55                      | 14,173,656                   | 2,051,635<br>(585,035)             | (643,678) *                      | 14,996,578                    | 19,369,725                    |
| Operating ground equipment,<br>catering, communication and<br>meteorological equipment | 507,263                       | 116,696<br>(3,368)        | -                          | 620,591                       | 10                             | 356,780                      | 30,827<br>(3,350)                  | -                                | 384,257                       | 236,334                       |
| Engineering equipment and tools  | 1,043,157                     | 135,275                   | -                          | 1,177,628                     | 10-20                          | 869,718                      | 56,841                             | -                                | 925,755                       | 251,873                       |
|  |                               |                           | (804)                      |                               |                                |                              |                                    | (804)                            |                               |                               |
| Traffic equipment  | 1,703,811                     | 74,122<br>(4,042)         | -                          | 1,773,891                     | 10-20                          | 1,166,790                    | 67,548<br>(3,638)                  | -                                | 1,230,700                     | 543,191                       |
| Furniture, fixtures and fittings   | 655,196                       | 44,701<br>(1,383)         | -                          | 698,514                       | 10                             | 532,070                      | 24,113<br>(1,248)                  | -                                | 554,935                       | 143,579                       |
| Motor transport  | 207,732                       | 21,845<br>(5,695)         | -                          | 223,882                       | 25                             | 164,735                      | 14,116<br>(4,421)                  | -                                | 174,430                       | 49,452                        |
| Office equipment   | 77,382                        | 531<br>(746)              | -                          | 77,167                        | 15                             | 66,441                       | 3,258<br>(689)                     | -                                | 69,010                        | 8,157                         |
| Computer and office automation   | 1,284,158                     | 80,062                    | -                          | 1,363,743                     | 10-20                          | 965,693                      | 114,256                            | -                                | 1,079,472                     | 284,271                       |
|  |                               |                           | (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                       | -                                  | -                                | 12,394                        | 1                             |
|  |                               |                           | (224)                      |                               |                                |                              |                                    | (224)                            |                               |                               |
| Other equipment  | 438,734                       | 31,592<br>(3,748)         | -                          | 466,498                       | 10                             | 359,324                      | 12,017<br>(2,227)                  | -                                | 369,034                       | 97,464                        |
|  |                               |                           | (80)                       |                               |                                |                              |                                    | (80)                             |                               |                               |
| Capital spares   | 6,834,108                     | 1,200,573<br>(1,729)      | (94,350)                   | 7,938,602                     | 3.85-4.55                      | 2,493,084                    | 395,706<br>(1,729)                 | (65,672)                         | 2,821,389                     | 5,117,213                     |
|  |                               |                           | (97,460)                   |                               |                                |                              |                                    | (68,782)                         |                               |                               |
|  | 43,352,633                    | 5,072,664<br>(605,746)    | 4,362,652<br>(97,460)      | 52,084,743                    |                                | 23,415,904                   | 2,859,201<br>(602,337)             | (643,678) *                      | 24,960,308                    | 27,124,435                    |
| <b>Leased</b>  |                               |                           |                            |                               |                                |                              |                                    |                                  |                               |                               |
| Aircraft fleet (notes 3.1.1,<br>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<br>(4,076)                   | -                                | 108,804                       | 15,204                        |
|  |                               | (6,134)                   |                            |                               |                                |                              |                                    |                                  |                               |                               |
| Vehicles – Technical<br>Ground Service   | 84,430                        | -                         | -                          | 84,430                        | 10-20                          | 24,603                       | 7,599                              | -                                | 32,202                        | 52,228                        |
|  | 59,517,588                    | 10,488,247<br>(6,134)     | 604,551                    | 70,604,252                    |                                | 7,127,921                    | 2,757,994<br>(4,076)               | (229,045)                        | 9,652,794                     | 60,951,458                    |
|  |                               |                           |                            |                               |                                |                              |                                    |                                  |                               |                               |
|  | 102,870,221                   | 15,560,911<br>(611,880)   | 4,967,203<br>(97,460)      | 122,688,995                   |                                | 30,543,825                   | 5,617,195<br>(606,413)             | (872,723) *                      | 34,613,102                    | 88,075,893                    |

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



|  | COST / REVALUED AMOUNT |                        |                         |                         | Annual depreciation Rate | ACCUMULATED DEPRECIATION |                              |  |                         | WRITTEN DOWN VALUE      |
|--|------------------------|------------------------|-------------------------|-------------------------|--------------------------|--------------------------|------------------------------|--|-------------------------|-------------------------|
|  | As at January 01, 2006 | Additions/ (Disposals) | Transfers/ (adjustment) | As at December 31, 2006 |                          | As at January 01, 2006   | For the year/ (on disposals) | Transfers/ adjustment/ (revaluation) * | As at December 31, 2006 | As at December 31, 2006 |
|  | (Rupees in '000')      |                        |                         |                         | %                        | (Rupees in '000')        |                              |  |                         |                         |
| <b>December 31, 2006</b>   |                        |                        |                         |                         |                          |                          |                              |  |                         |                         |
| <b>Owned</b>   |                        |                        |                         |                         |                          |                          |                              |  |                         |                         |
| Leasehold land   | 67,824                 | -                      | -                       | 66,821                  | -                        | -                        | -                            | -                                      | -                       | 66,821                  |
|  |                        | (1,003)                |                         |                         |                          |                          |                              |  |                         |                         |
| Buildings on leasehold land  | 909,766                | 120,459                | -                       | 1,030,225               | 2.5                      | 304,666                  | 34,609                       | -                                      | 339,275                 | 690,950                 |
| 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 | 512,744                | 22,251                 | -                       | 507,263                 | 10                       | 359,759                  | 24,533                       | -                                      | 356,780                 | 150,483                 |
|  |                        | (27,732)               |                         |                         |                          |                          | (27,512)                     |  |                         |                         |
| Engineering equipment and tools  | 989,059                | 54,098                 | -                       | 1,043,157               | 10-20                    | 835,669                  | 34,049                       | -                                      | 869,718                 | 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   | 605,919                | 54,073                 | -                       | 655,196                 | 10                       | 516,424                  | 20,434                       | -                                      | 532,070                 | 123,126                 |
|  |                        | (4,796)                |                         |                         |                          |                          | (4,788)                      |  |                         |                         |
| Motor transport  | 201,493                | 21,642                 | -                       | 207,732                 | 25                       | 165,510                  | 11,635                       | -                                      | 164,735                 | 42,997                  |
|  |                        | (15,403)               |                         |                         |                          |                          | (12,410)                     |  |                         |                         |
| Office equipment   | 76,372                 | 2,040                  | -                       | 77,382                  | 15                       | 64,007                   | 3,443                        | -                                      | 66,441                  | 10,941                  |
|  |                        | (1,030)                |                         |                         |                          |                          | (1,009)                      |  |                         |                         |
| Computer and office automation   | 1,159,456              | 140,544                | -                       | 1,284,158               | 10-20                    | 873,029                  | 108,455                      | -                                      | 965,693                 | 318,465                 |
|  |                        | (15,842)               |                         |                         |                          |                          | (15,791)                     |  |                         |                         |
| 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                       |
| Other equipment  | 378,512                | 70,915                 | -                       | 438,734                 | 10                       | 357,921                  | 12,091                       | -                                      | 359,324                 | 79,410                  |
|  |                        | (10,693)               |                         |                         |                          |                          | (10,688)                     |  |                         |                         |
| 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)                     |  |                         |                         |
|  | 39,166,553             | 4,349,518              | 201,545                 | 43,352,633              |                          | 23,717,165               | 1,557,660                    | 263,882                                | 23,415,904              | 19,936,729              |
|  |                        | (364,983)              |                         |                         |                          |                          | (357,870)                    | (1,764,933) *                          |                         |                         |
| <b>Leased</b>  |                        |                        |                         |                         |                          |                          |                              |  |                         |                         |
| 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 *                              |                         |                         |
|  | 69,645,426             | 33,398,915             | 201,545                 | 102,870,221             |                          | 28,620,959               | 3,449,601                    | 263,882                                | 30,543,825              | 72,326,396              |
|  |                        | (375,665)              |                         |                         |                          |                          | (365,513)                    | (1,425,104) *                          |                         |                         |

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

**3.1.1** During the current year, the aircraft fleet of the Corporation 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 Corporation.

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

|                 | 2 0 0 7 |         |         |         |          |     |
|-----------------|---------|---------|---------|---------|----------|-----|
|                 | 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  |

|                 | 2 0 0 6 |         |         |         |          |   |
|-----------------|---------|---------|---------|---------|----------|---|
|                 | BOEING  |         |         |         | AIRBUS   |   |
|                 | 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       | - |

**3.1.2** 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'   |                          |                    |
| <b>Aircraft fleet - 2007</b> | <u>92,250,503</u> | <u>20,082,394</u>        | <u>72,168,109</u>  |
| Aircraft fleet - 2006        | <u>78,912,495</u> | <u>16,265,774</u>        | <u>62,646,721</u>  |

**3.1.3** Depreciation charge for the year has been allocated as under:

|                           | Note | December 31, 2007 | December 31, 2006 |
|---------------------------|------|-------------------|-------------------|
|                           |      | Rupees in '000'   |                   |
| Cost of services - others | 28   | 5,395,614         | 3,252,078         |
| Distribution costs        | 29   | 69,111            | 55,884            |
| Administrative expenses   | 30   | 152,470           | 141,639           |
|                           |      | <u>5,617,195</u>  | <u>3,449,601</u>  |

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



3.1.4 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.8,700.51) million, respectively, which are fully depreciated.

3.1.5 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') |
| <b>Aircraft fleet</b>  |                                |                             |                |                          |                |               |                   |
| 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        |                   |
| <b>Motor vehicles</b>  |                                |                             |                |                          |                |               |                   |
| <b>To employees</b>  |                                |                             |                |                          |                |               |                   |
| 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           |                   |
| <b>Various *</b>   |                                |                             |                |                          |                |               |                   |
| 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   |                                |                             | 363,523        | 363,110                  | 413            | 6,738         |                   |
| <b>Total</b>   |                                |                             | <b>373,927</b> | <b>371,313</b>           | <b>2,614</b>   | <b>32,268</b> |                   |
|  |                                |                             | <b>2007</b>    | <b>611,880</b>           | <b>606,413</b> | <b>5,467</b>  | <b>110,049</b>    |
|  |                                |                             | <b>2006</b>    | <b>375,665</b>           | <b>365,513</b> | <b>10,152</b> | <b>267,158</b>    |

\* 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.

## 3.1.6 CHANGES IN ACCOUNTING ESTIMATES

(i) During the current year, the Corporation 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 Corporation 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 Corporation 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 Corporation 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.

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

|  | Note  | December<br>31, 2007 | December<br>31, 2006 |
|--|-------|----------------------|----------------------|
| ..... Rupees in '000'.....   |       |                      |                      |
| <b>3.2 Capital work-in-progress</b>  |       |                      |                      |
| 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           |
|  |       | <b>11,693,396</b>    | <b>25,443,260</b>    |
| Less: Transfer to operating fixed assets                                       |       | 4,268,076            | 18,775,030           |
| Items written off  |       | 4,062                | 30,464               |
|  |       | <b>4,272,138</b>     | <b>18,805,494</b>    |
|  |       | <b>7,421,258</b>     | <b>6,637,766</b>     |
| <b>4. INTANGIBLES</b>  |       |                      |                      |
| <b>Computer software</b>   |       |                      |                      |
| Cost   | 4.1   | 239,396              | 199,601              |
| Accumulated amortization   | 4.2   | 135,921              | 101,326              |
|  |       | <b>103,475</b>       | <b>98,275</b>        |
| <b>4.1 Cost</b>  |       |                      |                      |
| Opening balance  |       | 199,601              | 182,741              |
| Additions during the year  |       | 39,795               | 16,860               |
|  |       | <b>239,396</b>       | <b>199,601</b>       |
| <b>4.2 Accumulated amortization</b>  |       |                      |                      |
| Opening balance  |       | 101,326              | 70,320               |
| Amortization for the year  | 4.2.1 | 34,595               | 31,006               |
|  |       | <b>135,921</b>       | <b>101,326</b>       |
| Useful life  |       | <b>5 – 10 years</b>  | <b>5 – 10 years</b>  |
| <b>4.2.1 Amortization charge for the year has been allocated as under:</b>     |       |                      |                      |
| Cost of services - others  | 28    | 2,532                | 2,568                |
| Distribution costs   | 29    | 1,604                | 2,203                |
| Administrative expenses  | 30    | 30,459               | 26,234               |
|  |       | <b>34,595</b>        | <b>31,005</b>        |
| <b>5. LONG TERM INVESTMENTS</b>  |       |                      |                      |
| <b>Investments in related parties - at cost</b>                                |       |                      |                      |
| Subsidiaries - unquoted  | 5.1   | 4,415,712            | 4,415,712            |
| Associate - unquoted   | 5.2   | 396                  | 396                  |
| Joint venture - unquoted   | 5.3   | 2                    | 1                    |
|  |       | <b>4,416,110</b>     | <b>4,416,109</b>     |
| Other investments  | 5.4   | 124,119              | 112,089              |
|  |       | <b>4,540,229</b>     | <b>4,528,198</b>     |

