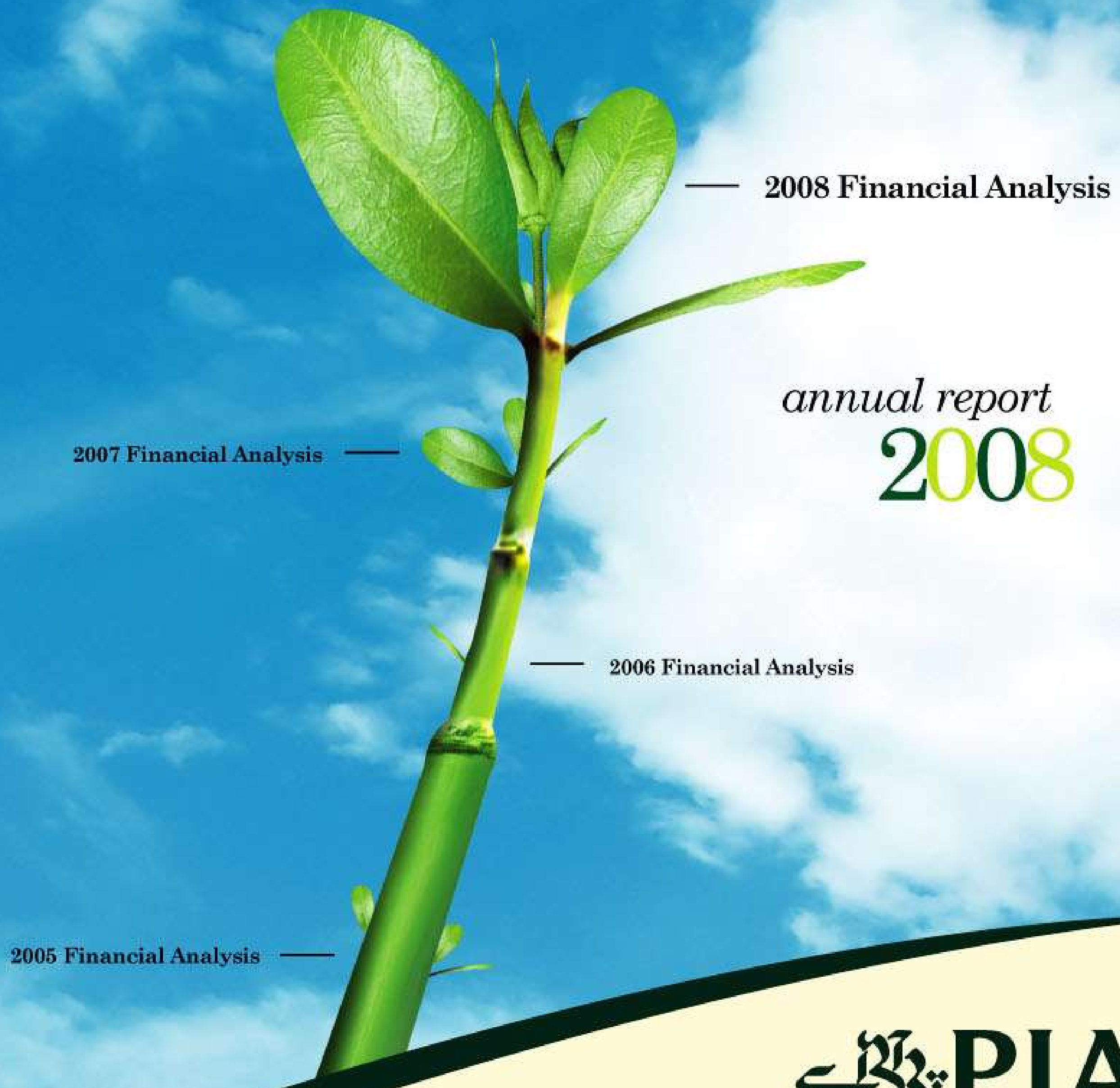
The budding era of *growth*



annual report 2008

PIA
Pakistan International

Great People to Fly With

UAN: 111-786-786/111-FLY-PIA
www.piac.aero

PIA
Pakistan International

The budding era of *growth*

annual report 2008

PIA
Pakistan International
Great People to Fly With

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Soaring with inspiring ideas

PIA
Pakistan International
Great People to Fly With

Ideology

PIA
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Great People to Fly With

Pursuing challenges with passion

Vision

PIA 's vision is to be a world class airline meeting customer expectations through excellent services, on-time performance, innovative products and absolute safety.

Mission

Employee teams will contribute towards making PIA a global airline of choice through:

- Offering quality customer services and innovative products
- Using state-of-the-art technologies
- Ensuring cost-effective measures in procurement and operations
- Developing Safety Culture

Core values

Customer Expectations

Convenience, Care, Affordability

Service
Personalized, Courteous, Passionate

Innovation
New Ideas, Products, Value Added Services

Cohesiveness
Respect for Individuals,Teamwork and Effective Communication

Integrity
Business Ethics, Accountability and Transparency

Reliability
Loyalty and Consistency

Safety
Passengers, Employees, Environment

Social Responsibility
Welfare, Health, Education

Decisions translate *ideas*

Notice of 52nd Annual General Meeting

Notice is hereby given that 52nd Annual General Meeting of the Shareholders of Pakistan International Airlines Corporation will be held at 10:00 A.M. on Saturday, April 25, 2009 at Pearl Continental Hotel, Club Road, Karachi to transact the following business:

1. To receive and adopt the Audited Accounts for the Financial Year ended December 31, 2008, the Report of the Auditors thereon and the Report of the Directors.

2. To transact any other business with the permission of the Chair.

By order of the Board

Karachi
April 03, 2009

Muhammad Shuaib
Secretary - PIA

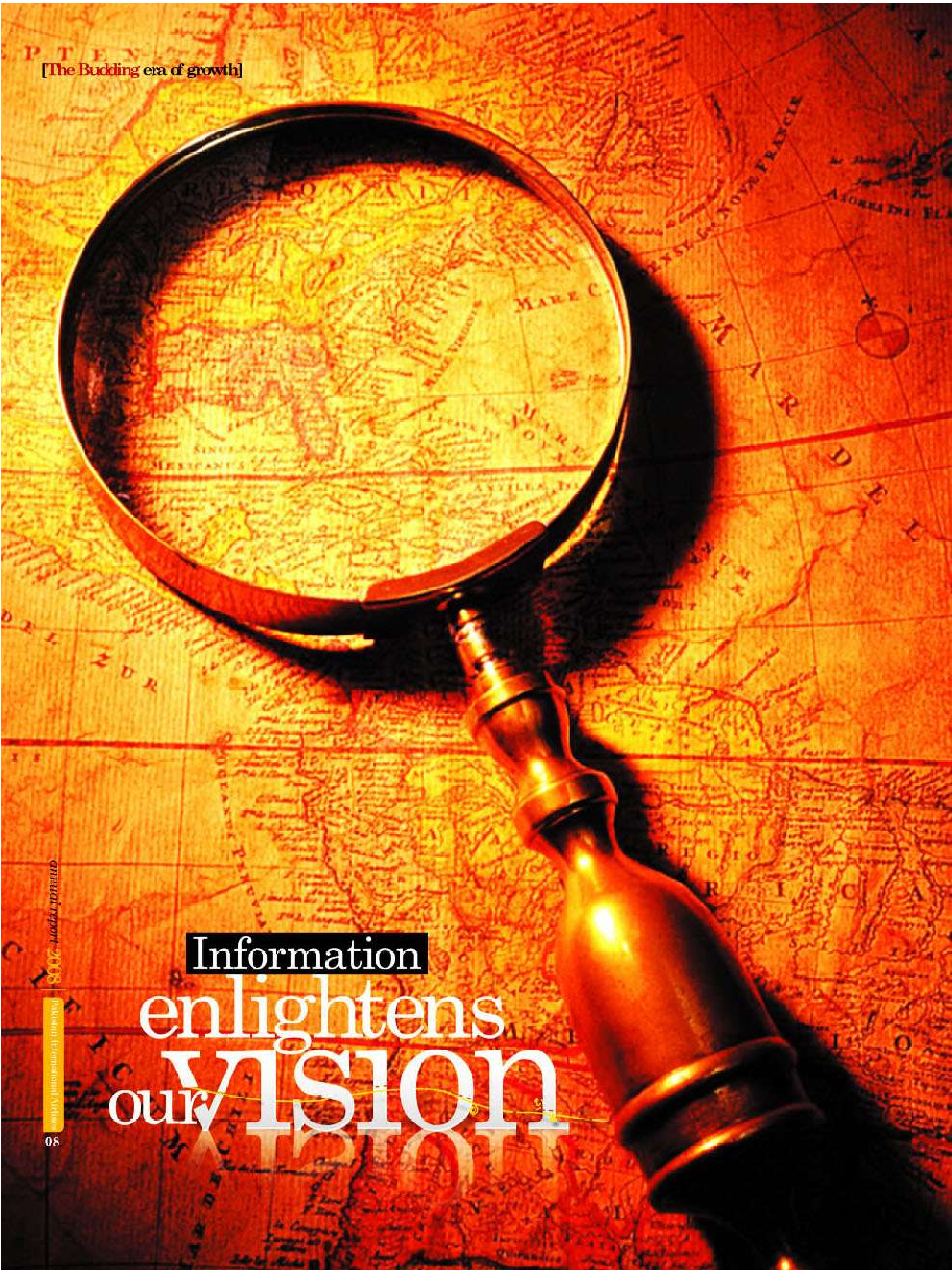
Notes

1. The shares transfer books of the Corporation will remain closed from Tuesday, April 14, 2009 to Saturday, April 25, 2009 (both days inclusive). Transfer documents (physical Scrip Transfers / CDS Transaction IDs) received in order at the office of PIA Share Registrar / Transfer Agent, Central Depository Company of Pakistan Limited, CDC House, 99-B, Block-B, S.M.C.H.S. Main Shahrah-e-Faisal, Karachi, upto 05:00 PM, by Monday, April 13, 2009 will be in time for registration of transfer of shares.

2. A Shareholder entitled to attend and vote at the Meeting may appoint another shareholder as his / her proxy. Proxy and Power of Attorney in order to be effective, must be deposited at the registered office of PIA Share Registrar / Transfer Agent alongwith copy of CNIC not less than 48 hours before the time fixed for holding the Meeting i.e. upto 10:00 A.M. Thursday, April 23, 2009 unless the Power of Attorney has already been registered in the Corporation books, and must be stamped, signed and witnessed.

3. Any individual Beneficial Owner of CDC, entitled to attend and vote at the Meeting, must bring his/her CNIC or Passport to authenticate his / her identity alongwith CDC Account Numbers. However, if proxy is granted by such a shareholder, the same shall also have to be accompanied with an attested copy of CNIC or Passport of the grantor. Representatives of corporate Shareholders should bring the usual documents required for such purpose.

4. Shareholders are requested to promptly notify changes, if any, in their registered mailing addresses and also for the consolidation of folio numbers if any shareholder holds more than one folio to PIA Share Registrar / Transfer Agent.



Information enlightens our VISION

Corporate information

The winning combination

Corporate information

as at March 26, 2009

Board of Directors

Ch. Ahmed Mukhtar
Minister for Defence and
Chairman - PIA

Syed Naseer Ahmad

Malik Nazir Ahmed

Mr Javed Akhtar

Lt Gen (Retd.) Syed Athar Ali
Federal Secretary Defence

Capt. Mohammad Aijaz Haroon
Managing Director - PIA

Prof. Mian Ijaz ul Hassan

Mr Mubashir Iftikhar

Mr Husain Lawai

Mr Shaukat Ali Rana

Mr Salman Siddique
Federal Secretary Finance

Corporate Secretary

Mr Muhammad Shuaib

Head of Internal Audit

Mr S Fazal Ahmad

Executive Management

Capt. Mohammad Aijaz Haroon
Managing Director

Mr Arif Majeed
Chief Financial Officer

Mr Imran Ahmed Khan
Director - Procurement, Logistics and Food Services

Mr M. Haneef Pathan
Director - HR, Administration & Coordination

Mr Shahnawaz Rehman
Director - Corporate Planning

Mr Salah Uddin
Director - Marketing

AVM Muhammad Kamal Alam Siddiqui
Director - Precision Engineering Complex

Capt. Shuja Naqvi
Director - Flight Operations

Mr Shahid Sarwar
Director - Information Technology

Mr Mohammad Ziyad A Syed
Director - Finance

Mr Dilawar Fareed Beg
Director - Training and Development

Mr Maqsood Ahmed
Director - Engineering and Maintenance

Mr S. Kamran Hasan
Director

Auditors

Messrs Anjum Asim Shahid Rahman

Messrs Ford Rhodes Sidat Hyder & Co.

Share Registrar

Central Depository Company of
Pakistan Ltd. - Shares Registrar
Department, CDC House, 99 - B,
Block 'B', Sindhi Muslim
Cooperative Housing Society
Main Shahrah-e-Faisal
Karachi - 74400,
PAKISTAN.
Ph. Customer Support Services
(Toll Free) 0800 -CDCPL (23275)
Fax. (92-21) 432 6053
Email: info@cdcpak.com
Website: www.cdcpakistan.com

Head Office

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

Great People to Fly With

Board of directors

Malik Nazir Ahmed
Director

Javed Akhtar
Director

Prof. Mian Ijaz ul Hassan
Director

Husain Lawai
Director

Lt. Gen (Retd.) Syed Athar Ali
Federal Secretary Defence & Director

Ch. Ahmed Mukhtar
Minister of Defence & Chairman-PIA

Capt. Mohammad Aijaz Haroon
Managing Director-PIA & Director

Syed Naseer Ahmad
Director

Salman Siddique
Federal Secretary Finance & Director

Mubashir Iftikhar
Director

Shaukat Ali Rana
Director

Muhammad Shuaib
Secretary PIA

PIA Pakistan International
Great People to Fly With

Board of directors' profile

Ch. Ahmed Mukhtar, Chairman

Ch. Ahmed Mukhtar, the Federal Minister for Defence, was nominated as Chairman of the Corporation in May, 2008. He holds a Masters Degree in Operational Management from California, USA and also a Diploma in Plastic Technology from West Germany. He is presently the Member of National Assembly of Pakistan. He is an experienced businessman and had been Member of Board of Directors of Service Industries Limited. He has also served the nation as Federal Minister for Commerce in early 90s. Ch. Mukhtar is a perfect blend of a businessman and a politician.

Capt. Mohammad Aijaz Haroon, Managing Director

Capt. Mohammad Aijaz Haroon was appointed as Managing Director of the Corporation in May 2008 and nominated as Director in July, 2008. He holds ICAO Airline Transport Pilots License with Simulator/Flight Instructor Rating on all PIA aircraft. He has over 30 years of airline experience with expertise in major operational areas including the positions of General Manager (Central Control), General Manager (Airport Services), and Director (Airport Services). He is Member of Board's Brand & Advertising Committee, Finance Committee and Human Resource Committee. Capt. Haroon hails from the famous Memon community known for its business acumen in Pakistan.

Syed Naseer Ahmad, Director

Syed Naseer Ahmad is a nominated Director since July, 2008. He holds a Bachelors Degree from Punjab University and a Post Graduate fellowship from the University of Oxford, UK. During his career as a civil servant, he held various administrative assignments which include Chairman Pakistan Railways, Northern Gas Pipelines Ltd, Sui Southern Gas Limited and PARCO; before he retired as Federal Secretary, Petroleum & Natural Resources. Mr Ahmad headed different delegations and represented the Government of Pakistan on numerous missions. Syed Ahmad is also Chairman of Board's Human Resource Committee.

Malik Nazir Ahmed, Director

Malik Nazir Ahmed is an elected Director since March, 2008. He holds a Bachelors Degree in Laws from Punjab University. Malik Ahmed is a renowned Businessman and is presently CEO of Nam International (Pvt.) Ltd, Namco Associates and Executive Director of Wire Manufacturing Industries Ltd. (WMIL). Malik Ahmed has attended various courses in Business and Administration from Lahore Chamber of Commerce and Industry of which WMIL is a Corporate Member. He actively participates in welfare activities. He has attended many Business Forums and Trade Exhibitions within and outside Pakistan. Malik Ahmed is also Member of Board's Audit Committee and Board's HR Committee.

Mr Javed Akhtar, Director

Mr Javed Akhtar is a nominated Director since July 21, 2008. He holds a Bachelors Degree from University of Karachi. Mr Akhtar is Chairman Akhtar Group of Industries and also Chairman Fashion Apparel Designing and Training Institute (FADIN) and also working as Director of Karachi Garment City. He was formerly Member Managing Committee and currently Member General Body of the Federation of Pakistan Chamber of Commerce & Industry (FPCCI). He was Director of Karachi Cotton Association. He held the position of Chairman, Pakistan Cotton Fashion Apparel Exporters Association during 1997-1998 and 2001-2003. Mr Akhtar is also Member of Board's Brand & Advertising Committee and Human Resource Committee.

Lt. Gen. (Retd) Syed Athar Ali, Director

Lt. Gen. (Retd) Syed Athar Ali is a nominated Director since November, 2008. He holds Masters Degrees in War Studies from National Defence University Islamabad and International Relations from Columbia University, USA. He is presently Federal Secretary Defence. He held various command, staff and instructional appointments which include representation of Pakistan on UN Peace-Keeping Mission in Sierra Leone in the dual capacity of Deputy Force Commander and Chief Military Observer for more than two years.
Lt. Gen. Ali is a recipient of Hilal-i-Imtiaz (Military).

Professor Mian Ijaz ul Hassan,
Director

Professor Mian Ijaz ul Hassan is a nominated Director since July, 2008. He holds Masters Degree in English from St John's College, Cambridge, UK and Fine Arts from St. Martin's School of Arts, London. He is one of Pakistan's leading artists who identifies nature through his paintings. He had been teaching at historic National College of Arts, Lahore. Professor Hassan worked as Cultural Advisor to Ministry of Foreign Affairs in 1997. He is a recipient 'Pride of Performance' which is the highest national award in the field of art. He is Chairman of the Board's Brand and Advertisement Committee and Member of the Board's Audit Committee.

Mr Mubashir Iftikhar,
Director

Mr Mubashir Iftikhar is an elected Director since March, 2008. He holds a Bachelors Degree in Business and Finance from Suffolk University, Boston, USA. He is a well known businessman and is presently looking after the general administration of Diamond Group of Companies where his areas of interest are Finance, Audit, Monitoring of Purchases / Production and MIS development. Mr Iftikhar is also Member of Board's Audit Committee, Finance Committee and Human Resource Committee.

Mr Husain Lawai,
Director

Mr Husain Lawai is a nominated Director since July, 2008. Presently, he is President and Chief Executive Officer of Arif Habib Bank Limited. He holds Masters Degree in Business Administration from Institute of Business Administration, Karachi. Formerly, Mr Lawai served as President & Chief Executive Officer at Muslim Commercial Bank and Director Security Investment and Finance Ltd, UK. He established Pakistan Branches of Faysal Islamic Bank - the first Islamic Sharia Compliant Bank in Pakistan. He was General Manager, Emirates NBD Bank for Pakistan and Far East. Mr Lawai is also Chairman of Board's Audit Committee.

Mr Shaukat Ali Rana,
Director

Mr Shaukat Ali Rana is a nominated Director since September, 2008. He is an Attorney at Law. He has received training at Harvard University, Massachusetts, USA in Public Enterprises - Policy and Management in Developing Countries, and also in Project Management from USDA Graduate School, Washington DC, USA. As a Civil Servant, he has more than 36 years varied experience in administration of Justice, maintenance of law & order, land revenue administration, and eradication of corruption. He retired as Secretary/Member Inquiries SGA&I Department, Government of Punjab. He has also served as Director on the Board of Sui Northern Gas Pipelines Ltd. Mr Rana is also Member of Board's Human Resource Committee.

Mr Salman Siddique,
Director

Mr Salman Siddique is a nominated Director since March, 2009. He holds Masters Degree in English from Punjab University, Social Sciences and Planning from London School of Economics and Political Sciences from University of London. He is presently Federal Secretary Finance. He held various senior positions during his service with the Government of Pakistan and Government of Punjab, which include Federal Secretary Kashmir Affairs and Northern Areas, Joint Secretary Cabinet Division, Chief Secretary Punjab, Provincial Census Commissioner Punjab, Commissioner Lahore Division, Secretary S&GA Department. Mr Siddique played a vital role in acquiring World Bank and International Monetary Fund assistance for development of education and health in Punjab. Mr. Siddique is also Chairman of Board's Finance Committee.

Mr Muhammad Shuaib,
Secretary

Mr Muhammad Shuaib is the Corporate Secretary since January 2008. Besides first class first MBA, he holds an LLB Degree. He is a Certified Director from Pakistan Institute of Corporate Governance (PICG) as accredited by RiskMetrics Group, USA. He participated in various conferences, seminars and workshops on corporate affairs held in Pakistan, India, UK, and USA. During his career in PIA, he held the position of Secretary Board's Audit Committee, Deputy General Manager, Corporate Affairs, Asstt Corporate Secretary, and Manager, Managing Director's Secretariat. Voluntarily, Mr Shuaib is associated with PIA Scouts Association as Asstt Provincial Commissioner and is also President of PIA Cricket Academy.

Board of directors' committees

as at March 26, 2009

Audit Committee

Mr Husain Lawai	Chairman
Malik Nazir Ahmed	Member
Prof. Mian Ijaz ul Hasan	Member
Mr Mubashir Iftikhar	Member
Chief Internal Auditor	Secretary (ex-officio)

Brand and Advertisement Committee

Prof. Mian Ijaz ul Hassan	Chairman
Malik Nazir Ahmed	Member
Mr Javed Akhtar	Member
Capt. Mohammad Aijaz Haroon *Managing Director*	Member (ex-officio)
Director Marketing	Secretary (ex-officio)

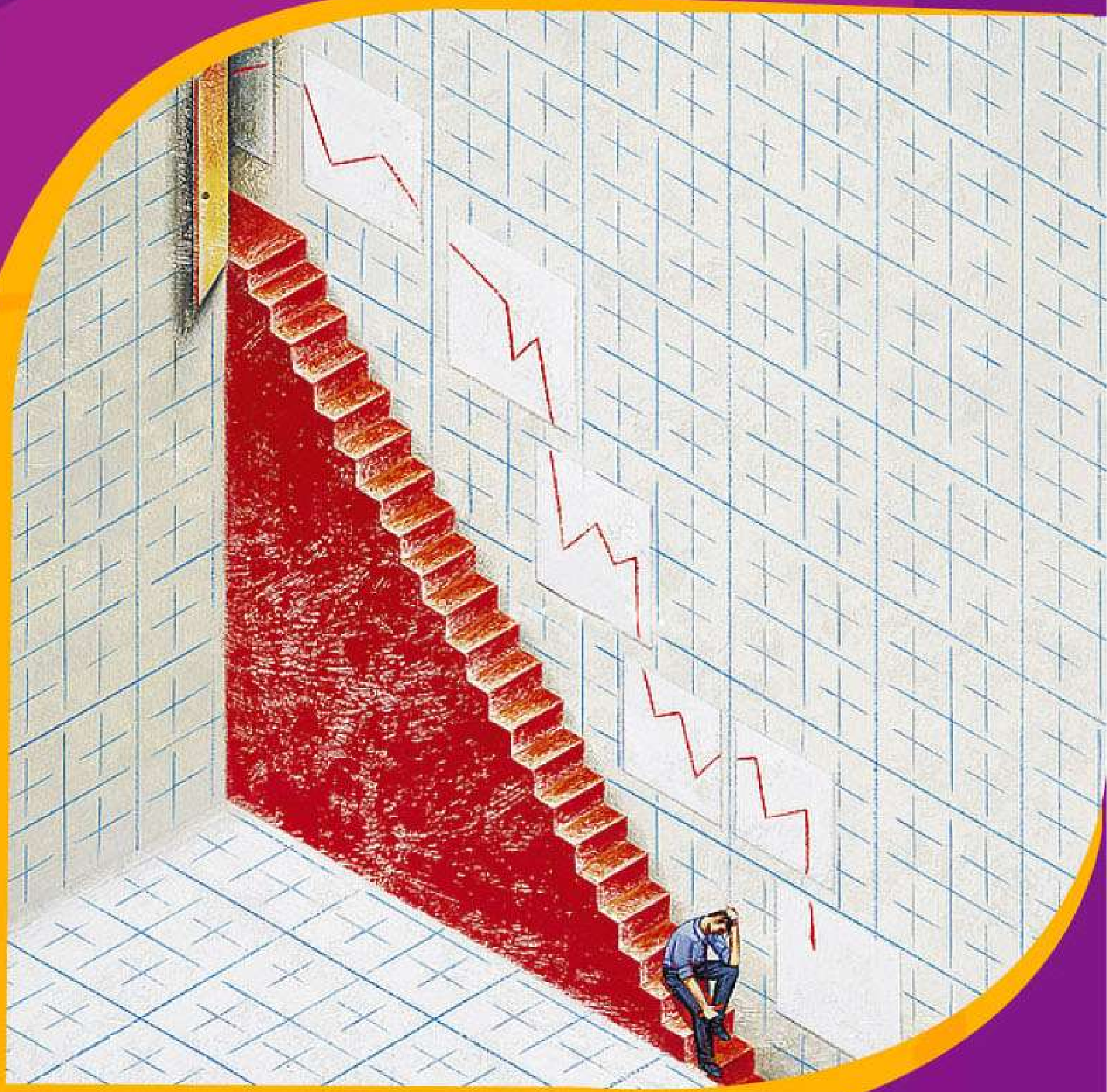
Finance Committee

Mr Salman Siddique	Chairman
Capt. Mohammad Aijaz Haroon *Managing Director*	Member (ex-officio)
Mr Mubashir Iftikhar	Member
Mr Husain Lawai	Member
Chief Financial Officer	Secretary (ex-officio)

Human Resource Committee

Syed Naseer Ahmad	Chairman
Capt. Mohammad Aijaz Haroon *Managing Director*	Member (ex-officio)
Malik Nazir Ahmed	Member
Mr Javed Akhtar	Member
Mr Mubashir Iftikhar	Member
Mr Shaukat Ali Rana	Member
Director HRA&C	Secretary (ex-officio)

Directors' report



When global downturn stumbles the world economy, we get our heads down to evaluate & implement.