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



|   | Note  | December<br>31, 2007 | December<br>31, 2006 |
|---|-------|----------------------|----------------------|
| ..... Rupees in '000'.....  |       |                      |                      |
| <b>5.1 Subsidiaries - unquoted</b>  |       |                      |                      |
| <b>PIA Investment Limited (PIAIL)</b>   |       |                      |                      |
| 792,000 (2006: 792,000) fully paid Ordinary shares of AED100 each   | 5.1.1 | 2,245,155            | 2,245,155            |
| Equity held 99% (2006: 99%). [Break-up value of each Ordinary share of AED 100: Rs.15,421 (2006: Rs.8,384) per Ordinary share based on the latest audited financial statements available for the year ended December 31, 2007]      |       |                      |                      |
| Advance against shares pending allotment  |       | 2,170,557            | 2,170,557            |
|   |       | <u>4,415,712</u>     | <u>4,415,712</u>     |
| <b>Sky Rooms (Private) Limited</b>  |       |                      |                      |
| 4,000,000 (2006: 4,000,000) fully paid Ordinary shares of Rs.10 each  |       | 40,000               | 40,000               |
| Equity held 100% (2006: 100%). [Break-up value of each Ordinary share of Rs.10: Rs.(56.271) [2006: Rs.(63.941)] per Ordinary share based on the latest audited financial statements available for the year ended December 31, 2007] |       |                      |                      |
| <b>Midway House (Private) Limited (under winding-up)</b>  |       |                      |                      |
| 2,960,000 (2006: 2,960,000) fully paid Ordinary shares of Rs.10 each  |       | 28,520               | 28,520               |
| Equity held 100% (2006: 100%). [Break-up value of each Ordinary share of Rs.10: Rs.Nil [2006: Rs.(Nil)] per Ordinary share. Financial statements are not available  |       |                      |                      |
|   |       | 68,520               | 68,520               |
| Provision for diminution in value of investments  |       | (68,520)             | (68,520)             |
|   |       | -                    | -                    |
|   |       | <u>4,415,712</u>     | <u>4,415,712</u>     |

**5.1.1** During the year 2006, the Corporation has acquired 392,000 shares of PIAIL and advance against equity in PIAIL at a consideration of US\$36 million and US\$34 million equivalent to Rs.2,146 million and Rs.2,055 million respectively, thereby, increasing its holding in PIAIL from 50% to 99%.

**5.1.2** All the subsidiaries are incorporated in Pakistan except for PIAIL which is incorporated in Sharjah, United Arab Emirates and registered in British Virgin Islands.

## **5.2 Associate – unquoted**

### **Minhal Incorporated – Sharjah**

1,600 (2006: 1,600) shares of AED 100 each

Equity held 40% (2006: 40%). [Break-up value of each Ordinary share of AED100: Rs.113.617 (2006: Rs.113.664) per Ordinary share based on the latest audited financial statements available for the year ended December 31, 2007]

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

|   | Note | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|
| ..... Rupees in '000'.....  |      |                      |                      |
| <b>5.3 Joint venture – unquoted</b>   |      |                      |                      |
| <b>Abacus Distribution Systems Pakistan (Private) Limited</b>                       |      |                      |                      |
| 200,948 (2006: 89,310) Ordinary shares of Rs.100 each. Equity held 45% (2006: 20%). |      | <b>2</b>             | <b>1</b>             |

During the year 2006, the Corporation acquired 20% equity participation at a cost of Re.0.01 per share. As per the Joint Venture Agreement, shareholding of the Corporation will increase to 75% during the period of 9 years. As at December 31, 2007, the shareholding of PIA was 45%. The Abacus Distribution Systems Pakistan (Private) Limited is a joint venture between the Corporation and Abacus International Pte Limited, Singapore.

## 5.4 Other investments

|   |       |                 |          |
|---|-------|-----------------|----------|
| Available for sale  | 5.4.1 | <b>98,930</b>   | 68,358   |
| Held to maturity  | 5.4.2 | <b>25,189</b>   | 43,731   |
|   |       | <b>124,119</b>  | 112,089  |
| <b>5.4.1 Available for sale</b>   |       |                 |          |
| <b>Quoted</b>   |       |                 |          |
| <b>Pakistan Services Limited</b>  |       |                 |          |
| 172,913 (2006: 172,913) Ordinary shares of Rs.10 each, having market value per Ordinary Share of Rs.570 (2006: Rs.392) each |       | <b>98,561</b>   | 67,989   |
| <b>Unquoted</b>   |       |                 |          |
| <b>Pakistan Tourism Development Corporation Limited</b>   |       |                 |          |
| 10,000 (2006: 10,000) Ordinary shares of Rs.10 each   |       | <b>100</b>      | 100      |
| <b>Duty Free Shops Limited – Pakistan</b>   |       |                 |          |
| 87,512 (2006: 87,512) Ordinary shares of Rs.100 each Equity held 11.31% (2006: 11.31%)                                      |       | <b>269</b>      | 269      |
|   |       | <b>98,930</b>   | 68,358   |
| <b>5.4.2 Held to maturity</b>   |       |                 |          |
| Promissory notes issued by the Nigerian Government  |       | <b>44,147</b>   | 61,570   |
| Current maturity thereof shown under short term investments   | 13    | <b>(18,958)</b> | (17,839) |
|   |       | <b>25,189</b>   | 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 Corporation 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. LONG TERM ADVANCES AND OTHER RECEIVABLE

|                                 |     |                  |           |
|---------------------------------|-----|------------------|-----------|
| Long term advances              | 6.1 | -                | -         |
| Other receivable - pension fund | 6.2 | <b>1,283,000</b> | 1,684,000 |
|                                 |     | <b>1,283,000</b> | 1,684,000 |

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



|   | Note | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|
| ----- Rupees in '000' -----               |      |                      |                      |
| <b>6.1 Long term advances – unsecured</b> |      |                      |                      |
| <b>Subsidiaries</b>                       |      |                      |                      |
| <b>Considered doubtful</b>                |      |                      |                      |
| Sky Rooms (Private) Limited               |      | 37,042               | 37,042               |
| Midway House (Private) Limited            |      | 82,476               | 82,476               |
|   |      | <b>119,518</b>       | 119,518              |
| Provision for doubtful advances           |      | <b>119,518</b>       | 119,518              |
|   |      | <b>-</b>             | -                    |

6.1.1 Maximum aggregate amount due from the subsidiaries at any month end was Rs. Nil (2006: Rs.4,173) million.

## 6.2 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                   | <b>(11,524,000)</b> | <b>(11,150,000)</b> |
|   | <b>(1,283,000)</b>  | <b>(1,684,000)</b>  |

### Expense recognised in profit and loss account

|                                 |                    |                    |
|---------------------------------|--------------------|--------------------|
| Current service cost            | 222,000            | 214,000            |
| Interest cost                   | 1,000,000          | 925,000            |
| Settlement cost                 | -                  | -                  |
| Expected return on plan assets  | <b>(1,191,000)</b> | <b>(1,141,000)</b> |
| Actuarial loss recognized - net | <b>468,000</b>     | <b>377,000</b>     |
|                                 | <b>499,000</b>     | <b>375,000</b>     |

### Movement in asset during the year

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 1,684,000        | 1,961,000        |
| Charge for the year                  | <b>(499,000)</b> | <b>(375,000)</b> |
| Payments made during the year        | <b>98,000</b>    | <b>98,000</b>    |
|                                      | <b>1,283,000</b> | <b>1,684,000</b> |

### Actual return on plan assets

|  |                  |         |
|--|------------------|---------|
|  | <b>1,042,000</b> | 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           | <b>11,524,000</b> | 11,150,000 | 10,891,000 | 10,910,000 | 10,910,000 |
| Present value of benefit obligation | <b>10,241,000</b> | 9,466,000  | 8,930,000  | 8,998,000  | 8,979,000  |
| Surplus                             | <b>1,283,000</b>  | 1,684,000  | 1,961,000  | 1,912,000  | 1,931,000  |

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

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

6.2.3 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 22.2).



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

|   | Note | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|
| Rupees in '000'                                   |      |                      |                      |
| <b>7. LONG TERM DEPOSITS AND PREPAYMENTS</b>      |      |                      |                      |
| <b>Deposits</b>                                   |      |                      |                      |
| Aircraft fleet lease deposits                     |      | 2,314,125            | 1,564,544            |
| Engine maintenance                                |      | 56,505               | 215,695              |
| Rent  |      | 31,489               | 35,320               |
| Utilities   |      | 11,201               | 9,697                |
| Aircraft fuel                                     |      | 6,984                | 6,591                |
| Guarantee deposit                                 |      | 3,610                | 3,222                |
| Others  |      | 91,967               | 67,956               |
|   |      | <u>2,515,881</u>     | <u>1,903,025</u>     |
| <b>Prepayments</b>                                |      |                      |                      |
| Exposure fee to support financing                 | 7.1  | 1,805,498            | 1,509,793            |
| Current portion shown under short term prepayment | 11.1 | (222,991)            | (149,119)            |
|   |      | <u>1,582,507</u>     | <u>1,360,674</u>     |
|   |      | <u>4,098,388</u>     | <u>3,263,699</u>     |

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

## 8. STORES AND SPARES

|  |     |                  |                  |
|--|-----|------------------|------------------|
| Stores   |     | 849,517          | 828,560          |
| Spares   |     | 3,986,246        | 3,387,842        |
|  |     | <u>4,835,763</u> | <u>4,216,402</u> |
| Provision for slow moving stores and spares                        | 8.1 | (1,930,145)      | (1,604,338)      |
|  |     | <u>2,905,618</u> | <u>2,612,064</u> |
| Inventory held for disposal  | 8.2 | 2,207,092        | 2,266,825        |
| Adjustment to write down surplus inventory to net realizable value |     | (1,944,539)      | (1,935,827)      |
|  |     | <u>262,553</u>   | <u>330,998</u>   |
| Stores and spares-in-transit                                       |     | 83,769           | 427,978          |
|  |     | <u>3,251,940</u> | <u>3,371,040</u> |
| <b>8.1 Movement in provision is as follows:</b>                    |     |                  |                  |
| 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                                     | 31  | 334,519          | 100,000          |
|  |     | <u>1,930,145</u> | <u>1,604,338</u> |

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.

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

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



|   | Note | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|
| ..... Rupees in '000'.....  |      |                      |                      |
| <b>9. TRADE DEBTS</b>   |      |                      |                      |
| Considered good   |      | 5,012,778            | 6,129,673            |
| Considered doubtful   |      | 721,000              | 455,000              |
| Provision against debts considered doubtful   | 9.1  | (721,000)            | (455,000)            |
|   |      | -                    | -                    |
|   |      | 5,012,778            | 6,129,673            |
| <b>9.1 Movement in provision is as follows:</b>   |      |                      |                      |
| Balance at the beginning of the year  |      | 455,000              | 407,888              |
| Provision written back  |      | (136,211)            | (198)                |
| Provision made during the year  | 31   | 402,211              | 47,310               |
|   |      | 721,000              | 455,000              |
| <b>9.2</b> 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. |      |                      |                      |
| <b>10. ADVANCES</b>   |      |                      |                      |
| <b>Considered good</b>  |      |                      |                      |
| <b>Subsidiary</b>   |      |                      |                      |
| Sky Rooms (Private) Limited   | 10.1 | 80,582               | 62,915               |
| <b>Others</b>   |      |                      |                      |
| Employees   |      | 154,361              | 140,476              |
| Suppliers   |      | 363,538              | 383,070              |
| Others  |      | 5,989                | 5,607                |
|   |      | 523,888              | 529,153              |
| <b>Considered doubtful</b>  |      |                      |                      |
| Provision for advances considered doubtful  | 10.2 | 31,319               | 28,985               |
|   |      | (31,319)             | (28,985)             |
|   |      | -                    | -                    |
|   |      | 604,470              | 592,068              |
| <b>10.1</b> Maximum aggregate amount due from the subsidiary at any month end was Rs.80.582 (2006: Rs.165.000) million.   |      |                      |                      |
| <b>10.2 Movement in provision is as follows:</b>  |      |                      |                      |
| Balance at the beginning of the year  |      | 28,985               | 25,048               |
| Provision made during the year  | 31   | 2,334                | 3,937                |
|   |      | 31,319               | 28,985               |