Directors' report to the Shareholders

Economic Environment

Global

The year 2008 was a highly volatile year for the global economy triggered by sub-prime housing mortgage defaults in USA and soaring commodity prices resulting in financial market crisis, credit crunch and stock market crash.

One of the biggest shocks in oil history was also encountered with crude oil price rising to an unprecedented peak of around US $ 147 per barrel during July 2008, which subsequently reduced to around US $ 40 per barrel towards the end of the year. To counter economic downturn, interest rates were lowered to enhance liquidity and economic growth.

Pakistan

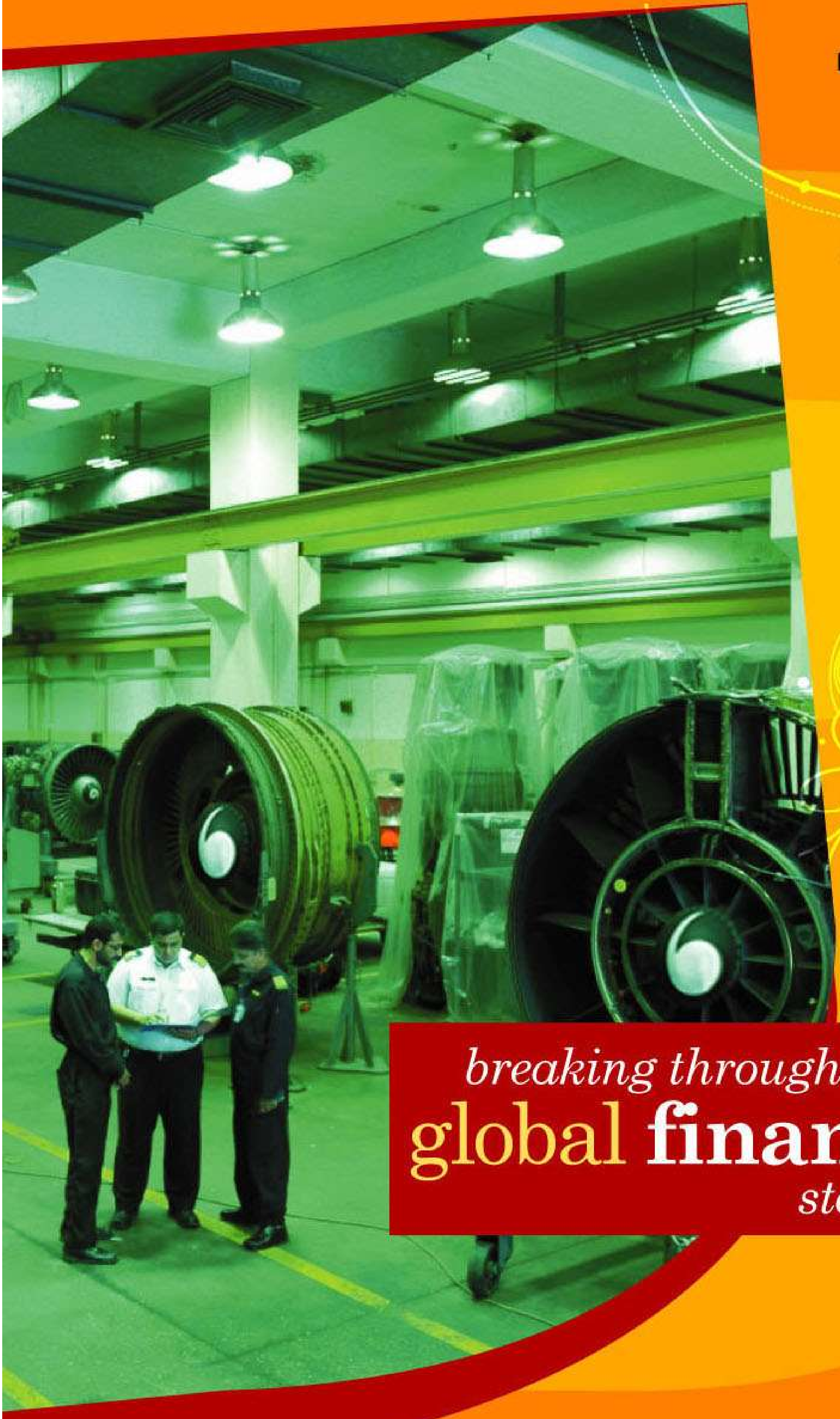
The national macroeconomic indicators were also adversely impacted by the global recession, regional situation, growing fiscal deficit and widening of trade and current account deficits, essentially due to the impact of volatile commodity prices. As a result, the Interbank Rupee parity dropped to a historical low of 1 US $ = PKR 81.50 during the year, closing at around PKR 79 / $1 at the end of the year, with an overall depreciation of 28% in value.

The tight monetary stance adopted by the State Bank of Pakistan (SBP) to curb extremely high inflationary buildup and to ease the pressure on the foreign exchange market through raising the discount rate and reduced liquidity, resulted in increased costs of business for the commercial sector. Both the discount and the 6 months KIBOR closed at historical highs of 15% and 15.7% respectively. This measure was in contrast to the international money markets where interest rates were curbed to enhance liquidity and economic growth. The Karachi Stock Exchange (KSE) also reacted negatively.

Airline Industry Performance

For the airline industry as a whole, the outgoing year 2008 turned out to be an unprecedented one in many ways as crude oil prices climbed to a record level in July 2008. It disrupted industry projections and forced some carriers to reduce flights or park planes as jet fuel costs surged dramatically. The onset of global financial crises added a new dimension to the already difficult times for the industry. The event meant a weaker economic growth and reflected deterioration in the outlook for air travel and freight.

After reaching peak, the oil prices plummeted to an unexpectedly low level coinciding with slowdown in economic growth and dampened traffic demand. While the drop in oil prices is a welcome relief, recession is now the biggest threat to industry profitability.



breaking through the global **financial** *standoff*

Delivering finest
air **service**

PIAC Performance

For PIA, the outgoing year was also exceptionally difficult, as PIA was equally affected by the extraordinary increase in fuel cost; the weaker Pakistani-Rupee severely hurt the airline and it had to book huge loss on its US dollar loans. At the same time, the fall in the value of Pound Sterling and Euro against US dollar was a source of revenue dilution as this has depressed yields in this important region. The high level of inflation in the country also exerted pressure on the cost structure.

Rising in the Face of Adversity

Paradoxical as it may appear - given the record net loss of PKR 35.88 billion in 2008 - we have just about turned the corner at the end of this year.

During the course of the year we paused, recollected ourselves and concluded that it was time to dispense with conventional wisdom. Going back to the drawing board, we decided to undertake a number of measures involving strategic planning initiatives, tactical moves in markets, rationalizing of work processes within the organization and enhancing morale of the employees.

As a cumulative result of our endeavors, PIA's traffic performance in the last quarter of 2008 has been quite promising. This, together with the drop in oil prices and recent relative stability of Pakistani-Rupee, has had a salutary effect and contributed to a significant improvement in the results for the 4th quarter. The airline has moved closer to the break-even point in the fourth quarter of the current calendar year and we are poised to eke out a modest profit in the coming year.

Key Financial Results	2008	2007	Variance	
	PKR M	PKR M	PKR M	%
Turnover - net	89,202	70,481	18,721	27%
Aircraft Fuel Costs	45,854	30,315	15,539	51%
Other Costs & Expenses	42,901	40,330	2,571	6%
Depreciation	8,015	5,617	2,398	43%
Exchange Loss - net	24,119	720	23,399	3250%
Other Operating Expenses	1,521	433	1,088	251%
Other Operating Income	(1,831)	(999)	(832)	83%
Finance Costs	8,352	7,136	1,216	17%
Tax	(3,849)	328	(4,177)	-1273%
Net Loss for the Year	35,880	13,399	22,481	168%
Less Exchange Loss - net	24,119	720	23,399	3250%
Ex Fx Loss	11,761	12,679	(918)	-7.2%

As you can see in the above Table, the loss in 2008 was mainly caused by two extraneous factors both of which were outside PIA's internal control.

Firstly, the Pak rupee lost its value against the US dollar, contributing to a net exchange loss of PKR 24.1 billion chiefly because of the accounting requirement of having to book the exchange difference on the entire amount of outstanding US dollar loans.

Secondly, the crude oil prices skyrocketed in 2008, reaching the highest ever level of US $ 147 / barrel in July and contributing an increase of PKR 15.5 billion in the fuel expense over last year. In actual fact, the fuel expense would have increased by PKR 18.4 billion owing to increase in prices alone had it not been for savings realized through fuel efficiencies and capacity/route rationalization during the course of the year.

Fuel Price Impact

		2008	2007	Variance	
Fuel				Increase / (Decrease)	%
Quantity	US Gallon Million	207.3	229.2	(21.9)	-9.6%
Price	Rs. Per USG	221.2	132.3	88.9	67.2%
Other Costs & Expenses	Rs. Million	45,854	30,315	15,539	51.3%
Fuel Impact					
Due Quantity	Rs. Million	(2,896)			
Due Price	Rs. Million	18,435			
Total	Rs. Million	15,539			

It is evident from the preceding points that based on a constant US$/PKR parity of 2007 and constant oil prices of 2007, PIA's loss would have been less by around PKR 39.6 billion.

Considering that the average price of crude oil was on average US $ 73/barrel in 2007 and US $ 98/barrel in 2008 while currently it is hovering around US $ 50/barrel, there is ample reason to nurture realistic hopes of changing the color of PIA's bottom line in 2009.

It is noteworthy that the 2008 net loss figure also includes PKR 2.0 billion on account of exceptional / nonrecurring costs / provisions.

Making it Happen

One of the key drivers towards the developing turnaround remains the fuller realization of revenues from our deployed capacity.

Capacity, Traffic & Revenue

		2008	2007	Variance	
Passenger				Change	%
ASK	Million	19,512	20,296	(784)	-3.9%
RPK	Million	13,916	13,681	235	1.7%
Seat Factor	%	71.3	67.40	3.90	
Yield	PKR	5.74	4.53	1.21	26.7%
Freight					
Load Factor	%	43.9	40.0	3.9	
Yield	PKR	17.1	13.8	3.3	23.9%

Capacity, Traffic & Revenue

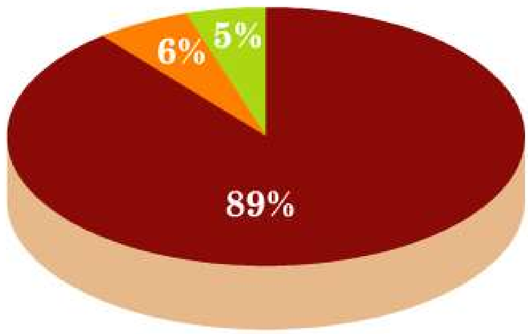
Revenue		2008	2007	Variance Change	Variance %
Passenger	PKR Million	79,817	62,002	17,815	28.7%
Freight	PKR Million	5,459	4,850	609	12.6%
Others	PKR Million	3,926	3,629	297	8.2%
Total	PKR Million	89,202	70,481	18,721	26.6%

As can be seen from this Table, even with a reduced capacity (3.9% over 2007), we were able to earn all time record revenues of PKR 89.2 billion; an increase of PKR 18.7 billion (+26.6%) over 2007. This was achieved due to a combination of improved seat factor of (+3.9 percentage points in passenger and +3.9 percentage points in freight over 2007) and yields (+26.7% in passenger and + 23.9% in freight over 2007).

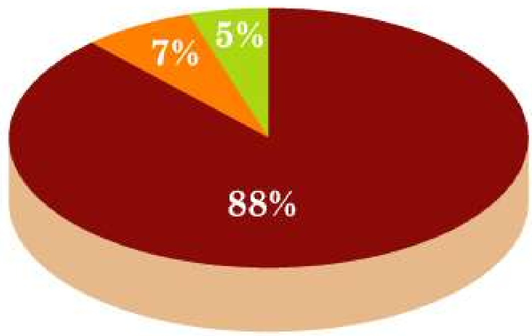
Given the competition, especially from the Gulf carriers and given the political uncertainties within the country in 2008, this has been no mean achievement. We remain steadfastly focused on maintaining the momentum and achieve higher milestones in 2009.

Revenue Composition

Revenue Composition in 2008



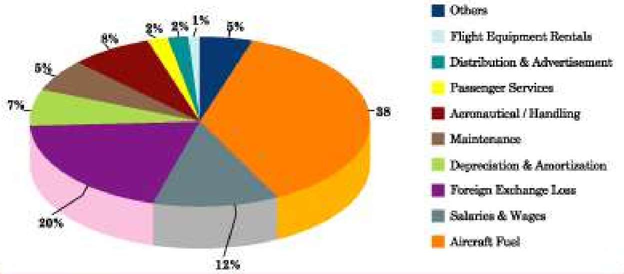
Revenue Composition in 2007



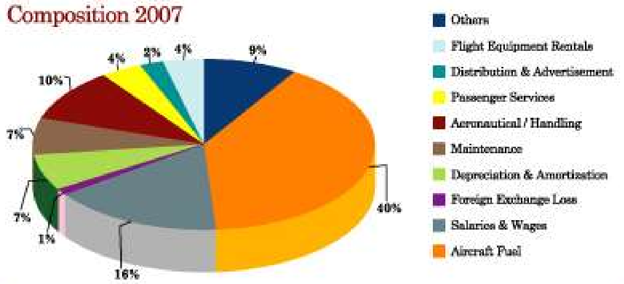
Operating Expenses Composition

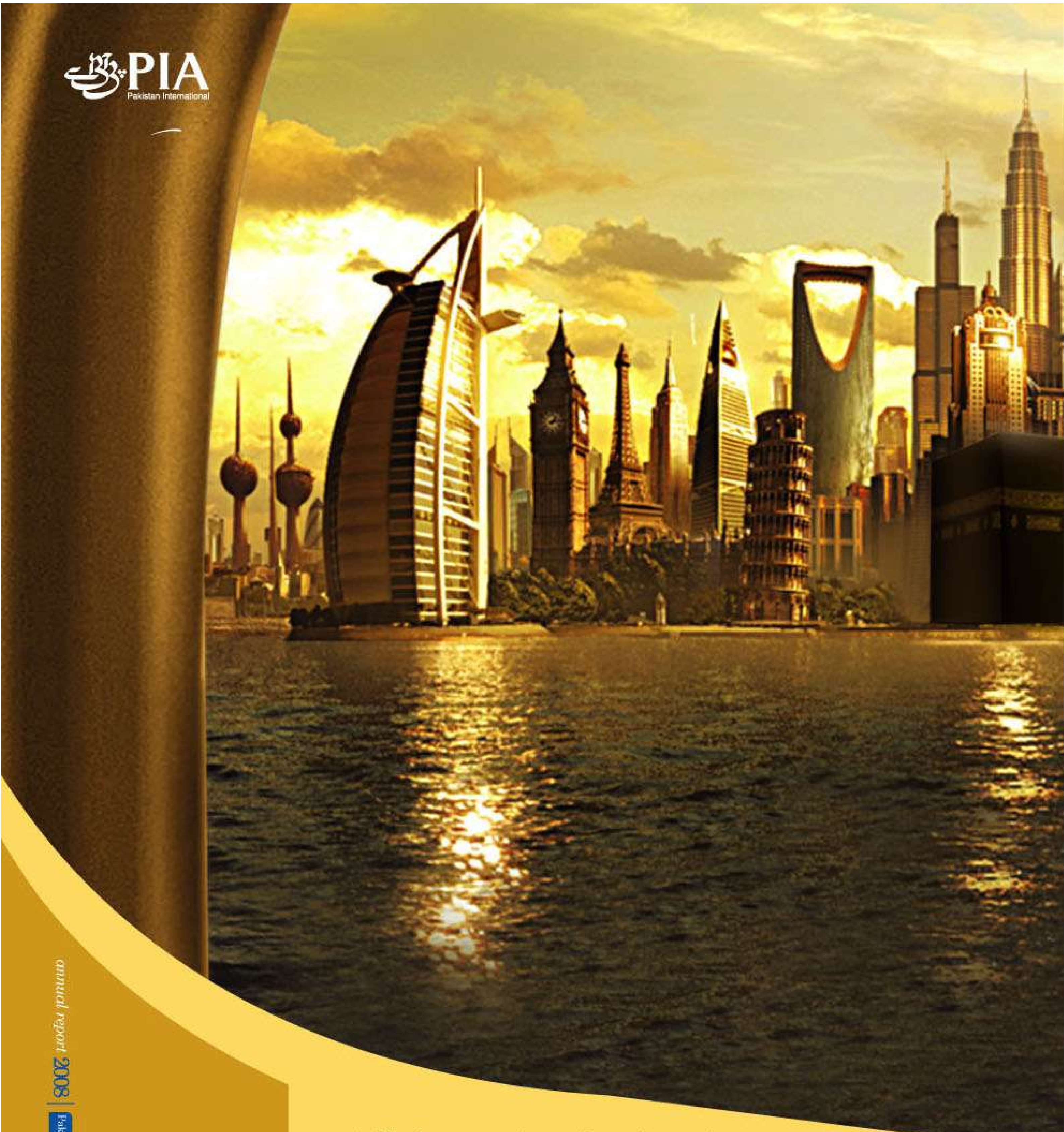
Despite rising inflation rate throughout the year, the Corporation has achieved success in its cost cutting measures; as a result, PIA's management was able to contain the increase in non-fuel expenses, excluding depreciation, to just 7%.

Operating Expenses Composition 2008



Operating Expenses Composition 2007





All favourite destinations across the

world

Network Development

PIA enhanced its product between New York to Pakistan by introducing non-stop flights with efficient, long range aircraft B-777 which considerably reduced the travel time for the incoming passengers.

To further strengthen the lucrative operations for UK, twice weekly service was started to Leeds/Bradford from Islamabad. Twice weekly service was also restored to Glasgow. The newly established Sialkot Airport was linked with Gulf through once a week frequency to Kuwait, Muscat and Abu Dhabi.

Multan was connected with Islamabad through 3 weekly frequencies. Two major cities of Sindh, Hyderabad and Nawabshah were air linked with capital of Pakistan (Islamabad) and capital of Punjab (Lahore). Two weekly services were introduced between Islamabad/Peshawar and Dera Ismail Khan through ATRs.

For the convenience of passengers, frequency between Karachi and Sialkot was increased from two per week to three per week.

To fulfill demand for Northern Europe two weekly flights for Istanbul were extended to Amsterdam.

Expanding wings
far across

Additional Flights

To take advantage of the rapidly growing Dubai market, PIA has upgraded its operation with B-777 on its daily flight to Dubai from Lahore, Karachi, Islamabad and Peshawar.

Two additional frequencies for Kuwait will operate, one from Sialkot and the other from Karachi. Since fuel prices have considerably decreased PIA has redeployed B-747 on Saudi Arabia route to meet the demand. Capacity of these aircraft were enhanced from 433 to 468 seats.

New & Planned Flights for 2009

PIA intends to start two new flights to Stansted via Dubai. It will serve twofold purpose for the Airline; firstly it will increase the frequency for London and secondly will connect Dubai with the vibrant capital of England.

Southern Punjab is being connected with United Arab Emirates by introducing two flights from Dera Ghazi Khan to Dubai and one flight from Rahim Yar Khan to Abu Dhabi.

A new European destination Barcelona, Spain will be operative in summer schedule and will be connected with Islamabad and Lahore through non-stop direct flights.

After the successful launch of Bradford station in 2008 one additional frequency is being added in the summer schedule of 2009. PIA's offering on Paris and Milan once a week will be enhanced by upgrading the operations through B-777-300

After the introduction of nonstop operation from New York, one additional frequency is being added in the summer schedule of 2009.

Two regional capitals, Islamabad and Kathmandu will be air linked/connected through once a week direct flight.

To strengthen PIA's presence in Malaysia, Kuala Lumpur will be connected with Islamabad through once a week flight.

In the new schedule PIA has fulfilled a long awaited need of our passengers in NWFP by directly linking Peshawar with Kabul through ATR aircraft.

Multan will also be connected with Quetta with two weekly frequencies.

Sales & Marketing

PIA's International Passenger Traffic increased by 0.7% over 2007 despite the capacity (seats) reduction by 5.3% against the preceding year.

In the domestic market, increased fuel prices steeply elevated the rate of inflation affecting the spending power of our traffic. On domestic network, PIA's capacity (seats) declined by 8.4%, however due to its marketing efforts, PIA was able to gain an increase in number of passengers over the last year. On a system wide basis, PIA's market share increased to 50.1% in 2008 against 49.8% in 2007.

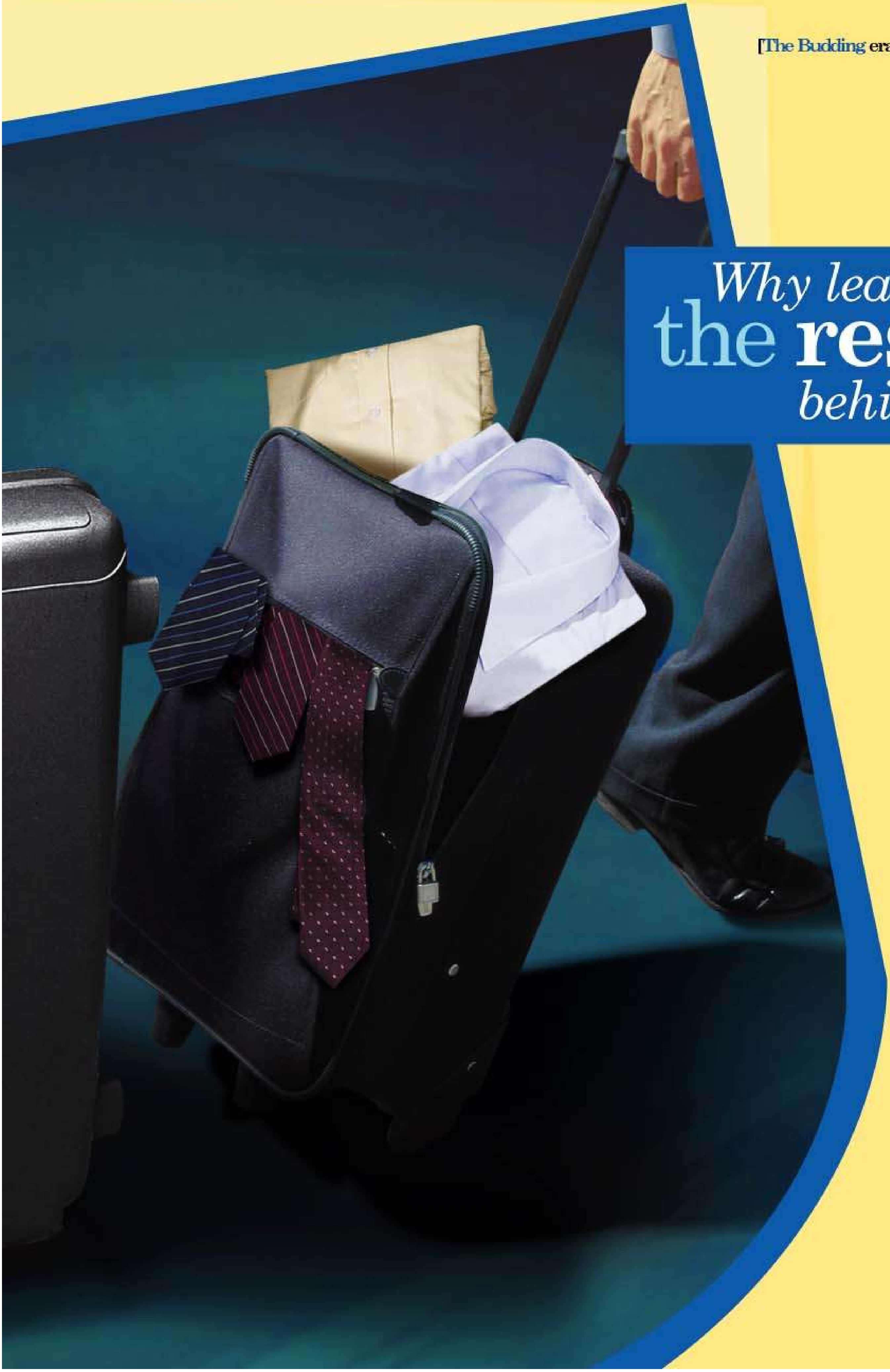
Extra Baggage

A new feature would be launched in UK region allowing the passengers to carry their excess baggage at 40% to 50% discounted rates on the prevailing excess baggage rates.