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

|  | Note    | December<br>31, 2007 | December<br>31, 2006 |
|--|---------|----------------------|----------------------|
| Rupees in '000'  |         |                      |                      |
| <b>11. TRADE DEPOSITS AND PREPAYMENTS</b>  |         |                      |                      |
| Trade deposits   |         | 42,866               | 280,954              |
| Prepayments  | 11.1    | 980,446              | 948,379              |
|  |         | <u>1,023,312</u>     | <u>1,229,333</u>     |
| <b>11.1 Prepayments</b>  |         |                      |                      |
| Current portion of long term prepayment  | 7       | 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   |         | 5,470                | 6,043                |
| Others   |         | 1,919                | 4,836                |
|  |         | <u>980,446</u>       | <u>948,379</u>       |
| <b>12. OTHER RECEIVABLES</b>   |         |                      |                      |
| <b>Considered good</b>   |         |                      |                      |
| Insurance and other claims   |         | 312,261              | 283,899              |
| Excise duty  | 26.1(b) | 100,000              | 100,000              |
| Sales tax  |         | 258,609              | 121,521              |
| Receivables against manufacturers' credits   |         | 119,450              | 166,312              |
| Others   |         | 253,651              | 193,523              |
|  |         | <u>1,043,971</u>     | <u>865,255</u>       |
| <b>Considered doubtful</b>   |         |                      |                      |
| Provision for receivables considered doubtful  |         | 30,257               | 37,422               |
|  |         | <u>(30,257)</u>      | <u>(37,422)</u>      |
|  |         | <u>-</u>             | <u>-</u>             |
|  |         | <u>1,043,971</u>     | <u>865,255</u>       |
| <b>13. SHORT TERM INVESTMENTS</b>  |         |                      |                      |
| <b>Held to maturity</b>  |         |                      |                      |
| Current portion of other investment  | 5.4.2   | 18,958               | 17,839               |
| <b>Available for sale</b>  |         |                      |                      |
| <b>Quoted</b>  |         |                      |                      |
| <b>France Telecom, France</b>  |         |                      |                      |
| Nil shares (2006: 232,791), having a market value of Nil Euro (2006: 20.95 Euro) each  | 13.1    | -                    | 390,556              |
| <b>Unquoted</b>  |         |                      |                      |
| <b>SITA INC N.V.</b>   |         |                      |                      |
| 325,491 shares (2006: 325,491 shares)  | 13.2    | 19,220               | 19,220               |
| Provision for diminution in the value of investment  | 13.3    | (6,085)              | (6,221)              |
|  |         | <u>13,135</u>        | <u>12,999</u>        |
|  |         | <u>32,093</u>        | <u>421,394</u>       |
| <b>13.1</b> During the current year, the Corporation sold the shares of France Telecom at a consideration of Rs.427.491 (2006: Nil) million.   |         |                      |                      |
| <b>13.2</b> These shares are held by SITA INC. N.V. on behalf of the Corporation and are transferable subject to certain specified conditions. |         |                      |                      |
| <b>13.3 Movement in provision is as follows:</b>   |         |                      |                      |
| Balance at the beginning of the year   |         | 6,221                | 6,438                |
| Provision written back during the year   |         | (136)                | (217)                |
|  |         | <u>6,085</u>         | <u>6,221</u>         |

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



|   | Note                         | December<br>31, 2007                         | December<br>31, 2006 |
|---|------------------------------|--|----------------------|
| ..... Rupees in '000'.....                          |                              |  |                      |
| <b>14. CASH AND BANK BALANCES</b>                   |                              |  |                      |
| In hand   |                              | 6,648  | 4,467                |
| In transit  |                              | 61,769                                       | 96,774               |
|   |                              | <b>68,417</b>                                | 101,241              |
| <b>With banks</b>                                   |                              |  |                      |
| <b>In current accounts</b>                          |                              |  |                      |
| Collection  |                              | 3,029,427                                    | 3,756,535            |
| Overdrawn bank balances                             |                              | (2,741,112)                                  | (1,080,139)          |
|   |                              | <b>288,315</b>                               | 2,676,396            |
| <b>In short term deposit accounts</b>               |                              | <b>1,618,727</b>                             | 2,682,287            |
|   |                              | <b>1,907,042</b>                             | 5,358,683            |
|   |                              | <b>1,975,459</b>                             | 5,459,924            |
| <b>15. SHARE CAPITAL</b>                            |                              |  |                      |
| <b>No. of shares</b>                                |                              |  |                      |
| <b>December 31,<br/>2007</b>                        | <b>December 31,<br/>2006</b> |  |                      |
| <b>Authorized capital</b>                           |                              |  |                      |
| <b>Ordinary share capital</b>                       |                              |  |                      |
| 2,949,250,000                                       | 2,949,250,000                | 'A' class shares of Rs.10 each               | 29,492,500           |
| 1,500,000   | 1,500,000                    | 'B' class shares of Rs.5 each                | 7,500                |
| <b>2,950,750,000</b>                                | 2,950,750,000                |  | <b>29,500,000</b>    |
| <b>Preference share capital</b>                     |                              |  |                      |
| 50,000,000  | 50,000,000                   | Preference shares of Rs.10 each              | 500,000              |
| <b>3,000,750,000</b>                                | 3,000,750,000                |  | <b>30,000,000</b>    |
| <b>Issued, subscribed and paid up share capital</b> |                              |  |                      |
| <b>Ordinary share capital</b>                       |                              |  |                      |
| <b>'A' class shares of Rs.10 each</b>               |                              |  |                      |
| 1,852,191,870                                       | 1,711,747,563                | Issued for consideration in cash (note 15.1) | 18,521,919           |
| 931,028   | 931,028                      | Issued for consideration other than cash     | 9,310                |
| 233,934,482   | 233,934,482                  | for acquisition of shares                    | 2,339,345            |
| <b>2,087,057,380</b>                                | 1,946,613,073                | Issued as bonus shares                       | <b>20,870,574</b>    |
| <b>'B' class shares of Rs.5 each</b>                |                              |  |                      |
| 1,003,374   | 1,003,374                    | Issued for consideration in cash             | 5,017                |
| 2,625   | 2,625                        | Issued for consideration other than cash     | 13                   |
| 494,000   | 494,000                      | for acquisition of shares                    | 2,470                |
| <b>1,499,999</b>                                    | 1,499,999                    | Issued as bonus shares                       | <b>7,500</b>         |
|   |                              |  | <b>20,878,074</b>    |
|   |                              |  | 19,473,631           |

15.1 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.

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

15.2 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.

|   | Note | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|
| Rupees in '000'                         |      |                      |                      |
| <b>16. RESERVES</b>                     |      |                      |                      |
| <b>Capital reserves</b>                 |      |                      |                      |
| Reserve for replacement of fixed assets | 16.1 | 1,966,779            | 1,966,779            |
| Capital redemption reserve fund         |      | 250,000              | 250,000              |
| Others                                  |      | 284,259              | 284,259              |
|   |      | <u>2,501,038</u>     | <u>2,501,038</u>     |
| <b>Revenue reserve</b>                  |      | <u>1,779,674</u>     | <u>1,779,674</u>     |
|   |      | <u>4,280,712</u>     | <u>4,280,712</u>     |

16.1 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 Corporation 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.

## 17. SURPLUS ON REVALUATION OF FIXED ASSETS - net of tax

|   |      |                |                |
|---|------|----------------|----------------|
| Opening balance   |      | 926,318        | -              |
| Surplus arising as a result of revaluation of aircraft and engines during the current year                                      |      | 872,723        | 1,425,104      |
| Related deferred tax effect of revaluation of aircraft and engines  | 34.2 | (305,453)      | (498,786)      |
| Transferred to statement of changes in equity on account of incremental depreciation for the current year - net of deferred tax |      | (521,548)      | -              |
|   |      | <u>972,040</u> | <u>926,318</u> |

Refer note 3.1.1 concerning necessary information in respect of revaluations of fixed assets.

## 18. LONG TERM FINANCING – secured

| Financier  | Type of facility  | Limit (Rupees in million) | Repayment year | Number of Instalments/ mode | Mark-up %               | December 31, 2007  | December 31, 2006  |
|--|-------------------|---------------------------|----------------|-----------------------------|-------------------------|--------------------|--------------------|
| Rupees in '000'  |                   |                           |                |                             |                         |                    |                    |
| <b>From Banking Companies</b>                              |                   |                           |                |                             |                         |                    |                    |
| United Bank Limited (notes 18.1 & 18.2)                    | Syndicate Finance | 1,650                     | 2005-2010      | 6 half-yearly               | 6 months KIBOR + 0.79%  | 1,215,825          | 1,621,098          |
| Citibank / DVB Bank (notes 18.3 & 18.4)                    | Syndicate Finance | 6,603                     | 2006-2008      | Bullet                      | 1 month LIBOR + 0.77%   | 3,184,462          | 3,491,443          |
| Habib Bank Limited (note 18.5)                             | Demand Finance    | 530                       | 2006-2009      | 36 monthly                  | 1 month KIBOR + 1.50%   | 267,000            | 456,389            |
| Citibank N.A (notes 18.6 & 18.7)                           | Demand Finance    | 4,895                     | 2006-2017      | 20 half-yearly              | 5.28% fixed             | 4,599,184          | 2,180,178          |
| Habib Bank Limited (note 18.8)                             | Demand Finance    | 200                       | 2006-2009      | 36 monthly                  | 1 month KIBOR + 1.75%   | 122,222            | 194,444            |
| ABN AMRO Bank (note 18.9)                                  | 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 18.10) | Syndicate Finance | 7,260                     | Bullet         | 1 Bullet                    | 3 months LIBOR + 1.325% | 7,374,000          | -                  |
| Standard Chartered Bank DXB (note 18.11)                   | Demand Finance    | 3,025                     | 2007-2009      | 12 quarterly                | 3 months LIBOR + 1.325% | 2,304,375          | -                  |
| National Bank of Pakistan (note 18.12)                     | Demand Finance    | 500                       | 2007-2010      | 12 quarterly                | 3 months KIBOR + 1.5%   | 500,000            | -                  |
|  |                   |                           |                |                             |                         | <u>22,699,526</u>  | <u>9,500,394</u>   |
|  |                   |                           |                |                             |                         | <u>(5,662,451)</u> | <u>(2,599,916)</u> |
|  |                   |                           |                |                             |                         | <u>17,037,075</u>  | <u>6,900,478</u>   |
| Current maturity   |                   |                           |                |                             |                         |                    |                    |

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



18.1 Following are the participating banks:

United Bank Limited  
National Bank of Pakistan  
Habib Bank Limited

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

18.3 Following are the mandated lead arrangers:

Citigroup  
DVB Bank AG (DVB)

18.4 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.

18.5 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.

18.6 Following are the lenders:

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

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

18.8 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.

18.9 The Corporation 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.

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

18.11 Three years term finance secured against GoP Guarantee.

18.12 Three years term finance against current assets.

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

## 19. TERM FINANCE CERTIFICATES (TFCs)

TFCs - secured (non participatory)  
Current maturity

| December<br>31, 2007      | December<br>31, 2006 |
|---------------------------|----------------------|
| .....Rupees in '000'..... |                      |
| 13,246,970                | 14,003,940           |
| (2,523,232)               | (756,970)            |
| <b>10,723,738</b>         | <b>13,246,970</b>    |

During the year 2003, the Corporation, 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 Corporation defaults on any of its obligations, the Trustee may enforce the Corporation'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.

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

The TFCs have an embedded call option for early redemption exercisable by the Corporation 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 15.1).

|  | Note | December<br>31, 2007 | December<br>31, 2006 |
|--|------|----------------------|----------------------|
| ..... Rupees in '000'.....   |      |                      |                      |
| <b>20. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES</b>    |      |                      |                      |
| <b>Present value of future rental obligations - aircraft fleet</b> |      |                      |                      |
| A 310-300  | 20.2 | 5,149,590            | 5,665,539            |
| B 777-200 ER   | 20.3 | 15,101,574           | 16,593,380           |
| B 777-200 LR   | 20.4 | 14,156,116           | 15,118,103           |
| B 777-300 ER   | 20.5 | 16,794,148           | 8,947,013            |
|  |      | <b>51,201,428</b>    | <b>46,324,035</b>    |
| <b>Present value of future rental obligations - vehicles</b>       | 20.6 | <b>47,091</b>        | <b>93,900</b>        |
|  |      | <b>51,248,519</b>    | <b>46,417,935</b>    |
| Current portion thereof  |      | <b>(4,724,495)</b>   | <b>(3,914,491)</b>   |
|  |      | <b>46,524,024</b>    | <b>42,503,444</b>    |

20.1 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                              |
|   | <b>64,463,269</b>          | <b>13,214,750</b> | <b>51,248,519</b>                       | <b>59,672,420</b>          | <b>13,254,485</b> | <b>46,417,935</b>                       |

20.2 In 2003, the Corporation 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<br>31, 2007 | December<br>31, 2006 |
|---------------------------------------|----------------------|----------------------|
| Discount rate                         | 5.2%                 | 5.2%                 |
| Lease period                          | 144 months           | 144 months           |
| Security deposit (Rupees in thousand) | 199,098              | 197,219              |

20.3 In 2004, the Corporation 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:

|  | December<br>31, 2007 | December<br>31, 2006 |
|--|----------------------|----------------------|
| 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              |

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



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

| Note                                   | December<br>31, 2007                  | December<br>31, 2006          |
|--|---------------------------------------|-------------------------------|
| Discount rate - aircraft and propulsor | <b>Three months<br/>LIBOR – 0.02%</b> | Three months<br>LIBOR – 0.02% |
| Lease period - aircraft                | <b>144 months</b>                     | 144 months                    |
| Lease period - propulsor               | <b>96 months</b>                      | 96 months                     |
| Security deposit (Rupees in thousand)  | <b>470,450</b>                        | 466,009                       |

**20.5** In 2006, the Corporation has 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          | <b>5.25%</b>                          | -                             |
| Discount rate - one aircraft          | <b>Three months<br/>LIBOR – 0.04%</b> | Three months<br>LIBOR – 0.04% |
| Lease period - aircraft               | <b>144 months</b>                     | 144 months                    |
| Lease period - engine                 | <b>96 months</b>                      | 96 months                     |
| Security deposit (Rupees in thousand) | <b>593,078</b>                        | 319,568                       |

**20.6** The salient features of other lease arrangements are as follows:

|               |                        |                 |
|---------------|------------------------|-----------------|
| Discount rate | <b>7.71% - 13.32%</b>  | 7.71% - 13.32%  |
| Lease period  | <b>48 to 60 months</b> | 48 to 60 months |