Agent Commission

Agency commission in Pakistan was reduced from 9% to 5% in order to achieve target of "Zero percent" commission by 2009.

Why leave the rest behind



PIA
Pakistan International

PIA | AWARDS +PLUS
Pakistan International

Absolute
Convenience
in a single card

* Not applicable on journeys to / from USA & Canada

**Conditions apply

Frequent Flyer Programme

The Awards +Plus Programme, PIA's loyalty programme has been evolving ever since its creation in the year 1999. It was launched to recognize and appreciate PIA's frequent flyers, who choose PIA as their preferred airline for traveling. With current membership base of over 200,000 members, Awards +plus programme is not only striving towards innovative options for earning Air miles faster, but is also contributing towards revenue generation for PIA.
In the year 2008, our programme has made the following noticeable achievements:

New Online Redemption System

Awards +plus programme has successfully cutover from ORIX POS Network to New Online Redemption System (NORS) on the 14th of Oct 2008 to all PK domestic stations including booking offices, Airport ticketing and check-in counters. The NORS is a one window solution for not only our customers but also for our stations as well. This system will help in reducing customers' complaints, delay in request processing, allow instant issuance of Awards and reduce errors in calculation of purchase & redemption of Air miles.

Achievements in Alliances

PIA - UFONE Talk & Fly deal was launched in an effort to introduce other channels for members to earn Air miles easier and faster. The deal structure is based upon transfer of Air miles against every PKR 50 spent on the post paid connection. Through the "Talk n Fly" deal, PIA has earned PKR 1,500,000 in the year 2008. Currently both PIA and UFONE marketing teams are under the process of finalizing the marketing plan for expected launch in 2009. Through the "Talk n Fly" promotion, PIA would be able to increase the PIA-UFONE deal awareness and enhance brand image in the market. As a part of the deal, UFONE has given two million Air Miles to the Lucky Winners, during 2008, in lucky draw promotion.

PIA-SCB Brand Credit Card was launched with features such as earning of Air miles through Credit Card, entitlement of a special 15% discount for Co-brand members and complimentary tier upgrade from Emerald to Sapphire for PIA-SCB Co-brand members having Gold Credit Card. Boasting a membership base of 26,984 co-brand members Awards +plus department has earned a revenue of PKR 4,417,644 through transfer treasure points to Awards +plus miles. Currently PIA and SCB teams are in the process of finalizing the strategic marketing plan for PIA-SCB Co-Brand deal to be launched in the market. Activities involve TV commercials, ATL activities as well as BTL activities which will be finalized by both companies.

PIA
Pakistan International

A dedication.......
Acknowledged

Awards & Accolades

PIA has won many awards and laurels in its more than 50 years of history. Recently PIA has won another prestigious award "Brands of the Year" in the airline category for the year 2008. It is probably the most esteemed award won in the field of Brand Management. The winning of this Award is a proud reflection of PIA's popularity, its strong brand image and the decisive support it gets from the customers.

Recently, PIA has been honored by another impressive Award, the 4th annual "Consumers Choice Award" given by the Consumer Association of Pakistan in a ceremony held on December 2, 2008. The Consumer Choice Award is a distinguished attribute towards good business recognition as it is the consumer who is the real adjudicator. This Award is a reflection of the hard work and dedication that each recipient puts in towards providing the best possible product and the highest level of services.

PIA Cargo - the airfreight division of PIA has been honored by the Air Cargo Agents Association of Pakistan as one of the top six "Best Airlines Award Pakistan 2008" in its annual award ceremony held on November 24, 2008. This award is a well deserved recognition of PIA Cargo for providing quality service to its valued customers at competitive prices. PIA Cargo has embarked itself as a brand and first choice of freight forwarders in the market.

Hajj Operation

Hajj 2008/2009 operation was conducted completely with PIA's own fleet. The flights were directly operated from Karachi, Islamabad, Lahore, Peshawar and Quetta while connections via Karachi were provided to passengers from Faisalabad, Multan and Sukkur.

In all, PIA carried 126,746 Hujjaj on 308 pre-Hajj flights to Saudi Arabia with 242 flights to Jeddah and 66 flights to Madina. On return, PIA operated 305 post Hajj flights carrying 125,655 Hujjaj.

By the grace of Almighty Allah, the whole operation was successfully completed between 01 November, 2008 and 11 January, 2009.

لَبَّيْكَ اَللّٰهُمَّ لَبَّيْكَ

A holy dedication

Extending aeronautical *prowess*

Fleet planning & Modernization

Fleet modernization had always been the priority of PIA and a number of steps have been taken to acquire new modern aircraft to provide reliable, safe and comfortable service to its valued customers.

In this regard, PIA had signed an agreement in 2002 with Boeing for purchase of eight new Boeing 777 family aircraft as part of its wide body aircraft fleet replacement. PIA has taken the delivery of all the aircraft with the last one joining the fleet in March 2008.

Efforts are being made to replace PIA's Boeing 737-300 aircraft and also induct additional aircraft for meeting the capacity requirement.

PIA is also considering the acquisition of a full flight simulator for B-777 aircraft which will result in improved training standards, increased crew availability, better coordinated crew scheduling & planning and will also be a potential for generating third party revenue.

US Dollar Financing

PIA availed financing of US $ 149.79 million on delivery of the final Boeing 777-300 ER delivered in March 2008. This financing was arranged through ABN AMRO with US Exim cover and was contracted at an attractive sub-LIBOR pricing

Engineering and Maintenance

PIA Engineering Department earned PKR 936 million in the year 2008, an increase of revenue of 30% over last year.

Automatic test equipment facility to test / repair computerized air borne components of A310 was acquired during the year. In-house capability for test / repair of B777/ATR 42 is continually being enhanced to reduce foreign repair & maintenance cost and turnaround time. During 2008, test and repair facility for approximately 50 components has been achieved with savings of US $ 0.5 million through local fabrication.

In-house repair and testing facility of CF6-80C2 engine has been fully developed and one engine has been successfully repaired in-house. The financial savings are US $ 0.5 million per engine.

In pursuance of management's decision to operate direct flights from New York to Pakistan and overcome the constraints of lesser ground time for maintenance, efforts have been made to introduce the concept of Split Maintenance which is being applied to PIA Boeing 777-200 LR. This Split Maintenance Program will reduce the "A" check tasks without compromising the quality of work.

A surveillance audit of Engineering and Maintenance was carried out by EASA in 2008. Auditors from GSAC audited Engineering resources and facilities from April 07, 2008 to April 11, 2008. Only one Level II and few Level III NCRs were raised during the audit. Appropriate replies for the corrective actions taken were submitted to EASA for the validation of PIA Engineering and Maintenance as an approved maintenance organization.

PIA Engineering & Maintenance is providing services to third parties / customers. Approval from the regulatory authority is a must where the aircraft of third party is registered. Auditors from Thai Civil Aviation visited base maintenance of PIA Engineering and Maintenance during October 14, 2008 to October 15, 2008 and accorded the required approval.

Line maintenance / line station is providing aircraft certification to Qatar Airlines. For the purpose of approval from Qatar CAA for this maintenance activity, auditors from Qatar Civil Aviation Authority visited PIA engineering facilities during October 14, 2008 to October 16, 2008. They gave the required approval after inspecting the PIA facilities.

A successful authentication visit by EASA Auditor for the verification of the corrective actions on the non-conformities raised during last two years audit was carried out during November 24, 2008 to November 26, 2008.

Embracing high-tech *revolution*

Flight Operation

- A comparative study of Air Traffic Services (ATS) routes within Afghanistan airspace was made to determine the most economical routing for our west bound flights. The navigation data base of A310 and 777 aircraft was modified and flight plan routes were revised accordingly. The new route has reduced the flight time of our flights by 10-15 minutes.
- Extended Twin Engine Operation (ETOPS) routes on YYZ- ISB- LHE sectors have been incorporated. This has reduced the flight time by 15 to 20 minutes on these routes.

  Routes & Navigation Bulletin regarding operation to Hyderabad has been issued.
- All PIA tailored routes were entered in Dispatch Manager (DM) of Sabre flight planning system.

  Charter License has been revalidated.
- All requisite formalities for renewal of German Operating Permit were fulfilled and permit has been obtained.
- Arrangements were made to obtain approval from CAA-Pakistan to operate flights on direct routing on KHI-UET-KHI, KHI-PEW-KHI and KHI-ISB-KHI sectors. This has resulted in significant saving of flight time and operational cost. Pilots have been advised to coordinate with ATC for obtaining direct routing.
- Electronic Flight Bag (EFB) on 777 aircraft has been fully commissioned. After trial period, all technical and navigational manuals will be withdrawn from the aircraft.
- Requisite documents have been submitted to Spanish aviation authorities for obtaining their approval for our flights planned in summer schedule 2009 to/from Barcelona.
- With the implementation of Centralized Flight Dispatch at Karachi, 7 international and 4 domestic centers have been closed in phases. The human resources budget of this section has been reduced by 32%. This will result in substantial savings in cost.
- The Sabre Air Ops Dispatch Manager and Movement Manager have been implemented and now are fully functional since September 2008.
- Since B777 fleet was inducted into PIA, the ACARS communication system was not operational. It is now being utilized and communication with B777 around the globe is possible with the least possible hassle enabling operations control for easy and rapid decision making and flight watch.

Customer Service & Care

During the year 2008, customer comfort, care and convenience remained the focal point of airline activities on ground and on board.

PIA achieved the milestone to cutover Dubai and Jeddah stations to its own Departure Control System (ACSI) in 2008. Both stations are of high importance due to heavy passenger traffic.

E-Solutions

E-Ticketing

In the age of Information Technology the airlines of the world are moving from paper tickets to e-tickets. PIA started the project of introducing E-Ticketing in 2007. PIA successfully met the IATA's deadline of 31st May, 2008 to move to E-ticketing and major portion of its network (almost 97%) shifted to the electronic ticketing from paper ticketing. The remaining stations Sharjah and Kabul, that were delayed due to infrastructural problems in the check-in area, will shift to E-ticketing in near future.

Interline

E-Ticketing

In 2008, PIA has made considerable progress towards another milestone by concluding 35 Interline E-ticketing (IET) agreements with other airlines. This would facilitate PIA's passengers traveling to/from non-PIA destinations. E-tickets offer the customer more convenience, as they no longer have to carry a valuable document to be able to travel. All the ticket information is stored electronically, and can be accessed when the customer presents his or her passport. E-tickets also substantially reduce processing costs for airlines. Interline E-ticketing means customers can now travel on multiple airlines using the same E-ticket, as the data is shared between airlines on the customer's itinerary.

Web Ticketing

Web Ticketing is a cost effective sales channel being increasingly adopted by the airlines. Rising to the challenge PIA is implementing Web Ticketing under a phased program. During 2008 Web ticketing was initially opened for all domestic routes. After sufficient experience it was implemented for USA, Canada, UK and some Gulf stations. During 2009 it is planned to extend this facility to all remaining PIA routes. With this move, PIA hopes to provide its customers an efficient, fast and reliable ticketing facility.