**20.7** The ownership of all these assets will be transferred to the Corporation by the end of lease term.

|  | December<br>31, 2007        | December<br>31, 2006 |
|--|-----------------------------|----------------------|
| <b>21. LONG TERM DEPOSITS</b>                    |                             |                      |
|  | ..... Rupees in '000' ..... |                      |
| Deposits from agents                             | <b>118,000</b>              | 112,500              |
| Retention money                                  | <b>202,447</b>              | 149,211              |
| Deposits PIA Employees                           | <b>1,100</b>                | -                    |
|  | <b>321,547</b>              | 261,711              |
| <b>22. DEFERRED LIABILITIES</b>                  |                             |                      |
| Deferred custom duties                           | <b>178,588</b>              | 178,588              |
| Obligation for compensated absences              | 22.1 <b>1,445,000</b>       | 1,284,000            |
| Post retirement medical benefits                 | 22.2 <b>1,425,578</b>       | 1,353,000            |
|  | <b>3,049,166</b>            | 2,815,588            |
| <b>22.1 Obligation for compensated absences</b>  |                             |                      |
| <b>Liability recognised in the balance sheet</b> |                             |                      |
| Balance at beginning of the year                 | <b>1,284,000</b>            | 1,364,000            |
| Charge for the year                              | <b>161,000</b>              | 11,915               |
|  | <b>1,445,000</b>            | 1,375,915            |
| Payments made during the year                    | -                           | (91,915)             |
|  | <b>1,445,000</b>            | 1,284,000            |



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

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<br>31, 2007         | December<br>31, 2006 |
|  | .....Rupees in '000'.....    |                      |
| <b>22.2 Post retirement medical benefits</b>         |                              |                      |
| <b>Liability recognised in the balance sheet</b>     |                              |                      |
| Present value of defined benefit obligation          | <u>1,425,578</u>             | <u>1,353,000</u>     |
| <b>Movement in liability during the year</b>         |                              |                      |
| 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)             |
|  | <u>1,425,578</u>             | <u>1,353,000</u>     |
| <b>Expense recognised in profit and loss account</b> |                              |                      |
| Current service cost                                 | 26,000                       | 22,000               |
| Interest cost  | 143,300                      | 127,000              |
| Net actuarial loss recognized                        | 4,000                        | 69,000               |
|  | <u>173,300</u>               | <u>218,000</u>       |

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 | <u>1,426,000</u>          | <u>1,353,000</u> | <u>1,211,000</u> | <u>925,000</u> | <u>771,000</u> |

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).

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



|   | Note | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|
| ..... Rupees in '000'.....  |      |                      |                      |
| <b>23. TRADE AND OTHER PAYABLES</b>   |      |                      |                      |
| <b>Trade</b>  |      |                      |                      |
| <b>Creditors</b>  |      |                      |                      |
| Goods   |      | 3,078,367            | 2,809,858            |
| Services  |      | 2,729,197            | 2,170,524            |
| Airport related charges   |      | 621,384              | 626,551              |
|   |      | <b>6,428,948</b>     | <b>5,606,933</b>     |
| <b>Other payables</b>   |      |                      |                      |
| 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            |
|   |      | <b>6,105,163</b>     | <b>6,513,567</b>     |
| 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              | -                    |
|   |      | <b>20,055,163</b>    | <b>16,617,024</b>    |
| <b>23.1 Provision for frequent flyer programme</b>  |      |                      |                      |
| Balance at the beginning of the year  |      | 61,664               | -                    |
| Charge for the year   |      | 38,112               | 61,664               |
|   |      | <b>99,776</b>        | <b>61,664</b>        |
| <b>23.2 Provision for construction of University Road, Karachi</b>  |      |                      |                      |
| Balance at the beginning of the year  |      | 215,000              | 100,000              |
| Charge for the year   |      | -                    | 200,000              |
|   |      | <b>215,000</b>       | <b>300,000</b>       |
| Payments made during the year   |      | -                    | (85,000)             |
|   |      | <b>215,000</b>       | <b>215,000</b>       |
| <b>23.3</b> 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. |      |                      |                      |
| <b>23.4</b> 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%.                             |      |                      |                      |

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

|  | Note | December<br>31, 2007 | December<br>31, 2006 |
|--|------|----------------------|----------------------|
| Rupees in '000'                                |      |                      |                      |
| <b>24. ACCRUED INTEREST / MARK-UP / PROFIT</b> |      |                      |                      |
| 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              |
|  |      | <b>978,317</b>       | <b>812,278</b>       |
| <b>25. SHORT TERM BORROWINGS – secured</b>     |      |                      |                      |
| 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            |
|  |      | <b>18,105,884</b>    | <b>15,543,446</b>    |

## 25.1 Short term loans – secured

| Financier   | Security   | Repayment period | Mark-up rate                       |                   |                   |
|---|--|------------------|------------------------------------|-------------------|-------------------|
| 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/<br>Domestic Receivables                 | 1 year           | 1 month KIBOR<br>+ 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         | -                 |
|   |  |                  |                                    | <b>16,033,876</b> | <b>10,580,640</b> |

## 25.2 Running finances under mark-up arrangements – secured

| Financier  | Security   | Repayment period | Mark-up rate           |                  |                  |
|--|--|------------------|------------------------|------------------|------------------|
| 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        |
|  |  |                  |                        | <b>2,072,008</b> | <b>4,962,806</b> |

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



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.

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

- (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            |                   |
|--------------------------------------|-------|---------------------------|-------------------|
|                                      |       |                           | 779               |
|                                      |       |                           | 3,116             |
|                                      |       |                           | 3,116             |
|                                      |       | December                  | December          |
|                                      |       | 31, 2007                  | 31, 2006          |
|                                      |       | .....Rupees in '000'..... |                   |
| <b>27. REVENUES – net</b>            |       |                           |                   |
| 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           |
|                                      |       | <u>70,480,734</u>         | <u>70,587,146</u> |
| <b>28. COST OF SERVICES – others</b> |       |                           |                   |
| 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           |
|                                      |       | <u>35,906,817</u>         | <u>36,512,116</u> |

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



|  | Note        | December<br>31, 2007 | December<br>31, 2006 |
|--|-------------|----------------------|----------------------|
| ----- Rupees in '000'-----                     |             |                      |                      |
| <b>29. DISTRIBUTION COSTS</b>                  |             |                      |                      |
| 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               |
|  |             | <u>4,448,674</u>     | <u>4,395,061</u>     |
| <b>30. ADMINISTRATIVE EXPENSES</b>             |             |                      |                      |
| 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              |
|  |             | <u>5,256,700</u>     | <u>4,887,088</u>     |
| <b>30.1 Auditors' remuneration</b>             |             |                      |                      |
| 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                  |
|  |             | <u>10,631</u>        | <u>12,415</u>        |

**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.

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

|   | Note | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|
| ..... Rupees in '000'.....                                      |      |                      |                      |
| <b>31. OTHER PROVISIONS AND ADJUSTMENTS - net</b>               |      |                      |                      |
| 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              |
|   |      | <u>1,487,893</u>     | <u>855,547</u>       |
| <b>32. OTHER OPERATING INCOME</b>                               |      |                      |                      |
| <b>Income from financial assets</b>                             |      |                      |                      |
| Profit on bank deposits   |      | 207,464              | 213,240              |
| Interest income on advance to pension and provident funds       |      | -                    | 13,568               |
| <b>Income from subsidiary</b>                                   |      |                      |                      |
| Interest income on advances                                     |      | -                    | 185,876              |
| <b>Income from investment</b>                                   |      |                      |                      |
| Interest income on held to maturity investment                  |      | -                    | 3,708                |
| Gain on disposal of short term investments                      |      | 19,650               | -                    |
| Dividend on investments   |      | 568,548              | -                    |
| <b>Income from assets other than financial assets</b>           |      |                      |                      |
| 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               | -                    |
|   |      | <u>999,433</u>       | <u>986,046</u>       |
| <b>33. FINANCE COSTS</b>  |      |                      |                      |
| 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               |
|   |      | <u>7,135,845</u>     | <u>4,768,436</u>     |
| <b>34. INCOME TAX EXPENSE</b>                                   |      |                      |                      |
| Current   | 34.1 | 352,404              | 352,936              |
| Prior   |      | -                    | (305,887)            |
| Deferred  | 34.2 | (24,619)             | (498,786)            |
|   |      | <u>327,785</u>       | <u>(451,737)</u>     |

**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.

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



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<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|
| ..... Rupees in '000'.....                                |      |                      |                      |
| <b>34.2 Deferred taxation</b>                             |      |                      |                      |
| <b>Deferred tax credits:</b>                              |      |                      |                      |
| 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               |
|   |      | <u>22,995,277</u>    | <u>17,860,657</u>    |
| <b>Deferred tax debits:</b>                               |      |                      |                      |
| Unused tax losses   |      | (28,459,587)         | (20,011,344)         |
| Provisions for liabilities and to write down other assets |      | (2,356,848)          | (2,134,853)          |
|   |      | <u>(30,816,435)</u>  | <u>(22,146,197)</u>  |
|   |      | <u>(7,821,158)</u>   | <u>(4,285,540)</u>   |

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<br>31, 2007    | December<br>31, 2006 |
|--|-------------------------|----------------------|
| ..... Rupees in '000'.....                             |                         |                      |
| <b>35. LOSS PER SHARE</b>                              |                         |                      |
| Loss for the year                                      | 13,398,706              | 12,763,420           |
|  | <b>Number of shares</b> |                      |
| Weighted average number of ordinary shares outstanding | 2,027,508,768           | 1,877,566,277        |
|  | <b>R u p e e s</b>      |                      |
| <b>Loss per share</b>                                  |                         |                      |
| '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.



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

|  | Note    | December<br>31, 2007 | December<br>31, 2006 |
|--|---------|----------------------|----------------------|
| ..... Rupees in '000'.....                                 |         |                      |                      |
| <b>36. CASH (USED IN) / GENERATED FROM OPERATIONS</b>      |         |                      |                      |
| Loss before taxation                                       |         | (13,070,921)         | (13,215,157)         |
| <b>Adjustments for:</b>                                    |         |                      |                      |
| 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)             |
|  |         | <b>618,899</b>       | <b>(4,489,477)</b>   |
| <b>Working capital changes</b>                             |         |                      |                      |
| (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            |
|  |         | <b>3,968,358</b>     | <b>(1,181,312)</b>   |
|  |         | <b>4,587,257</b>     | <b>(5,670,789)</b>   |

## 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          |
|  | <b>5,611</b>    | <b>8,574</b> | <b>2,055,229</b> | <b>1,363,797</b> |
| Number                                       | <b>1</b>        | <b>1</b>     | <b>929</b>       | <b>641</b>       |

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.

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



## 38. GEOGRAPHICAL SEGMENTS

### Revenue analysis

|                           | December<br>31, 2007       | December<br>31, 2006 |
|---------------------------|----------------------------|----------------------|
|                           | ..... Rupees in '000'..... |                      |
| 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           |
|                           | <u>70,480,734</u>          | <u>70,587,146</u>    |

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<br>31, 2007       | December<br>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)          |
| <b>Net debt</b>                          | <u>73,110,401</u>          | <u>51,017,158</u>    |
| Issued, subscribed and paid-up capital   | 20,878,074                 | 19,473,631           |
| Revenue reserve                          | 1,779,674                  | 1,779,674            |
| Total capital                            | <u>22,657,748</u>          | <u>21,253,305</u>    |
| <b>Capital and net debt</b>              | <u>95,768,149</u>          | <u>72,270,463</u>    |

### 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.

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

## (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 |                                       |                                     |                    | Total                |  |
|  | Maturity<br>Up to one<br>year | Maturity<br>One year to<br>five years | Maturity<br>Five years<br>and above | Sub Total            | Maturity<br>Up to one<br>year  | Maturity<br>One year to<br>five years | Maturity<br>Five years<br>and above | Sub Total          |                      |  |
|  | (Rupees in '000')             |                                       |                                     |                      | (Rupees in '000')              |                                       |                                     |                    |                      |  |
| <b>Financial assets</b>                                |                               |                                       |                                     |                      |                                |                                       |                                     |                    |                      |  |
| Investment   | 18,958                        | 25,189                                | -                                   | 44,147               | 13,135                         | -                                     | 98,930                              | 112,065            | 156,212              |  |
| Advances and other<br>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            |  |
|  | <b>1,637,685</b>              | <b>1,308,189</b>                      | <b>-</b>                            | <b>2,945,874</b>     | <b>6,748,132</b>               | <b>-</b>                              | <b>2,614,811</b>                    | <b>9,362,943</b>   | <b>12,308,817</b>    |  |
|  | 2 0 0 7                       |                                       |                                     |                      |                                |                                       |                                     |                    |                      |  |
|  | Interest / mark-up bearing    |                                       |                                     |                      | Non-Interest / mark-up bearing |                                       |                                     |                    |                      |  |
|  | Maturity<br>Up to one<br>year | Maturity<br>One year to<br>five years | Maturity<br>Five years<br>and above | Sub Total            | Maturity<br>Up to one<br>year  | Maturity<br>One year to<br>five years | Maturity<br>Five years<br>and above | Sub Total          | Total                |  |
|  | (Rupees in '000')             |                                       |                                     |                      | (Rupees in '000')              |                                       |                                     |                    |                      |  |
| <b>Financial liabilities</b>                           |                               |                                       |                                     |                      |                                |                                       |                                     |                    |                      |  |
| 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<br>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/<br>profit                   | 978,317                       | -                                     | -                                   | 978,317              | -                              | -                                     | -                                   | -                  | 978,317              |  |
| Borrowings   | 18,105,884                    | -                                     | -                                   | 18,105,884           | -                              | -                                     | -                                   | -                  | 18,105,884           |  |
|  | <b>31,994,379</b>             | <b>45,782,020</b>                     | <b>28,502,817</b>                   | <b>106,279,216</b>   | <b>11,783,801</b>              | <b>3,192,125</b>                      | <b>-</b>                            | <b>14,975,926</b>  | <b>121,255,142</b>   |  |
| <b>Net financial (liabilities) /<br/>assets</b>        | <b>(30,356,694)</b>           | <b>(44,473,481)</b>                   | <b>(28,502,817)</b>                 | <b>(103,333,342)</b> | <b>(5,035,669)</b>             | <b>(3,192,125)</b>                    | <b>2,614,811</b>                    | <b>(5,612,983)</b> | <b>(108,946,325)</b> |  |