Bringing ultimate customer convenience

Information Technology

As an initiative to provide cost effective solutions through use of state of art information technology, following key projects were carried out by IT during the year 2008.

- During 2008, a major development took place in the area of Flight Operations. Two new systems namely Dispatch Manager and Movement Manager were implemented which enabled the airline to centralize its hitherto independent flight operation functions previously performed at various stations. These systems, besides being integrated with the Reservation and Schedule Planning systems enabled the airline to centralize its Flight Planning and Movement Tracking functions.
- Considering the world wide availability of machine readable travel documents like Passports, Green Cards, Visas etc., new keyboards were introduced at major domestic Airports enabling direct transfer of data from these documents to the check-in system thus eliminating manual entry which used to consume time and was prone to inaccuracies due to entry errors.

Human Resource & Management

To boost up the morale of Corporation employees various measures were taken by PIA's management. A few of them are listed below:

- One time promotions were given to employees awaiting promotions for decades.
- In Line with Government directives all contractual employees (staff) were confirmed.
- Terms & conditions of service for cabin crew were reviewed and rationalized.
- The performance appraisal system has been revised after taking inputs from all the departments.
- Referendum to determine the Collective Bargaining Agent (CBA) of the airline was held during the year.

A few other major activities of the department are narrated below:

- The Human Resource budget at foreign stations was reviewed and rationalized and reductions were made wherever possible.
- Positions of higher management were reviewed. Services of Directors / General Managers hired on contracts at high salaries were terminated resulting in an annual saving of PKR 42 million.
- Corporate Job Description Manual was updated.
- During 2008 the PIA internship policy was successfully executed and a total of 175 internees joined the program after a comprehensive selection process from all HEC recognized universities of Karachi, Rawalpindi / Islamabad, Lahore and Peshawar.

Contribution to National Exchequer

Your Corporation has contributed Rs. 5,539 million during the year 2008 to the national exchequer on collection of central excise duties, sales tax and other statutory levies. Out of the above collected amount, Rs. 4,533 million has already been deposited. Keeping in view the liquidity constraints of the Corporation Federal Board of Revenue (F.B.R) allowed PIA to pay the balance amount of Rs. 1,006 million in installments.

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 enhanced disclosures of relevant information to the users of the financial statements in the following area:

Revaluation of Aircraft

During the year, the aircraft fleet of the Corporation was revalued by an independent valuer, Ascend Worldwide Limited (Airclaims Limited -UK), on the basis of professional assessment of current market values as of December 31, 2008. 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 above referred valuer, a net surplus of PKR 11,675 (2007: PKR 873) million on revaluation of aircraft fleet has arisen, which has been recorded at PKR 7,589 (2007: PKR 567) million, net of deferred tax of PKR 4,086 (2007: PKR 305) million.

Revaluation of Land & Buildings

During the current year, the Corporation has changed its accounting policy in respect of owned land and buildings that are freely transferable and can be disposed off as and when required, whereby the same are now carried at revalued amounts being the fair value on the date of revaluation less subsequent accumulated depreciation and any accumulated impairment losses in case of owned building only. The change in accounting policy has been accounted for in accordance with IAS-16 "Property, plant and equipment", and the Companies Ordinance, 1984.

The above change has been made as in the opinion of the management, the new accounting policy would provide a more accurate reflection of the carrying value of the assets of the Corporation.

During the current year, a revaluation exercise was organized by the Corporation, which was carried out by the following independent valuers:

- International Consultant & Machinery Linkers in Pakistan;
- Narendar Consultant and Subash Shah & Associates in India;
- Streck Real Estate BV in Netherland; and
- Jon Phillip Mason in United States of America

The revaluation resulted in surplus on owned lands and building of PKR 3,360 million and PKR 3,026 million over their written down values of PKR 44.17 million and PKR 155.330 million, respectively.

Fair value has been determined by reference to market based evidence, based on active market prices, adjusted for difference in nature, location or condition of the specific property.

PIA Subsidiaries

For the year 2008 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 2008 PIAIL earned revenues of US $ 138.602 million and a profit of US $ 13.549 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 second dividend payment from PIAIL since its inception for 2008. The future prospects of earnings and dividend payout are promising.

During the same period Skyrooms (Private) limited which owns Airport Hotel at Karachi earned revenue of PKR 237.5 million and earned a profit of PKR 12.68 million.

Risk Management

In the current environment, marked by extreme volatility in currencies, commodities, credit and almost all areas of business, risk management has acquired an importance of its own.

Towards the end of 2007 when the three month LIBOR had begun its slide down from levels of 5%, almost all the major foreign banks had actively pursued with PIA to enter into Interest Rate Swap (IRS) derivative transactions for all its fleet loans. As the rates for long term fixing had come down to levels of around 3.0 to 3.5%, the general assumption then was that the LIBOR would as swiftly climb up in the latter half of 2008. However, PIA took its own view which was vindicated by actual events .The LIBOR today is floating at 1.25% and PIA has thus substantially saved on this account in 2008.

Having said that, PIA is keeping its options of doing IRS transactions in the future whenever it judges that the available prices for different tenors and options are suited to our portfolio.

As it is, PIA has part of its fleet loans already locked in at previously fixed prices while part of its fleet loans are on floating interest rates.

The Board in its 316th meeting held on October 27, 2008, endorsed decision taken in its 315th meeting held on August 28, 2008, and further decided in principle to hedge fuel price for up to 25 percent of total fuel requirement of PIA. It authorized Managing Director, PIA to take step(s)/action(s) associated with or ancillary to the fuel hedging on such terms and conditions as are considered satisfactory to PIA.

Subsequent to Board's decision Corporation had hedged 425,000 barrels against Hajj Operation for the period of November, December, 2008, and January, 2009 which constituted approximately 9% of PIA's total annual jet fuel requirement.

GoP Financial & Going Concern Support

PIAC issued 54,494,004 Ordinary shares of PKR 10 each, aggregating to PKR 594 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 and covered 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 ATR aircraft.

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

Pattern of Shareholding

A statement showing the pattern of shareholding in the Corporation and additional information as at December 31, 2008 appears on page 53.

The highest and lowest market prices for 'A' class Ordinary Share of Rs. 10 were PKR 7.65 and PKR 1.70 per share respectively. There was no trading in 'B' class Ordinary share of Rs. 5/- during 2008.

Government of Pakistan through Ministry of Defence holds 90.19% of the shares, while financial institutions hold 2.88% and individuals and others hold 6.93%.

Changes in Board of Directors

Since the publication of Annual Report 2007, Mr Kamran Rasool relinquished and Ch. Ahmed Mukhtar, Minister for Defence joined as Chairman. Malik Nazir Ahmed and Mr Mubashir Iftikhar joined as elected members in place of Mr Kamal Afsar and Mr S. Ali Raza. Dr Waqar Masood Khan, Federal Secretary Finance relinquished, subsequently rejoined as Board Member and again relinquished. Mr Farrakh Qayyum, Federal Secretary Finance joined as Board member and relinquished. Mr Kamran Rasool, Syed Naseer Ahmad, Prof. Mian Ijaz ul Hassan, Mr Javed Akhtar, Mr Husain Lawai, Mr Shaukat Ali Rana and Capt. Mohammad Aijaz Haroon, Managing Director-PIA joined the Board as Members. Mr Mueen Afzal, Syed Mohammad Fazal Agha, Mr Shahzad M. Husain, Mr M. Hidayatullah Khan Khaishgi, Maj. Gen. Mir Haider Ali Khan, Mr Javed Saifullah Khan, Mr Farooq Rahmatullah, Director General, Civil Aviation Authority and Mr Kamran Rasool, Federal Secretary Defence relinquished as Members. Lt. General (Retd.) Syed Athar Ali, Federal Secretary Defence and Mr Salman Siddique, Federal Secretary Finance, joined as Board Members. The Board extends a warm welcome to the incoming Chairman and Directors, and wishes to record appreciation for the valuable services rendered by the outgoing Chairman 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 seven 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 an 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 except Malik Nazir Ahmed whose shareholding is reflected on the Pattern of Shareholding.

m) The value of investment of recognized provident fund and pension fund as at Dec 31, 2008 were Rs. 18,867 million and Rs. 9,019 million respectively.

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 misstatement or loss. The principal features of the system include:

1. 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.
2. An internal audit function, which carries out on a continuing basis, reviews of internal control and reports to the Audit Committee.
3. Business Plan and Strategic Plan.
4. An organization structure, which supports clear lines of communication and tiered level of authority with delegation of responsibility and accountability.

Future Outlook

The bearish trend in oil market augurs well for recovery beyond 2008. With the current operating environment, PIA has positioned itself to overcome the losses sustained over the past four years. It is now poised to enter a profitable era and the conservative assumptions in the business plan for 2009 only lend credibility to this optimism.

With the resetting of the economic parameters, management's focus for the coming year is to have a revenue led recovery. The plan for 2009 is essentially growth oriented to spread the fixed cost and overheads. A highly aggressive revenue target has been set for the coming year and management is committed to take on this challenge. Airline is cognizant of the need to contain costs as well and plans are in place to counter inflationary pressures.

With the forecast of a modest profit level for 2009, pressure on PIA's cash flow would continue because of high debt servicing requirements. Furthermore, bullet repayments on some loans are due in 2009, thus funding would be critical to meet the gap. Government of Pakistan's support is vital to alleviate the cash flow difficulties.

No doubt, the challenge for 2009 is formidable, but it can be achieved with sustained and relentless efforts. This would require a high degree of discipline, efficiency and total commitment at all levels to put the airline on the path of recovery, prosperity and growth.

Just as the recent developments and the emerging prospects for 2009 look encouraging, PIA's management will need to keep a close watch on reversal in global prices of jet fuel, depreciation of Pakistani Rupee versus US Dollar, instability in the region, deeper/ prolonged economic recession impacting PIA's markets, and the challenges facing Pakistan's economy.

While we expect that the extraneous factors outside our control shall not take an adverse turn, PIA's management on its part shall do everything within its control to ensure that it maximizes the gains offered by the current environment in which PIA finds itself happily positioned.

Ch. Ahmed Mukhtar
Chairman-PIA
March 26, 2009

Attendance of Directors at Board Meetings

During the Financial Year 2008, seven 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 during the tenure	Meetings Attended
1.	Mr Zaffar A. Khan Chairman & CEO	01	01
2.	Mr Kamran Rasool Chairman	02	02
3.	Ch. Ahmed Mukhtar Chairman	04	04
4.	Mr Mueen Afzal	05	03
5.	Mr Kamal Afsar	02	02
6.	Syed Mohammad Fazal Agha	05	03
7.	Mr Shahzad M. Husain	05	05
8.	Mr M.H.K Khaishgi	05	05
9.	Mr Javed Saifullah Khan	05	03
10.	Syed Ali Raza	02	02
11.	Mr Farooq Rahmatullah	05	04
12.	Maj. Gen. Mir Haider Ali Khan	05	04
13.	Dr. Waqar Masood Khan	04	01
14.	Malik Nazir Ahmed	05	05
15.	Mr Mubashir Iftikhar	05	05
16.	Mr Farrakh Qayyum	02	02
17.	Syed Naseer Ahmad	02	02
18.	Mr Javed Akhtar	02	02
19.	Capt. Mohammad Aijaz Haroon Managing Director	02	02
20.	Prof. Mian Ijaz ul Hassan	02	02
21.	Mr Husain Lawai	02	02
22.	Mr Shaukat Ali Rana	01	01
23.	Mr Kamran Rasool	02	01
24.	Lt Gen (Retd.) Syed Athar Ali	-	-

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 2008, five Meetings of the Audit Committee were held and the number of Meetings attended by each Director is given hereunder:

S. No.	Name	Meetings Held during the tenure	Meetings Attended
1.	Mr Kamal Afsar	2	1
2.	Mr Husain Lawai	1	1
3.	Mr Mueen Afzal	3	2
4.	Maj. Gen. Mir Haider Ali Khan	3	1
5.	Syed Ali Raza	2	0
6.	Malik Nazir Ahmed	2	2
7.	Mr Shahzad M. Husain	3	3
8.	Prof. Mian Ijaz ul Hassan	1	1
9.	Mr Mubashir Iftikhar	2	2

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

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

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

Review Report to the Members On Statement Of Compliance With Best Practices Of Code Of Corporate Governance

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, 2008.