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



| 2 0 0 6                        |                            |                                 |                               |                  |                                |                                 |                               |                   |                   |
|--------------------------------|----------------------------|---------------------------------|-------------------------------|------------------|--------------------------------|---------------------------------|-------------------------------|-------------------|-------------------|
|                                | Interest / mark-up bearing |                                 |                               |                  | Non-Interest / mark-up bearing |                                 |                               |                   | Total             |
|                                | 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         |                   |
| ..... (Rupees in '000') .....  |                            |                                 |                               |                  | ..... (Rupees in '000') .....  |                                 |                               |                   |                   |
| <b>Financial assets</b>        |                            |                                 |                               |                  |                                |                                 |                               |                   |                   |
| 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         |
|                                | <b>2,700,126</b>           | <b>1,727,731</b>                | <b>1,362,212</b>              | <b>5,790,069</b> | <b>10,648,251</b>              | <b>771,192</b>                  | <b>68,358</b>                 | <b>11,487,801</b> | <b>17,277,870</b> |

| 2 0 0 6   |                            |                                 |                               |                     |                                |                                 |                               |                   |                     |
|---|----------------------------|---------------------------------|-------------------------------|---------------------|--------------------------------|---------------------------------|-------------------------------|-------------------|---------------------|
|   | Interest / mark-up bearing |                                 |                               |                     | Non-Interest / mark-up bearing |                                 |                               |                   | Total               |
|   | 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         |                     |
| ..... (Rupees in '000') .....                       |                            |                                 |                               |                     | ..... (Rupees in '000') .....  |                                 |                               |                   |                     |
| <b>Financial liabilities</b>                        |                            |                                 |                               |                     |                                |                                 |                               |                   |                     |
| 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          |
|   | <b>24,408,266</b>          | <b>35,737,401</b>               | <b>26,913,490</b>             | <b>87,059,157</b>   | <b>8,461,581</b>               | <b>2,898,711</b>                | <b>-</b>                      | <b>11,360,292</b> | <b>98,419,449</b>   |
| <b>Net financial (liabilities) / assets</b>         | <b>(21,708,140)</b>        | <b>(34,009,670)</b>             | <b>(25,551,278)</b>           | <b>(81,269,088)</b> | <b>2,186,670</b>               | <b>(2,127,519)</b>              | <b>68,358</b>                 | <b>127,509</b>    | <b>(81,141,579)</b> |

| 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.

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

Other material transactions with related parties are given below:

|   | December<br>31, 2007       | December<br>31, 2006 |
|---|----------------------------|----------------------|
|   | ..... Rupees in '000'..... |                      |
| <b>PIA Investments Limited – Subsidiary</b>     |                            |                      |
| Recovery of advances                            | -                          | 5,055,045            |
| Interest on advances                            | -                          | 185,876              |
| <b>Sky Rooms (Private) Limited – Subsidiary</b> |                            |                      |
| Catering services                               | 6,426                      | 31,497               |
| <b>Retirement funds</b>                         |                            |                      |
| 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<br>in '000' |
|---|--|--------------------|
| <b>Other provisions and adjustments - net</b> | <b>Other operating income</b>                |                    |
| 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**

*GROUP CONSOLIDATED  
FINANCIAL STATEMENTS*

## Auditors' Report To The Members

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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<br>31, 2007 | December<br>31, 2006 | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|----------------------|----------------------|
|   |      | Rupees in '000'      |                      | US\$ in '000'        |                      |
| <b>ASSETS</b>                                   |      |                      |                      |                      |                      |
| <b>NON - CURRENT ASSETS</b>                     |      |                      |                      |                      |                      |
| 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               |
|   |      | <b>134,537,937</b>   | 104,655,075          | <b>2,189,389</b>     | 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               |
|   |      | <b>140,724,403</b>   | 110,371,598          | <b>2,290,063</b>     | 1,813,234            |
| <b>CURRENT ASSETS</b>                           |      |                      |                      |                      |                      |
| 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              |
|   |      | <b>16,419,640</b>    | 21,032,248           | <b>267,204</b>       | 345,528              |
| <b>TOTAL ASSETS</b>                             |      | <b>157,144,043</b>   | 131,403,846          | <b>2,557,267</b>     | 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<br>31, 2007 | December<br>31, 2006 | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|----------------------|----------------------|
|   |      | Rupees in '000'      |                      | US\$ in '000'        |                      |
| <b><u>EQUITY AND LIABILITIES</u></b>                |      |                      |                      |                      |                      |
| <b>SHARE CAPITAL AND RESERVES</b>                   |      |                      |                      |                      |                      |
| 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               |
| <b>Minority Interest</b>                            |      | <b>527,860</b>       | <b>520,692</b>       | <b>8,590</b>         | <b>8,554</b>         |
| <b>Total equity</b>                                 |      | <b>(8,129,191)</b>   | <b>2,425,861</b>     | <b>(132,293)</b>     | <b>39,853</b>        |
| <b>Surplus on revaluation of fixed assets - net</b> | 18   | <b>10,190,057</b>    | <b>3,601,840</b>     | <b>165,827</b>       | <b>59,173</b>        |
|   |      | <b>2,060,866</b>     | <b>6,027,701</b>     | <b>33,534</b>        | <b>99,026</b>        |
| <b>NON - CURRENT LIABILITIES</b>                    |      |                      |                      |                      |                      |
| 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              |
|   |      | <b>101,234,140</b>   | <b>82,740,756</b>    | <b>1,647,424</b>     | <b>1,359,303</b>     |
| <b>CURRENT LIABILITIES</b>                          |      |                      |                      |                      |                      |
| 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               |
|   |      | <b>53,849,037</b>    | <b>42,635,389</b>    | <b>876,309</b>       | <b>700,433</b>       |
| <b>CONTINGENCIES AND COMMITMENTS</b>                |      |                      |                      |                      |                      |
|   | 27   |                      |                      |                      |                      |
| <b>TOTAL EQUITY AND LIABILITIES</b>                 |      | <b>157,144,043</b>   | <b>131,403,846</b>   | <b>2,557,267</b>     | <b>2,158,762</b>     |

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<br>31, 2007 | December<br>31, 2006 | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|----------------------|----------------------|
|   |      | Rupees in '000'      |                      | US\$ in '000'        |                      |
| <b>REVENUE - Net</b>                              | 28   | <b>78,554,483</b>    | 76,435,189           | <b>1,278,348</b>     | 1,255,712            |
| <b>COST OF SERVICES</b>                           |      |                      |                      |                      |                      |
| Aircraft fuel                                     |      | <b>30,315,159</b>    | 33,370,101           | <b>493,330</b>       | 548,219              |
| Others  | 29   | <b>42,194,738</b>    | 41,353,164           | <b>686,652</b>       | 679,369              |
|   |      | <b>72,509,897</b>    | 74,723,265           | <b>1,179,982</b>     | 1,227,588            |
| <b>GROSS PROFIT</b>                               |      | <b>6,044,586</b>     | 1,711,924            | <b>98,366</b>        | 28,124               |
| Distribution costs                                | 30   | <b>4,448,674</b>     | 4,395,834            | <b>72,395</b>        | 72,217               |
| Administrative expenses                           | 31   | <b>5,293,654</b>     | 4,910,728            | <b>86,146</b>        | 80,676               |
| Other provisions and adjustments - net            | 32   | <b>1,487,893</b>     | 955,964              | <b>24,213</b>        | 15,705               |
|   |      | <b>11,230,221</b>    | 10,262,526           | <b>182,754</b>       | 168,598              |
| Other operating income                            | 33   | <b>614,523</b>       | 855,714              | <b>10,000</b>        | 14,058               |
| <b>LOSS FROM OPERATIONS</b>                       |      | <b>4,571,112</b>     | 7,694,888            | <b>74,388</b>        | 126,416              |
| Finance costs                                     | 34   | <b>7,938,364</b>     | 5,275,360            | <b>129,184</b>       | 86,666               |
| Share of (profit)/loss from an associated company |      | <b>(20,211)</b>      | 15,023               | <b>(329)</b>         | 246                  |
| <b>LOSS BEFORE TAXATION</b>                       |      | <b>12,489,265</b>    | 12,985,271           | <b>203,243</b>       | 213,328              |
| Income tax expense                                | 35   | <b>726,390</b>       | (562,455)            | <b>11,821</b>        | (9,240)              |
| <b>LOSS FOR THE YEAR</b>                          |      | <b>13,215,655</b>    | 12,422,816           | <b>215,064</b>       | 204,088              |
| <b>Attributable to:</b>                           |      |                      |                      |                      |                      |
| Shareholders of the holding company               |      | <b>13,208,487</b>    | 12,426,185           | <b>214,947</b>       | 204,143              |
| Minority interest                                 |      | <b>7,168</b>         | (3,369)              | <b>117</b>           | (55)                 |
|   |      | <b>13,215,655</b>    | 12,422,816           | <b>215,064</b>       | 204,088              |
|   |      |                      |                      |                      |                      |
|   |      | <b>(Rupees)</b>      |                      | <b>(US\$)</b>        |                      |
| <b>LOSS PER SHARE</b>                             | 36   |                      |                      |                      |                      |
| 'A' class Ordinary shares of Rs.10 each           |      | <b>6.25</b>          | 6.62                 | <b>0.10</b>          | 0.11                 |
| 'B' class Ordinary shares of Rs. 5 each           |      | <b>3.12</b>          | 3.31                 | <b>0.05</b>          | 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<br>31, 2007 | December<br>31, 2006 | December<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|----------------------|----------------------|
|   |      | Rupees in '000'      |                      | US\$ in '000'        |                      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |      |                      |                      |                      |                      |
| Cash generated from / (used in) operations<br>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<br>Road, Karachi               |      | -                    | (85,000)             | -                    | (1,396)              |
| Long term deposits - net  |      | (836,306)            | (935,075)            | (13,610)             | (15,362)             |
| <b>Net cash used in operating activities</b>                                |      | <b>(1,300,673)</b>   | <b>(10,708,823)</b>  | <b>(21,167)</b>      | <b>(175,929)</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |      |                      |                      |                      |                      |
| Capital expenditure incurred  |      | (12,722,326)         | (5,340,052)          | (207,035)            | (87,729)             |
| Proceeds from disposal of property, plant<br>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                |
| <b>Net cash used in investing activities</b>                                |      | <b>(11,765,368)</b>  | <b>(7,711,013)</b>   | <b>(191,462)</b>     | <b>(126,680)</b>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |      |                      |                      |                      |                      |
| 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)             |
| <b>Net cash from financing activities</b>                                   |      | <b>7,657,678</b>     | <b>7,678,704</b>     | <b>124,617</b>       | <b>126,149</b>       |
| <b>Decrease in cash and cash equivalents</b>                                |      | <b>(5,408,363)</b>   | <b>(10,741,132)</b>  | <b>(88,012)</b>      | <b>(176,460)</b>     |
| <b>CASH AND CASH EQUIVALENTS AT THE<br/>BEGINNING OF THE YEAR</b>           |      | <b>(8,464,341)</b>   | <b>2,276,791</b>     | <b>(137,744)</b>     | <b>37,404</b>        |
| <b>CASH AND CASH EQUIVALENTS AT THE<br/>END OF THE YEAR</b>                 |      | <b>(13,872,704)</b>  | <b>(8,464,341)</b>   | <b>(225,756)</b>     | <b>(139,056)</b>     |
| <b>CASH AND CASH EQUIVALENTS</b>  |      |                      |                      |                      |                      |
| 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)            |
|   |      | <b>(13,872,704)</b>  | <b>(8,464,341)</b>   | <b>(225,756)</b>     | <b>(139,056)</b>     |

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

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%.

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

## 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.

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



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.



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

## 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.

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



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.

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

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.

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



## 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

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

## 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.

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



- 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

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

## **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.

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



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.