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Anjum Asim Shahid Rahman
Chartered Accountants

Karachi
March 26, 2009

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. PIA is a statutory Corporation existing under Pakistan International Airlines Corporation Act, 1956 which stipulates that 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 Managing Director who has been delegated all administrative and financial powers by the Chairman who is the Chief Executive as per PIAC Act.
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 and already adopted 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, 2008 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 circulated. The CFO and the Corporate Secretary also attended the Meetings of the Board.
9. The Directors are aware of their duties and responsibilities. An orientation course was arranged for the PIA Board of Directors during the year 2008.

10. The Board has approved the appointment of Chief Financial Officer, Corporate Secretary, and Head of Internal Audit including their remuneration as well as terms and conditions of employment, as determined by the CEO.

11. The Directors' Report for financial year 2008 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 duly endorsed under their respective signatures.

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 four 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 set out 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

Karachi
March 26, 2009

Ch. Ahmed Mukhtar
Chairman - PIA

Pattern of shareholding

As At December 31, 2008

No. of Shareholders	Shareholding From	Shareholding To	Total Shares Ordinary 'A' Class Shares of Rs./ 10/- Each	Total Shares Ordinary 'B' Class Shares of Rs./ 5/- Each
12356	1	100	268,149	13,121
31404	101	500	8,932,837	9,635
5009	501	1000	4,304,267	2,242
5155	1001	5000	12,407,865	12,486
850	5001	10000	6,497,343	0
225	10001	15000	2,853,647	0
166	15001	20000	3,009,333	0
96	20001	25000	2,296,728	0
58	25001	30000	1,645,950	0
34	30001	35000	1,138,306	0
28	35001	40000	1,084,678	0
20	40001	45000	865,840	0
48	45001	50000	2,379,568	0
14	50001	55000	742,627	0
14	55001	60000	823,500	0
2	60001	65000	123,043	0
11	65001	70000	751,304	0
10	70001	75000	739,281	0
5	75001	80000	393,000	0
2	80001	85000	164,500	0
3	85001	90000	263,666	0
5	90001	95000	470,000	0
30	95001	100000	2,991,170	0
4	100001	105000	413,158	0
1	105001	110000	109,500	0
3	120001	125000	369,000	0
2	125001	130000	257,500	0
3	130001	135000	394,128	0
4	135001	140000	552,225	0
1	140001	145000	141,500	0
6	145001	150000	900,000	0
1	150001	155000	153,000	0
2	155001	160000	315,000	0
2	160001	165000	327,900	0
2	175001	180000	356,000	0
2	180001	185000	370,000	0
1	190001	195000	192,100	0
4	195001	200000	800,000	0
2	200001	205000	406,000	0
2	210001	215000	425,380	0
1	225001	230000	229,000	0

No. of Shareholders	Shareholding From	To	Total Shares Ordinary 'A' Class Shares of Rs./ 10/- Each	Total Shares Ordinary 'B' Class Shares of Rs./ 5/- Each
2	245001	250000	496,455	0
1	255001	260000	258,500	0
1	260001	265000	262,500	0
2	290001	295000	585,752	0
2	295001	300000	600,000	0
1	300001	305000	303,500	0
1	320001	325000	320,808	0
1	370001	375000	372,500	0
2	395001	400000	800,000	0
1	420001	425000	425,000	0
1	425001	430000	427,500	0
1	455001	460000	457,512	0
1	490001	495000	490,500	0
1	495001	500000	499,500	0
1	500001	505000	500,185	0
1	565001	570000	567,504	0
1	605001	610000	608,000	0
1	630001	635000	630,067	0
1	685001	690000	687,000	0
1	765001	770000	768,500	0
1	865001	870000	867,500	0
1	895001	900000	900,000	0
1	1100001	1105000	1,100,067	0
1	1155001	1160000	1,156,500	0
1	1260001	1265000	1,262,066	0
1	1275001	1280000	1,279,000	0
1	1760001	1765000	1,765,000	0
1	1795001	1800000	1,800,000	0
1	2165001	2170000	2,170,000	0
1	2295001	2300000	2,300,000	0
1	2360001	2365000	2,362,553	0
1	2410001	2415000	2,410,150	0
1	2480001	2485000	2,482,654	0
1	2995001	3000000	3,000,000	0
1	3240001	3245000	3,241,466	0
1	3245001	3250000	3,245,500	0
1	3715001	3720000	3,718,000	0
1	3830001	3835000	3,830,500	0
1	3915001	3920000	3,916,884	0
1	4025001	4030000	4,029,000	0
1	4960001	4965000	4,960,500	0
1	5680001	5685000	5,684,572	0
1	9210001	9215000	9,212,000	0
1	13370001	13375000	13,374,500	0
1	15745001	15750000	15,750,000	0
1	16875001	16880000	16,876,347	0
1	25535001	25540000	25,539,500	0
1	1931390001	1931400000	1,931,397,849	1,462,515
55,640		2,141,551,384		1,499,999

Categories of Shareholders As At December 31, 2008

Shareholders Category	Number of Shareholders	Number of Shares Held Ordinary 'A' Class Shares of Rs./ 10/- Each	Ordinary 'B' Class Shares of Rs./ 5/- Each	Percentage
Associated Companies, undertakings related parties	---	----	----	----
NIT and ICP				
National Investment Trust	1	100		
NBP Trustee Department	1	4,892,804		
Investment Corporation of Pakistan	1	7,825	100	0.23
Directors, CEO and their spouses and minor children				
Malik Nazir Ahmed, Director	1	1,800,000		0.08
Mr Mubashir Iftikhar, Director	1	50,000		
Executives	1,068	144,215		0.01
Public Sector Companies and Corporations	-----	-----	-----	-----
Banks, DFIs, NBFIs, Insurance Companies, Modarabas and Mutual Funds	83	61,798,973	2,633	2.88
Shareholders holding 10% or more voting interest (Secretary-Ministry of Defence, Govt. of Pakistan)	1	1,931,397,849	1,462,515	90.19
Individuals	54,204	70,418,496	33,537	3.29
Others	279	71,041,122	1,214	3.32
TOTAL	55,640	2,141,551,384	1,499,999	100.00

The above two statements include 8,156 Shareholders holding 184,237,285 A Class Ordinary Shares and 2,415 B Class Ordinary Shares through the Central Depository Company of Pakistan Limited.

Six year summary

	2008	2007	2006	2005	2004	2003
OPERATION						
Route Kilometers	311,131	383,574	446,570	343,525	354,664	290,129
Revenue Kilometers Flown (000)	79,580	80,759	88,302	82,550	80,087	68,851
Revenue Hours Flown	132,378	132,416	141,479	134,039	130,977	115,017
Available Tonne Kilometers (000)	2,934,626	3,125,558	3,369,288	3,102,805	2,973,437	2,475,904
Available Seat Kilometers (000)	19,528,207	20,313,265	22,092,475	20,816,469	20,353,863	17,259,080
TRAFFIC						
Revenue Passengers Carried (000)	5,617	5,415	5,732	5,499	5,120	4,556
Revenue Passengers Kilometers (000)	13,925,297	13,680,916	15,124,413	14,506,683	13,519,847	12,009,419
Passenger Load Factor (%)	71.31	67.4	68.5	69.7	66.4	69.6
Revenue Freight Tonne Kilometers (000)	319,835	350,758	427,006	410,991	402,359	350,713
Kgs. of Excess Baggage & Cargo (000)	111,088	115,229	121,17	124,852	118,151	102,180
Kgs. of Mail (000)	778	1,127	1,410	1,433	1,649	1,771
Revenue Tonne Kilometers (000)	1,580,507	1,593,349	1,801,026	1,729,220	1,634,825	1,447,906
Revenue Load Factor (%)	53.86	51.0	53.5	55.7	55.0	58.5
Avg. Pax Stage Distance (Statute Kilometers)	2,479	2,527	2,639	2,638	2,641	2,636
FINANCIAL						
Operating Revenue (Rs. in million)	89,201.57	70,480.73	70,587.15	64,074.47	57,788.08	47,951.82
Operating Expenses (Rs. in million)	120,579.21	76,415.81	79,164.37	67,075.58	55,872.08	42,574.23
Operating Profit/(loss) (Rs. in million)	(31,377.64)	(5,935.08)	(8,577.22)	(3,001.11)	1,916.00	5,377.59
Profit/(loss) after tax (Rs. in million)	(35,880.16)	(13,398.71)	(12,763.42)	(4,411.66)	2,306.60	1,298.65
Fixed Assets (Rs. in million)	115,123.49	95,600.63	79,062.44	51,376.33	49,604.39	29,724.14
Current Assets (Rs. in million)	15,039.28	13,251.33	18,353.43	12,756.55	19,716.29	20,470.00
Current Liabilities (Rs. in million)	71,707.91	52,049.54	41,025.29	21,237.10	18,990.09	23,197.88
Long-Term Debts (Rs. in million)	96,926.21	74,284.84	62,650.89	38,099.18	42,517.85	22,033.73
Net Worth (Rs. in million)	(46,701.93)	(11,903.56)	(788.03)	10,446.30	13,441.19	6,673.50
Jet Fuel Prices (Rs. per US Gallon)	216.04	132.93	123.55	102.05	71.68	51.86
Cost per A. T. K. (Rs.)	32.97	24.29	23.49	21.62	18.79	17.19
RATIOS						
Earnings per share (Rs.)	(17.79)	(6.61)	(6.80)	(2.55)	1.76	1.57
Net assets per share (Rs.)	33.69	32.91	35.08	29.85	45.59	40.27
Debt equity ratio	NA	NA	NA	4.15	3.52	4.72
Current ratio	0.21	0.25	0.45	0.60	1.04	0.97
SHARE PRICES (Rs. 10 Share)						
High	7.65	11.30	16.30	14.65	26.70	23.30
Low	1.70	6.10	7.05	6.50	9.90	7.30
Closing	3.51	6.30	7.05	12.30	13.70	20.55
PERSONNEL						
Average No. of Employees	18,036	18,149	18,282	19,263	19,634	18,570
Revenue per Employee (Rs.)	4,945,751	3,883,450	3,861,019	3,326,298	2,943,266	2,582,220
A. T. K. per Employee	162,709	172,217	184,295	161,076	151,443	133,328

Financial statements

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

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

Auditors' Report to The Members

We have audited the annexed balance sheet of PAKISTAN INTERNATIONAL AIRLINES CORPORATION (the Corporation) as at December 31, 2008 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 2.5.2 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, 2008 and of the loss, its cash flows and changes in equity for the year then ended; and

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 states that the Corporation incurred a net loss for the year of Rs.35,880 (2007: Rs.13,399) million during the year ended December 31, 2008, resulting in accumulated losses of Rs.72,354 (2007: Rs.37,160) million at the close of the year, and, as of that date, the Corporation's current liabilities exceeded its current assets by Rs.56,669 (2007: Rs.38,798) 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, the accompanying financial statements have been prepared on a going concern basis.