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

## **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.

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



## **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.

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

## 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.

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



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

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

## 3.1 Operating fixed assets

|  | COST / REVALUED AMOUNT       |                           |  |                               |                                | ACCUMULATED DEPRECIATION     |                                    |   |                               | WRITTEN<br>DOWN<br>VALUE      |
|--|------------------------------|---------------------------|--|-------------------------------|--------------------------------|------------------------------|------------------------------------|---|-------------------------------|-------------------------------|
|  | As at<br>January<br>01, 2007 | Additions/<br>(Disposals) | Revaluation / *<br>Adjustment/<br>(write-off) ** | As at<br>December<br>31, 2007 | Annual<br>depreciation<br>Rate | As at<br>January<br>01, 2007 | For the<br>year/<br>(on disposals) | Revaluation/ *<br>Adjustment/<br>(write-off) ** | As at<br>December<br>31, 2007 | As at<br>December<br>31, 2007 |
|  | (Rupees in '000')            |                           |  |                               |                                | %                            | (Rupees in '000')                  |   |                               |                               |
| <b>December 31, 2007</b>   |                              |                           |  |                               |                                |                              |                                    |   |                               |                               |
| <b>Owned</b>   |                              |                           |  |                               |                                |                              |                                    |   |                               |                               |
| Leasehold land   | 66,821                       | 313                       | -  | 67,134                        | -                              | -                            | -                                  | -   | -                             | 67,134                        |
| Buildings on leasehold land  | 1,072,608                    | 49,975                    | -  | 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,<br>3.1.2 & 3.1.3)   | 27,362,335                   | 3,226,351<br>(585,035)    | 4,362,652 **                                     | 34,366,303                    | 8.85-4.55                      | 14,173,656                   | 2,051,635<br>(585,035)             | (643,678) **                                    | 14,996,578                    | 19,369,725                    |
| Operating ground equipment,<br>catering, communication and<br>meteorological equipment | 514,683                      | 117,057<br>(3,368)        | -  | 628,372                       | 10                             | 364,146                      | 30,827<br>(3,350)                  | -   | 391,623                       | 236,749                       |
| 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<br>(4,042)         | -  | 1,773,891                     | 10-20                          | 1,166,790                    | 67,548<br>(3,638)                  | -   | 1,230,700                     | 543,191                       |
| Furniture, fixture and fitting   | 4,178,808                    | 378,616<br>(247,732)      | 232,911 **                                       | 4,542,603                     | 10                             | 2,556,101                    | 257,825<br>(164,713)               | (82,700) **                                     | 2,566,513                     | 1,976,090                     |
| Motor transport  | 212,323                      | 23,445<br>(6,925)         | -  | 228,843                       | 25                             | 166,783                      | 15,073<br>(4,913)                  | -   | 176,943                       | 51,900                        |
| Office equipment   | 77,845                       | 1,684<br>(746)            | -  | 78,783                        | 15                             | 66,844                       | 3,274<br>(689)                     | -   | 69,429                        | 9,354                         |
| 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<br>(3,748)         | -  | 470,813                       | 10                             | 363,042                      | 12,017<br>(2,227)                  | -   | 372,752                       | 98,061                        |
|  |                              |                           | (80)   |                               |                                |                              |                                    | (80)  |                               |                               |
| Capital spares   | 6,834,108                    | 1,200,573<br>(1,729)      | -  | 7,938,602                     | 8.85-4.55                      | 2,493,084                    | 395,706<br>(1,729)                 | (65,672)  | 2,821,389                     | 5,117,213                     |
|  | 71,272,049                   | 5,459,978<br>(853,325)    | 12,593,175 *<br>5,386,013 **                     | 93,760,430                    |                                | 27,719,485                   | 3,569,415<br>(766,294)             | (65,120) *<br>(726,378) **                      | 29,662,326                    | 64,098,104                    |
|  |                              |                           | (97,460)   |                               |                                |                              |                                    | (68,782)  |                               |                               |
| <b>Leased</b>  |                              |                           |  |                               |                                |                              |                                    |   |                               |                               |
| Aircraft fleet (notes 3.1.1,<br>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<br>Ground Service   | 84,430                       | -                         | -  | 84,430                        | 10-20                          | 24,603                       | 7,599                              | -   | 32,202                        | 52,228                        |
|  | 59,517,588                   | 10,488,247<br>(6,134)     | 604,551  | 70,604,252                    |                                | 7,127,921                    | 2,757,994<br>(4,076)               | (229,045) **                                    | 9,652,794                     | 60,951,458                    |
|  | 130,789,637                  | 15,948,225                | 12,593,175 *<br>5,990,564 **                     | 164,364,682                   |                                | 34,847,406                   | 6,327,409<br>(770,370)             | (65,120) *<br>(955,423) **                      | 39,315,120                    | 125,049,562                   |
|  |                              | (859,459)                 | (97,460)   |                               |                                |                              |                                    | (68,782)  |                               |                               |

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



|  | COST / REVALUED AMOUNT |                        |                        |                         | Annual depreciation Rate | ACCUMULATED DEPRECIATION |                              |                                      |                         | WRITTEN DOWN VALUE      |
|--|------------------------|------------------------|------------------------|-------------------------|--------------------------|--------------------------|------------------------------|--------------------------------------|-------------------------|-------------------------|
|  | As at January 01, 2006 | Additions/ (Disposals) | Transfers/ revaluation | As at December 31, 2006 |                          | As at January 01, 2006   | For the year/ (on disposals) | Transfers/ adjustment/ revaluation * | As at December 31, 2006 | As at December 31, 2006 |
| <b>December 31, 2006</b>   | (Rupees in '000')      |                        |                        |                         | %                        | (Rupees in '000')        |                              |                                      |                         |                         |
| <b>Owned</b>   |                        |                        |                        |                         |                          |                          |                              |                                      |                         |                         |
| 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 Ventilaion 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)                          |                         |                         |
| <b>Leased</b>  |                        |                        |                        |                         |                          |                          |                              |                                      |                         |                         |
| 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) *                        |                         |                         |

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

## 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<br>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 equivalent 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.

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



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:

|                 | 2 0 0 7 |         |         |         |          |     |
|-----------------|---------|---------|---------|---------|----------|-----|
|                 | 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  |



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

|                 | 2006    |         |         |         |          | ATR |
|-----------------|---------|---------|---------|---------|----------|-----|
|                 | BOEING  |         |         |         | AIRBUS   |     |
|                 | 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'   |                          |                    |
| <b>Aircraft fleet - 2007</b> | <b>92,250,503</b> | <b>20,082,394</b>        | <b>72,168,109</b>  |
| <b>Aircraft fleet - 2006</b> | <b>78,912,495</b> | <b>16,265,774</b>        | <b>62,646,721</b>  |

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           |
|                           |      | <b>6,327,409</b>  | <b>4,049,757</b>  |

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          | Accumulated     | Net            | Sale           |                |
|--|--------------------------------|-----------------------------|-----------------|----------------|----------------|----------------|
|  |                                |                             | Cost            | book value     | proceeds       |                |
|  |                                |                             | Rupees in '000' |                |                |                |
| <b>Aircraft fleet</b>  |                                |                             |                 |                |                |                |
| 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         |
| <b>Motor vehicles</b>  |                                |                             |                 |                |                |                |
| <b>To employees</b>  |                                |                             |                 |                |                |                |
| 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. Shujaiddin, 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            |
| <b>Various *</b>   |                                |                             |                 |                |                |                |
| Aggregate value of items where written down value (WDV) is above Rs.50,000 |                                |                             |                 |                |                |                |
|  | <b>Various</b>                 |                             | <b>10,404</b>   | <b>8,203</b>   | <b>2,201</b>   | <b>25,530</b>  |
| WDV is less than Rs.50,000   |                                |                             |                 |                |                |                |
|  | <b>Various</b>                 |                             | <b>363,523</b>  | <b>363,110</b> | <b>413</b>     | <b>6,738</b>   |
| Assets disposed off by subsidiaries  |                                |                             |                 |                |                |                |
|  |                                |                             | <b>247,579</b>  | <b>163,957</b> | <b>83,622</b>  | <b>83,622</b>  |
|  | <b>Total</b>                   |                             | <b>859,459</b>  | <b>770,370</b> | <b>89,089</b>  | <b>193,671</b> |
|  |                                |                             | <b>2007</b>     | <b>773,873</b> | <b>750,744</b> | <b>23,129</b>  |
|  |                                |                             | <b>2006</b>     |                |                | <b>280,135</b> |

\* 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.

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



## 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

Buildings on leasehold land  
Other equipment  
Renovation and improvements  
Non-refundable advances against the purchase of aircraft and related equipment

Less: Transfer to operating fixed assets  
Items written off

| December<br>31, 2007        | December<br>31, 2006 |
|-----------------------------|----------------------|
| ----- Rupees in '000' ----- |                      |
| 25,883                      | 23,696               |
| 757,730                     | 404,249              |
| 86,699                      | 115,542              |
| <b>10,823,084</b>           | 24,899,773           |
| <b>11,693,396</b>           | 25,443,260           |
| <b>4,268,076</b>            | 18,775,030           |
| <b>4,062</b>                | 30,464               |
| <b>4,272,138</b>            | 18,805,494           |
| <b>7,421,258</b>            | 6,637,766            |

## 4. INTANGIBLES

| Note                           | COST                        |                                   |                         | Annual amortization years | ACCUMULATED AMORTIZATION    |                |                         | WRITTEN DOWN VALUE      |                  |
|--------------------------------|-----------------------------|-----------------------------------|-------------------------|---------------------------|-----------------------------|----------------|-------------------------|-------------------------|------------------|
|                                | As at January 01, 2007      | Additions/ translation adjustment | As at December 31, 2007 |                           | 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           |
|                                |                             | <b>2,176,404</b>                  | <b>50,259</b>           | <b>2,317,236</b>          |                             | <b>203,676</b> | <b>46,443</b>           | <b>250,119</b>          | <b>2,067,117</b> |
|                                |                             |                                   | <b>90,573</b>           |                           |                             |                |                         |                         |                  |

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.

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

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

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

|                                    | Note | December 31, 2007 | December 31, 2006 |
|------------------------------------|------|-------------------|-------------------|
|                                    |      | Rupees in '000'   |                   |
| 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'        |                                   |                            |              |                   |            |                     |          |                 |
| <b>2007</b>         |                                   |                            |              |                   |            |                     |          |                 |
| Minhal Incorporated | Sharjah                           | December 31                | 116,994      | 3,193             | 113,801    | 45,521              | 40,001   | 40              |
| <b>2006</b>         |                                   |                            |              |                   |            |                     |          |                 |
| 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'  |                                   |                            |              |                   |            |                     |          |                 |
| <b>2007</b>   |                                   |                            |              |                   |            |                     |          |                 |
| Abacus Distribution System Pakistan (Private) Limited | Pakistan                          | December 31                | 81,275       | 83,953            | (2,678)    | (1,205)             | 159,871  | 45              |
| <b>2006</b>   |                                   |                            |              |                   |            |                     |          |                 |
| Abacus Distribution System Pakistan (Private) Limited | Pakistan                          | December 31                | 73,141       | 79,154            | (6,013)    | (1,203)             | 131,372  | 20              |

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



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

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

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<br>31, 2007 | December<br>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            |
|  |      | <u>1,291,092</u>     | <u>1,694,077</u>     |
| <b>7.1 Long term loans - unsecured</b> |      |                      |                      |
| Employees                              |      | 11,534               | 14,697               |
| Current maturity                       |      | (3,567)              | (4,817)              |
|  |      | <u>7,967</u>         | <u>9,880</u>         |

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         |
|           | <u>125</u> | <u>197</u> |

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)       |
|   | <u>(1,283,000)</u> | <u>(1,684,000)</u> |

#### 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        |
|                                 | <u>499,000</u> | <u>375,000</u> |

#### 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           |
|                                      | <u>1,283,000</u> | <u>1,684,000</u> |

#### Actual return on plan assets

|  |                  |                |
|--|------------------|----------------|
|  | <u>1,042,000</u> | <u>890,000</u> |
|--|------------------|----------------|

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



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

### Deposits

|                               | Note | December 31, 2007 | December 31, 2006 |
|-------------------------------|------|-------------------|-------------------|
|                               |      | Rupees in '000'   |                   |
| 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.

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

|  | Note | December<br>31, 2007 | December<br>31, 2006 |
|--|------|----------------------|----------------------|
| .....Rupees in '000'.....  |      |                      |                      |
| <b>9. STORES AND SPARES</b>  |      |                      |                      |
| Stores   |      | 883,747              | 839,848              |
| Spares   |      | 3,986,246            | 3,387,842            |
|  |      | <b>4,869,993</b>     | 4,227,690            |
| Provision for slow moving stores and spares                        | 9.1  | (1,930,145)          | (1,604,338)          |
|  |      | <b>2,939,848</b>     | 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)          |
|  |      | <b>262,553</b>       | 330,998              |
| Stores and spares-in-transit                                       |      | 83,769               | 427,978              |
|  |      | <b>3,286,170</b>     | <b>3,382,328</b>     |
| <b>9.1 Movement in provision is as follows:</b>                    |      |                      |                      |
| 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              |
|  |      | <b>1,930,145</b>     | <b>1,604,338</b>     |

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

|  |      |                  |                  |
|--|------|------------------|------------------|
| 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)        |
|  |      | -                | -                |
|  |      | <b>5,395,745</b> | <b>6,521,586</b> |
| <b>10.1 Movement in provision is as follows:</b> |      |                  |                  |
| 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           |
|  |      | <b>721,000</b>   | <b>455,325</b>   |

**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.

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



|  | Note | December<br>31, 2007 | December<br>31, 2006 |
|--|------|----------------------|----------------------|
| .....Rupees in '000'.....                        |      |                      |                      |
| <b>11. ADVANCES</b>                              |      |                      |                      |
| <b>Considered good</b>                           |      |                      |                      |
| Amount due to related party of PIAIL             |      | 22,445               | 21,895               |
| Current portion of long term loans               |      | 3,567                | 4,817                |
| <b>Others</b>                                    |      |                      |                      |
| Employees  |      | 154,361              | 140,476              |
| Suppliers  |      | 363,538              | 383,070              |
| Others   |      | 5,989                | 2,598                |
|  |      | 523,888              | 526,144              |
| <b>Considered doubtful</b>                       |      | 31,319               | 28,985               |
| Provision for advances considered doubtful       | 11.1 | (31,319)             | (28,985)             |
|  |      | -                    | -                    |
|  |      | 549,900              | 552,856              |
| <b>11.1 Movement in provision is as follows:</b> |      |                      |                      |
| 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               |
| <b>12. TRADE DEPOSITS AND PREPAYMENTS</b>        |      |                      |                      |
| Trade deposits                                   |      | 42,866               | 280,954              |
| Prepayments                                      | 12.1 | 1,215,114            | 1,195,191            |
|  |      | 1,257,980            | 1,476,145            |
| <b>12.1 Prepayments</b>                          |      |                      |                      |
| 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            |



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

|  |         | December<br>31, 2007 | December<br>31, 2006 |
|--|---------|----------------------|----------------------|
| .....Rupees in '000'.....                          |         |                      |                      |
| <b>13. OTHER RECEIVABLES</b>                       |         |                      |                      |
| <b>Considered good</b>                             |         |                      |                      |
| 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              |
|  |         | <b>1,170,866</b>     | <b>1,100,676</b>     |
| <b>Considered doubtful</b>                         |         | <b>30,257</b>        | <b>38,381</b>        |
| Provision for receivables considered doubtful      |         | <b>(30,257)</b>      | <b>(38,381)</b>      |
|  |         | <b>-</b>             | <b>-</b>             |
|  |         | <b>1,170,866</b>     | <b>1,100,676</b>     |

**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

### 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

|   |      |   |         |
|---|------|---|---------|
| Nil shares (2006: 232,791 Ordinary shares), having a market value of Nil Euro (2006: 20.95 Euro) each | 14.1 | - | 390,556 |
|---|------|---|---------|

#### Unquoted

##### SITA INC N.V.

|   |      |        |        |
|---|------|--------|--------|
| 325,491 Ordinary shares (2006: 325,491 Ordinary shares) | 14.2 | 19,220 | 19,220 |
|---|------|--------|--------|

|   |      |         |         |
|---|------|---------|---------|
| Provision for diminution in the value of investment | 14.3 | (6,085) | (6,221) |
|---|------|---------|---------|

|  |  |               |               |
|--|--|---------------|---------------|
|  |  | <b>13,135</b> | <b>12,999</b> |
|--|--|---------------|---------------|

|  |  |                |                |
|--|--|----------------|----------------|
|  |  | <b>182,771</b> | <b>606,868</b> |
|--|--|----------------|----------------|

**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.

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



|  | Note                         | December<br>31, 2007                                    | December<br>31, 2006 |
|--|------------------------------|---|----------------------|
| ..... Rupees in '000'.....                       |                              |   |                      |
| <b>14.3 Movement in provision is as follows:</b> |                              |   |                      |
| Balance at the beginning of the year             |                              | 6,221   | 6,438                |
| Provision written back during the year           |                              | (136)   | (217)                |
|  |                              | <u>6,085</u>  | <u>6,221</u>         |
| <b>15. CASH AND BANK BALANCES</b>                |                              |   |                      |
| In hand  |                              | 8,973   | 6,586                |
| In transit                                       |                              | 68,862  | 105,450              |
|  |                              | <u>77,835</u>   | <u>112,036</u>       |
| <b>With banks</b>                                |                              |   |                      |
| <b>In current accounts</b>                       |                              |   |                      |
| Collection                                       |                              | 4,959,513   | 4,984,869            |
| Overdrawn bank balances                          |                              | (2,741,112)   | (1,080,139)          |
|  |                              | <u>2,218,401</u>  | <u>3,904,730</u>     |
| <b>In short term deposit accounts</b>            |                              |   |                      |
|  |                              | 1,936,944   | 3,062,339            |
|  |                              | <u>4,155,345</u>  | <u>6,967,069</u>     |
|  |                              | <u>4,233,180</u>  | <u>7,079,105</u>     |
| <b>16. SHARE CAPITAL</b>                         |                              |   |                      |
| <b>No. of shares</b>                             |                              |   |                      |
| <b>December 31,<br/>2007</b>                     | <b>December 31,<br/>2006</b> |   |                      |
| <b>2,949,250,000</b>                             | 2,949,250,000                | <b>Authorized capital</b>                               |                      |
| <b>1,500,000</b>                                 | 1,500,000                    | <b>Ordinary share capital</b>                           |                      |
| <b>2,950,750,000</b>                             | 2,950,750,000                | 'A' class shares of Rs.10 each                          | 29,492,500           |
|  |                              | 'B' class shares of Rs.5 each                           | 7,500                |
|  |                              |   | <u>29,500,000</u>    |
|  |                              | <b>Preference share capital</b>                         |                      |
| <b>50,000,000</b>                                | 50,000,000                   | Preference shares of Rs.10 each                         | 500,000              |
| <b>3,000,750,000</b>                             | 3,000,750,000                |   | <u>30,000,000</u>    |
|  |                              | <b>Issued, subscribed and paid up<br/>share capital</b> |                      |
|  |                              | <b>Ordinary share capital</b>                           |                      |
|  |                              | <b>'A' class shares of Rs.10 each</b>                   |                      |
| <b>1,852,191,870</b>                             | 1,711,747,563                | Issued for consideration in cash (note 16.1)            | 18,521,919           |
| <b>931,028</b>                                   | 931,028                      | Issued for consideration other than cash                | 17,117,476           |
| <b>233,934,482</b>                               | 233,934,482                  | for acquisition of shares                               | 9,310                |
| <b>2,087,057,380</b>                             | 1,946,613,073                | Issued as bonus shares                                  | 2,339,345            |
|  |                              |   | <u>20,870,574</u>    |
|  |                              | <b>'B' class shares of Rs.5 each</b>                    |                      |
| <b>1,003,374</b>                                 | 1,003,374                    | Issued for consideration in cash                        | 5,017                |
| <b>2,625</b>                                     | 2,625                        | Issued for consideration other than cash                | 5,017                |
| <b>494,000</b>                                   | 494,000                      | for acquisition of shares                               | 13                   |
| <b>1,499,999</b>                                 | 1,499,999                    | Issued as bonus shares                                  | 2,470                |
|  |                              |   | <u>7,500</u>         |
|  |                              |   | <u>20,878,074</u>    |
|  |                              |   | <u>19,473,631</u>    |

**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.

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

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<br>31, 2007 | December<br>31, 2006 |
|---|------|----------------------|----------------------|
|   |      | Rupees in '000'      |                      |
| <b>Capital reserves</b>                 |      |                      |                      |
| 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              |
|   |      | <b>2,501,038</b>     | <b>2,501,038</b>     |
| <b>Revenue reserve</b>                  |      | <b>1,779,674</b>     | <b>1,779,674</b>     |
|   |      | <b>4,280,712</b>     | <b>4,280,712</b>     |

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           |
|   | <b>10,190,057</b> | <b>3,601,840</b> |

## 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  |
|--|-------------------|---------------------------|--------------|------------------------------|--------------------------|--------------------|--------------------|
|  |                   |                           |              |                              |                          | Rupees in '000'    |                    |
| <b>From Banking Companies</b>                              |                   |                           |              |                              |                          |                    |                    |
| 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          |
|  |                   |                           |              |                              |                          | <b>34,840,283</b>  | <b>21,397,384</b>  |
| Current maturity   |                   |                           |              |                              |                          | <b>(5,845,349)</b> | <b>(2,714,555)</b> |
|  |                   |                           |              |                              |                          | <b>28,994,934</b>  | <b>18,682,829</b>  |

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



**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.

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

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

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).

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



| 21. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES           | Note | December<br>31, 2007        | December<br>31, 2006 |
|--|------|-----------------------------|----------------------|
|  |      | ..... Rupees in '000' ..... |                      |
| <b>Present value of future rental obligations - aircraft fleet</b> |      |                             |                      |
| 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            |
|  |      | <b>51,201,428</b>           | <b>46,324,035</b>    |
| <b>Present value of future rental obligations - vehicles</b>       | 21.6 | 47,091                      | 93,900               |
|  |      | <b>51,248,519</b>           | <b>46,417,935</b>    |
| Current portion thereof  |      | (4,724,495)                 | (3,914,491)          |
|  |      | <b>46,524,024</b>           | <b>42,503,444</b>    |

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

|  | 2007                        |                   |   | 2006                        |                   |   |
|--|-----------------------------|-------------------|---|-----------------------------|-------------------|---|
|  | Minimum<br>lease<br>payment | Finance<br>Cost   | Present value<br>of minimum<br>lease payments | Minimum<br>lease<br>payment | Finance<br>Cost   | Present value<br>of minimum<br>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<br>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                                    |
|  | <b>64,463,269</b>           | <b>13,214,750</b> | <b>51,248,519</b>                             | <b>59,672,420</b>           | <b>13,254,485</b> | <b>46,417,935</b>                             |

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<br>31, 2007 | December<br>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:

|  | 4.65%                 | 4.65%                 |
|--|-----------------------|-----------------------|
| Discount rate - two aircraft                   | 4.65%                 | 4.65%                 |
| Discount rate - one aircraft and spare engines | Three months<br>LIBOR | Three months<br>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               |

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

- 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<br>31, 2007                 | December<br>31, 2006         |
|--|--------------------------------------|------------------------------|
| Discount rate - aircraft and propulsor | <b>Three months<br/>LIBOR- 0.02%</b> | Three months<br>LIBOR- 0.02% |
| Lease period - aircraft                | <b>144 months</b>                    | 144 months                   |
| Lease period - propulsor               | <b>96 months</b>                     | 96 months                    |
| Security deposit (Rupees in thousand)  | <b>470,450</b>                       | 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:

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

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

|               |                        |                 |
|---------------|------------------------|-----------------|
| Discount rate | <b>7.71% - 13.32%</b>  | 7.71% - 13.32%  |
| Lease period  | <b>48 to 60 months</b> | 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<br>31, 2007 | December<br>31, 2006 |
|-------------------------------------|--------|----------------------|----------------------|
| ----- Rupees in '000'-----          |        |                      |                      |
| <b>22. LONG TERM DEPOSITS</b>       |        |                      |                      |
| Deposits from agents                |        | 118,000              | 112,500              |
| Retention money                     |        | 202,579              | 149,211              |
| Others                              |        | 1,100                | 132                  |
|                                     |        | <b>321,679</b>       | <b>261,843</b>       |
| <b>23. DEFERRED LIABILITIES</b>     |        |                      |                      |
| 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            |
|                                     |        | <b>14,669,765</b>    | <b>8,045,670</b>     |
| <b>23.1 Deferred taxation</b>       |        |                      |                      |
| 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            |
|                                     |        | <b>11,571,497</b>    | <b>5,191,522</b>     |

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



| Note  | December<br>31, 2007 | December<br>31, 2006 |
|---|----------------------|----------------------|
| ..... Rupees in '000'.....  |                      |                      |
| <b>23.1.1 Roosevelt Hotel Corporation, N.V</b>                      |                      |                      |
| 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               |
| <b>Deferred tax asset excluding affect of revaluation surplus</b>   | <b>388,288</b>       | 445,493              |
| Deferred tax liability relating to revaluation of land and building | <b>(8,420,354)</b>   | (2,254,105)          |
|   | <b>8,032,066</b>     | 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)   |
|   | <b>3,539,431</b> | 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    |
|                                  | <b>1,445,000</b> | 1,375,915 |
| Payments made during the year    | -                | (91,915)  |
|                                  | <b>1,445,000</b> | 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 |        |



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

|  | December<br>31, 2007       | December<br>31, 2006 |
|--|----------------------------|----------------------|
|  | ..... Rupees in '000'..... |                      |
| <b>23.3 Post retirement medical benefits</b>         |                            |                      |
| <b>Liability recognised in the balance sheet</b>     |                            |                      |
| Present value of defined benefit obligation          | 1,425,578                  | 1,353,000            |
| <b>Movement in liability during the year</b>         |                            |                      |
| 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)             |
|  | <u>1,425,578</u>           | <u>1,353,000</u>     |
| <b>Expense recognized in profit and loss account</b> |                            |                      |
| Current service cost                                 | 26,000                     | 22,000               |
| Interest cost  | 143,300                    | 127,000              |
| Net actuarial loss recognized                        | 4,000                      | 69,000               |
|  | <u>173,300</u>             | <u>218,000</u>       |

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).

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



|  | Note | December<br>31, 2007 | December<br>31, 2006 |
|--|------|----------------------|----------------------|
| ----- Rupees in '000' -----  |      |                      |                      |
| <b>24. TRADE AND OTHER PAYABLES</b>  |      |                      |                      |
| <b>Trade</b>   |      |                      |                      |
| <b>Creditors</b>   |      |                      |                      |
| 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              |
|  |      | <u>6,784,411</u>     | <u>6,015,524</u>     |
| <b>Other payables</b>  |      |                      |                      |
| 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            |
|  |      | <u>6,105,163</u>     | <u>6,513,567</u>     |
| 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                |
|  |      | <u>21,652,372</u>    | <u>18,023,185</u>    |
| <b>24.1 Provision for frequent flyer programme</b>   |      |                      |                      |
| Balance at the beginning of the year   |      | 61,664               | -                    |
| Charge for the year  |      | 38,112               | 61,664               |
|  |      | <u>99,776</u>        | <u>61,664</u>        |
| <b>24.2 Provision for construction of University Road, Karachi</b>   |      |                      |                      |
| Balance at the beginning of the year   |      | 215,000              | 100,000              |
| Charge for the year  |      | -                    | 200,000              |
|  |      | <u>215,000</u>       | <u>300,000</u>       |
| Payments made during the year  |      | -                    | (85,000)             |
|  |      | <u>215,000</u>       | <u>215,000</u>       |
| <b>24.3</b>  |      |                      |                      |
| 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%. |      |                      |                      |

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

|  | Note | December<br>31, 2007 | December<br>31, 2006 |
|--|------|----------------------|----------------------|
| <b>25. ACCRUED INTEREST / MARK-UP / PROFIT</b> |      |                      |                      |
| ..... Rupees in '000'.....                     |      |                      |                      |
| 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              |
|  |      | <b>978,317</b>       | <b>812,278</b>       |
| <b>26. SHORT TERM BORROWINGS – secured</b>     |      |                      |                      |
| 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            |
|  |      | <b>18,105,884</b>    | <b>15,543,446</b>    |

## 26.1 Short term loans – secured

| Financier  | Security   | Repayment period | Mark-up rate                        |                   |                   |
|--|--|------------------|-------------------------------------|-------------------|-------------------|
| <b>From Banking Companies</b>                        |  |                  |                                     |                   |                   |
| Habib Bank Limited - Karachi                         | GoP Guarantee  | 3 months         | 1 month KIBOR + 0.25%               | 2,000,000         | 2,000,000         |
| United Bank Limited - Dubai                          | UAE Receivables  | 1 year           | 1 month LIBOR + 2%                  | 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/<br>Domestic Receivables                       | 1 year           | 1 month KIBOR<br>+ 0.25% - 1.5%     | 2,850,000         | -                 |
| National Bank of Pakistan - Bahrain                  | GoP Guarantee  | 1 year           | 1 month LIBOR<br>+ 0.60%            | -                 | 4,260,900         |
| Habib Bank Limited - Export<br>Processing Zone       |  |                  |                                     |                   |                   |
| 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<br>over current assets/GoP<br>Guarantee | 1 Year           | 3-6 months KIBOR<br>+ 0.25% - 1.25% | 1,843,500         | -                 |
| Standard Chartered Bank Pakistan<br>Limited- Karachi | GoP Guarantee  | 6 months         | 6 months KIBOR<br>+ 0.75%           | 2,999,404         | -                 |
|  |  |                  |                                     | <b>16,033,876</b> | <b>10,580,640</b> |

## 26.2 Running finances under mark-up arrangements – secured

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

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



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 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 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.

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

- (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        |
|   | <b>2,618</b> | <b>5,243</b> |

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



- (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<br>31, 2007      | December<br>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              |
|                                      |       | <b>1,152,035</b>          | <b>832,268</b>       |
| <b>28. REVENUES - net</b>            |       |                           |                      |
| 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              |
|                                      |       | <b>78,554,483</b>         | <b>76,435,189</b>    |
| <b>29. COST OF SERVICES - others</b> |       |                           |                      |
| 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              |
|                                      |       | <b>42,194,738</b>         | <b>41,353,164</b>    |

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

|  | Note        | December<br>31, 2007 | December<br>31, 2006 |
|--|-------------|----------------------|----------------------|
| ..... Rupees in '000'.....                     |             |                      |                      |
| <b>30. DISTRIBUTION COSTS</b>                  |             |                      |                      |
| 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               |
|  |             | <b>4,448,674</b>     | <b>4,395,834</b>     |
| <b>31. ADMINISTRATIVE EXPENSES</b>             |             |                      |                      |
| 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              |
|  |             | <b>5,293,654</b>     | <b>4,910,728</b>     |
| <b>31.1 Auditors' remuneration</b>             |             |                      |                      |
| 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                  |
|  |             | <b>18,672</b>        | <b>20,480</b>        |

**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.

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



|   | Note | December<br>31, 2007      | December<br>31, 2006 |
|---|------|---------------------------|----------------------|
|   |      | -----Rupees in '000'----- |                      |
| <b>32. OTHER PROVISIONS AND ADJUSTMENTS - net</b>               |      |                           |                      |
| 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              |
|   |      | <b>1,487,893</b>          | <b>955,964</b>       |
| <b>33. OTHER OPERATING INCOME</b>                               |      |                           |                      |
| <b>Income from financial assets</b>                             |      |                           |                      |
| Profit on bank deposits   |      | 207,464                   | 213,579              |
| Interest income on advance to pension and provident funds       |      | -                         | 13,568               |
| <b>Income from subsidiary</b>                                   |      |                           |                      |
| Interest income on advances                                     |      | -                         | 103,928              |
| <b>Income from investment</b>                                   |      |                           |                      |
| Interest income on held to maturity investment                  |      | -                         | 3,708                |
| Gain on disposal of short term investments                      |      | 19,650                    | -                    |
| <b>Income from assets other than financial assets</b>           |      |                           |                      |
| 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                |
|   |      | <b>614,523</b>            | <b>855,714</b>       |
| <b>34. FINANCE COSTS</b>  |      |                           |                      |
| 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               |
|   |      | <b>7,938,364</b>          | <b>5,275,360</b>     |
| <b>35. INCOME TAX EXPENSE</b>                                   |      |                           |                      |
| Current   | 35.1 | 724,240                   | 382,743              |
| Prior   |      | 2,150                     | (295,700)            |
| Deferred  |      | -                         | (649,498)            |
|   |      | <b>726,390</b>            | <b>(562,455)</b>     |

**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.



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

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<br>31, 2007       | December<br>31, 2006 |
|--|----------------------------|----------------------|
|  | ..... Rupees in '000'..... |                      |
| <b>36. LOSS PER SHARE</b>                              |                            |                      |
| Loss for the year                                      | 12,664,655                 | 12,422,816           |
|  | <b>Number of shares</b>    |                      |
| Weighted average number of ordinary shares outstanding | 2,027,508,768              | 1,877,566,277        |
|  | <b>Rupees</b>              |                      |
| <b>Loss per share</b>                                  |                            |                      |
| '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.

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



|  | Note  | December<br>31, 2007 | December<br>31, 2006 |
|--|-------|----------------------|----------------------|
| ----- Rupees in '000' -----                                |       |                      |                      |
| <b>37. CASH (USED IN) / GENERATED FROM OPERATIONS</b>      |       |                      |                      |
| Loss before taxation                                       |       | (12,489,265)         | (12,985,271)         |
| <b>Adjustments for:</b>                                    |       |                      |                      |
| 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)             |
|  |       | <b>3,326,853</b>     | <b>(2,953,529)</b>   |
| <b>Working capital changes</b>                             |       |                      |                      |
| (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            |
|  |       | <b>5,426,214</b>     | <b>(916,307)</b>     |
|  |       | <b>8,753,067</b>     | <b>(3,869,836)</b>   |
| <b>38. REMUNERATION OF CHAIRMAN / CEO AND EXECUTIVES</b>   |       |                      |                      |

|  | 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          |
|  | <b>5,611</b>    | <b>8,574</b> | <b>2,058,213</b> | <b>1,378,585</b> |
| Number                                       | <b>1</b>        | <b>1</b>     | <b>930</b>       | <b>643</b>       |

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.

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

## 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'                      |                     |                   |                  |                  |                  |                 |                     |                     |
| <b>Revenue</b>                       |                     |                   |                  |                  |                  |                 |                     |                     |
| 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)        |                     |                     |
| <b>Total revenue</b>                 | <b>70,480,734</b>   | <b>70,587,146</b> | <b>8,235,494</b> | <b>5,861,098</b> | <b>(161,745)</b> | <b>(13,055)</b> | <b>78,554,483</b>   | <b>76,435,189</b>   |
| <b>Results</b>                       |                     |                   |                  |                  |                  |                 |                     |                     |
| 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             |
| <b>Loss</b>                          |                     |                   |                  |                  |                  |                 | <b>(13,215,655)</b> | <b>(12,422,816)</b> |
| <b>Other information</b>             |                     |                   |                  |                  |                  |                 |                     |                     |
| 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              |
|                                      |                     |                   |                  |                  |                  |                 | <b>157,144,043</b>  | <b>131,406,846</b>  |
| 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           | -                |                  |                 |                     |                     |

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



## 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 |
|                           | ..... Rupees in '000' ..... |               |            |            |             |
|                           | 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.

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

## (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

|  | 2 0 0 7                       |                                       |                                     |                      |                                |                                       |                                     |                    |                      |
|--|-------------------------------|---------------------------------------|-------------------------------------|----------------------|--------------------------------|---------------------------------------|-------------------------------------|--------------------|----------------------|
|  | Interest / mark-up bearing    |                                       |                                     |                      | Non-Interest / mark-up bearing |                                       |                                     |                    | Total                |
|  | Maturity<br>Up to one<br>year | Maturity<br>One year to<br>five years | Maturity<br>Five years<br>and above | Sub Total            | Maturity<br>Up to one<br>year  | Maturity<br>One year to<br>five years | Maturity<br>Five years<br>and above | Sub Total          |                      |
|  | (Rupees in '000')             |                                       |                                     |                      | (Rupees in '000')              |                                       |                                     |                    |                      |
| <b>Financial assets</b>                                |                               |                                       |                                     |                      |                                |                                       |                                     |                    |                      |
| Investment   | 18,958                        | 25,189                                | -                                   | 44,147               | 163,813                        | -                                     | 98,930                              | 262,743            | 306,890              |
| Advances and other<br>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            |
|  | <b>1,955,902</b>              | <b>1,316,281</b>                      | <b>-</b>                            | <b>3,272,183</b>     | <b>9,290,039</b>               | <b>-</b>                              | <b>2,632,751</b>                    | <b>11,922,790</b>  | <b>15,194,973</b>    |
| <b>Financial liabilities</b>                           |                               |                                       |                                     |                      |                                |                                       |                                     |                    |                      |
| 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<br>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/<br>profit                   | 978,317                       | -                                     | -                                   | 978,317              | -                              | -                                     | -                                   | -                  | 978,317              |
| Borrowings   | 18,105,884                    | -                                     | -                                   | 18,105,884           | -                              | -                                     | -                                   | -                  | 18,105,884           |
|  | <b>32,177,277</b>             | <b>51,894,530</b>                     | <b>28,502,817</b>                   | <b>112,574,624</b>   | <b>13,280,587</b>              | <b>3,192,257</b>                      | <b>-</b>                            | <b>16,472,844</b>  | <b>129,047,468</b>   |
| <b>Net financial (liabilities) /<br/>assets</b>        | <b>(30,221,375)</b>           | <b>(50,578,249)</b>                   | <b>(28,502,817)</b>                 | <b>(109,302,441)</b> | <b>(3,990,548)</b>             | <b>(3,192,257)</b>                    | <b>2,632,751</b>                    | <b>(4,550,054)</b> | <b>(113,852,495)</b> |

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



| 2 0 0 6   |                            |                                 |                               |                     |                                |                                 |                               |                   |                     |
|---|----------------------------|---------------------------------|-------------------------------|---------------------|--------------------------------|---------------------------------|-------------------------------|-------------------|---------------------|
|   | Interest / mark-up bearing |                                 |                               |                     | Non-Interest / mark-up bearing |                                 |                               |                   | Total               |
|   | 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         |                     |
|   | (Rupees in '000')          |                                 |                               |                     | (Rupees in '000')              |                                 |                               |                   |                     |
| <b>Financial assets</b>                             |                            |                                 |                               |                     |                                |                                 |                               |                   |                     |
| 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           |
|   | <b>3,233,119</b>           | <b>1,737,808</b>                | <b>1,564,544</b>              | <b>6,535,471</b>    | <b>12,602,426</b>              | <b>771,192</b>                  | <b>71,580</b>                 | <b>13,445,198</b> | <b>19,980,669</b>   |
|   | 2 0 0 6                    |                                 |                               |                     |                                |                                 |                               |                   |                     |
|   | 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')              |                                 |                               |                   |                     |
| <b>Financial liabilities</b>                        |                            |                                 |                               |                     |                                |                                 |                               |                   |                     |
| 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          |
|   | <b>24,522,905</b>          | <b>43,130,067</b>               | <b>31,303,176</b>             | <b>98,956,148</b>   | <b>9,756,879</b>               | <b>2,898,843</b>                | <b>-</b>                      | <b>12,655,722</b> | <b>111,611,870</b>  |
| <b>Net financial (liabilities) / assets</b>         | <b>(21,289,786)</b>        | <b>(41,392,259)</b>             | <b>(29,738,632)</b>           | <b>(92,420,677)</b> | <b>2,845,547</b>               | <b>(2,127,651)</b>              | <b>71,580</b>                 | <b>789,476</b>    | <b>(91,631,201)</b> |

| 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                 | 4.7-11.33    |

## 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.

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

Other material transactions with related parties are given below:

|                         | December<br>31, 2007        | December<br>31, 2006 |
|-------------------------|-----------------------------|----------------------|
|                         | ..... Rupees in '000' ..... |                      |
| <b>Retirement funds</b> |                             |                      |
| 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<br>in '000' |
|---|--|--------------------|
| <b>Other provisions and adjustments - net</b> | <b>Other operating income</b>                |                    |
| 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

**PROXY FORM FOR 51<sup>ST</sup> AGM OF PIA**

I/ We ..... of .....  
 being Shareholder(s) of Pakistan International Airlines Corporation holding the following Shares:

| Folio No<br>Participant ID No / Account No | “A” Class Shares | “B” Class Shares |
|--|------------------|------------------|
|  |                  |                  |
|  |                  |                  |
|  |                  |                  |

do hereby appoint ..... of .....  
 ..... 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 51<sup>st</sup> 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.





**Secretary – PIA**  
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Karachi – 72500, Pakistan



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