Ford Rhodes Sidat Hyder & Co.	**Anjum Asim Shahid Rahman**
Chartered Accountants	Chartered Accountants

Karachi: March 26, 2009

Balance sheet

As At December 31, 2008

	Note	December31 2008	December31 2007	December31 2008	December31 2007
		Rupees in '000		US$ in '000	
ASSETS					
NON CURRENT ASSETS					
Fixed assets					
Property, plant and equipment	3	**115,010,337**	95,497,151	**1,457,673**	1,554,063
Intangibles	4	**113,154**	103,475	**1,434**	1,684
		115,123,491	95,600,626	**1,459,107**	1,555,747
Long term investments	5	**4,497,642**	4,540,229	**57,004**	73,885
Long term receivable	6	**-**	1,283,000	**-**	20,879
Long term deposits and prepayments	7	**5,009,452**	4,098,388	**63,491**	66,695
		124,630,585	105,522,243	**1,579,602**	1,717,206
CURRENT ASSETS					
Stores and spare parts	8	**3,726,940**	3,251,940	**47,236**	52,920
Trade debts	9	**5,757,849**	5,012,778	**72,977**	81,575
Advances	10	**1,418,610**	604,470	**17,980**	9,837
Trade deposits and prepayments	11	**1,591,583**	1,023,312	**20,172**	16,653
Accrued interest		**1,325**	32,789	**17**	534
Other receivables	12	**1,441,564**	1,043,971	**18,271**	16,989
Short term investments	13	**42,505**	32,093	**539**	522
Taxation - net		**269,351**	274,519	**3,414**	4,466
Cash and bank balances	14	**789,555**	1,975,459	**10,007**	32,147
		15,039,282	13,251,331	**190,613**	215,643
TOTAL ASSETS		**139,669,867**	118,773,574	**1,770,215**	1,932,849

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Great People to Fly With

Balance sheet

As At December 31, 2008

	Note	December31 2008	December31 2007	December31 2008	December31 2007
		Rupees in '000		US$ in '000	
EQUITY AND LIABILITIES					
SHARE CAPITAL AND RESERVES					
Share capital	15	**21,423,014**	20,878,074	**271,521**	339,757
Reserves	16	**(68,124,941)**	(32,781,632)	**(863,434)**	(533,469)
Total equity		**(46,701,927)**	(11,903,558)	**(591,913)**	(193,712)
SURPLUS ON REVALUATION OF FIXED ASSETS	17	**14,192,700**	972,040	**179,882**	15,818
		(32,509,227)	(10,931,518)	**(412,031)**	(177,894)
NON CURRENT LIABILITIES					
Long term financing	18	**19,471,411**	17,037,075	**246,786**	277,251
Term finance certificates	19	**12,430,143**	10,723,738	**157,543**	174,512
Liabilities against assets subject to finance leases	20	**65,024,660**	46,524,024	**824,140**	757,104
Long term deposits	21	**301,770**	321,547	**3,825**	5,233
Deferred liabilities	22	**3,243,205**	3,049,166	**41,105**	49,620
		100,471,189	77,655,550	**1,273,399**	1,263,720
CURRENT LIABILITIES					
Trade and other payables, including provisions	23	**27,127,000**	20,055,163	**343,815**	326,366
Accrued interest / mark-up / profit	24	**1,475,456**	978,317	**18,700**	15,920
Short term borrowings	25	**30,500,062**	18,105,884	**386,566**	294,644
Current maturities of:					
Long term financing		**5,352,528**	5,662,451	**67,839**	92,147
Term finance certificates		**-**	2,523,232	**-**	41,062
Liabilities against assets subject to finance leases		**7,252,859**	4,724,495	**91,927**	76,884
		71,707,905	52,049,542	**908,847**	847,023
CONTINGENCIES AND COMMITMENTS	26				
TOTAL EQUITY AND LIABILITIES		**139,669,867**	118,773,574	**1,770,215**	1,932,849

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Profit and loss account

For The Year Ended December 31, 2008

	Note	December31 2008	December31 2007	December31 2008	December31 2007
		Rupees in '000		US$ in '000	
REVENUE - net	27	**89,201,567**	70,480,734	**1,130,565**	1,146,961
COST OF SERVICES					
Aircraft fuel		**45,854,357**	30,315,159	**581,171**	493,330
Others	28	**39,707,920**	36,241,336	503,269	589,769
		85,562,277	66,556,495	**1,084,440**	1,083,099
GROSS PROFIT		**3,639,290**	3,924,239	**46,125**	63,862
Distribution costs	29	**5,389,632**	4,448,674	**68,310**	72,395
Administrative expenses	30	**5,818,218**	5,256,700	**73,742**	85,544
Other provisions and adjustments - net	31	**1,521,179**	433,223	**19,280**	7,050
Exchange loss - net		**24,118,823**	720,151	**305,688**	11,719
Other operating income	32	**(1,830,920)**	(999,433)	**(23,206)**	(16,264)
		35,016,932	9,859,315	**443,814**	160,444
LOSS FROM OPERATIONS		**31,377,642**	5,935,076	**397,689**	96,582
Finance costs	33	**8,351,648**	7,135,845	**105,851**	116,124
LOSS BEFORE TAXATION		**39,729,290**	13,070,921	**503,540**	212,706
Taxation	34	**(3,849,133)**	327,785	**(48,785)**	5,334
NET LOSS FOR THE YEAR		**35,880,157**	13,398,706	**454,755**	218,040
		(Rupees)		**(US$)**	
LOSS PER SHARE	35				
'A' class Ordinary shares of Rs.10 each		**17.79**	6.61	**0.23**	0.11
'B' class Ordinary shares of Rs. 5 each		**8.90**	3.31	**0.11**	0.05

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Cash flow statement

For The Year Ended December 31, 2008

	Note	December31 2008 Rupees in '000	December31 2007 Rupees in '000	December31 2008 US$ in '000	December31 2007 US$ in '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from / (used in) operations after working capital changes	36	**(19,719,505)**	4,587,257	**(249,930)**	74,650
Profit on bank deposits received		**195,004**	225,685	**2,472**	3,673
Finance costs paid		**(7,854,509)**	(6,969,806)	**(99,550)**	(113,422)
Taxes paid		**-**	(393,185)	**-**	(6,399)
Staff retirement benefits paid		**97,864**	(874,493)	**1,240**	(14,231)
Long term deposits - net		**(930,841)**	(774,853)	**(11,798)**	(12,610)
Net cash used in operating activities		**(28,211,987)**	(4,199,395)	**(357,566)**	(68,339)
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditure incurred		**(9,531,163)**	(10,863,154)	**(120,801)**	(176,781)
Proceeds from disposal of property, plant and equipment		**211,746**	110,049	**2,684**	1,791
Investments - net		**(8,104)**	100,781	**(103)**	1,640
Dividend income received		**1,077,900**	568,548	**13,662**	9,252
Proceeds from sale of investment		**-**	427,491	**-**	6,957
Long term advances and other receivable		**-**	401,000	**-**	6,526
Net cash used in investing activities		**(8,249,621)**	(9,255,285)	**(104,558)**	(150,615)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		**544,940**	1,404,443	**6,907**	22,855
Proceeds of long term financing - net		**2,124,413**	13,199,132	**26,925**	214,795
Redemption of term finance certificates		**(816,827)**	(756,970)	**(10,353)**	(12,319)
Repayment of obligations under finance lease		**21,029,000**	(5,657,663)	**266,527**	(92,069)
Repayment of long term murabaha		**-**	(781,165)	**-**	(12,712)
Net cash from financing activities		**22,881,526**	7,407,777	**290,006**	120,550
Decrease in cash and cash equivalents during the year		**(13,580,082)**	(6,046,903)	**(172,118)**	(98,404)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**(16,130,425)**	(10,083,522)	**(204,441)**	(164,093)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**(29,710,507)**	(16,130,425)	**(376,559)**	(262,497)
CASH AND CASH EQUIVALENTS					
Cash and bank balances	14	**789,555**	1,975,459	**10,007**	32,147
Short term borrowings	25	**(30,500,062)**	(18,105,884)	**(386,566)**	(294,644)
		(29,710,507)	(16,130,425)	**(376,559)**	(262,497)

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Statement of changes in equity

For The Year Ended December 31, 2008

	Issued subscribed, and paid-up capital	RESERVES Capital reserves	Revenue reserves	Unrealized gain on remeasurement of investments	Accumulated losses	Other reserves (note 23.5)	Total
	Rupees in '000						
Balance as at December 31, 2006	19,473,631	2,501,038	1,779,674	21,013	(24,563,386)	-	**(788,030)**
Issue of Ordinary 'A' class shares of Rs.10 each (note 15.1)	1,404,443	-	-	-	-	-	**1,404,443**
Unrealised gain on re-measurement of investments	-	-	-	76,353	-	-	**76,353**
Surplus on revaluation of aircraft fleet realised during the year on account of incremental depreciation charged thereon	-	-	-	-	802,382	-	**802,382**
Net loss for the year	-	-	-	-	(13,398,706)	-	**(13,398,706)**
Balance as at December 31, 2007	20,878,074	2,501,038	1,779,674	97,366	(37,159,710)	-	**(11,903,558)**
Issue of Ordinary 'A' class shares of Rs.10 each (note 15.1)	544,940	-	-	-	-	-	**544,940**
Unrealised loss on re-measurement of investments	-	-	-	(24,101)	-	-	**(24,101)**
Fair value of cash flow hedge - net of tax	-	-	-	-	-	(125,271)	**(125,271)**
Surplus on revaluation of aircraft fleet realised during the year on account of incremental depreciation charged thereon	-	-	-	-	686,220	-	**686,220**
Net loss for the year	-	-	-	-	(35,880,157)	-	**(35,880,157)**
Balance as at December 31, 2008	21,423,014	2,501,038	1,779,674	73,265	(72,353,647)	(125,271)	**(46,701,927)**

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Notes to the financial Statements

For The Year Ended December 31, 2008

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

During the current year, the Corporation incurred a net loss of Rs.35,880 (2007: Rs.13,399) million, resulting in accumulated losses of Rs.72,354 (2007: Rs.37,160) million as of the balance sheet date. Further, as of that date the current liabilities of the Corporation exceeded its current assets by Rs.56,669 (2007: Rs.38,798) 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 September 02, 2008, 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 at the beginning of current year. The financial measures which the Corporation 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. The new TFCs have already been issued on February 20, 2009.

(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 lands and buildings 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.

Further, the Corporation issued 54,494,004 Ordinary shares of Rs.10 each, aggregating to Rs.545 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 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.

The subsidiaries of the Corporation have also improved their performance as evidenced by the Corporation receiving a dividend of US$ 14.60 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.

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, 1956 and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirement of Companies Ordinance, 1984 provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the requirements of the PIAC Act, 1956 or the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2. Basis of preparation

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

- Corporation's leasehold lands are stated at revalued amounts and buildings thereon are stated at the revalued amount less accumulated depreciation and impairment, if any, as referred to in notes 3.1.1 and 3.1.2;
- Corporation's aircraft fleet is stated at revalued amount less accumulated depreciation and impairment, if any, as referred to in notes 3.1.3 and 3.1.4;
- Certain financial instruments, which 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
- Defined benefits obligations are stated at present value in accordance with the requirements of IAS - 19 'Employee Benefits', as referred to in note 22.

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.78.90 = US$1 (2007: Rs.61.45 = US$1) solely for convenience purposes.

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 judgement in the process of applying the Corporation's accounting policies. Estimates and judgements 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, owned lands and owned buildings 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 22.1, 22.2 and 22.3 to the financial statements.

Stores and spare parts

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.

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 / air waybills 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 standards or interpretations:

Standard or Interpretation	Effective date (accounting periods beginning on or after)
IAS 1 - Presentation of Financial Statements (Revised)	01 January 2009
IAS 23 - Borrowings Costs (Revised)	01 January 2009
IAS 27 - Consolidated and Separate Financial Statements (Revised)	01 January 2009
IFRS 3 - Business Combinations (Revised)	01 July 2009
IFRS 4 - Insurance Contracts	01 January 2009
IFRS 7 - Financial Instruments: Disclosures	01 July 2008
IFRS 8 - Operating segments	01 January 2009
IFRIC 13 - Customer Loyalty Programs	01 July 2008
IFRIC 15 - Agreements for the Construction of Real Estate	01 January 2009
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	01 October 2008
IFRIC 17 - Distributions of Non-cash Assets to owners	01 July 2009
IFRIC 18 - Transfers of Assets from Customers	01 July 2009
IFAS 2 - Ijarah	01 January 2009

The Corporation expects that the above standards and interpretations are either not relevant or will have no material impact on the Corporation's financial statements in the period of initial application other than as stated below:

IAS 1 "Presentation of Financial Statements". The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owners changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income. It presents all items of recognized income and expense, either in one single statement, or in two linked statements.

IAS 23 "Borrowing Cost (Revised)". This standard requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing cost has been removed.

IFRS 7 "Financial Instruments: Disclosures". This standard prescribes presentation and disclosure requirements in respect of financial instruments including qualitative and quantitative information about exposure to risks arising from financial instruments such as credit risk, liquidity risk and market risk.

IFRS 8 "Operating Segment". This standard required a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

IFRIC 13 "Customer loyalty programmes". This interpretation addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. It applies to sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customer can redeem in the future for free or discounted goods or services. The interpretation requires that an entity recognises credits that are awarded to customers as separately identifiable components of revenue, which would be deferred at the date of initial sale.

In addition to the above, amendments and improvements to various accounting standards have also been issued by IASB which are generally effective for accounting periods beginning on or after 1 January 2009. The management is in the process of evaluating the impact of such amendments and improvements on the Corporation's financial statements for the ensuing periods.

2.5 Fixed Assets

2.5.1 Property, plant and equipment

Owned

Lands classified as others in note 3.1 are stated at cost, whereas buildings classified as others in the aforesaid note are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Leasehold land and buildings thereon and aircraft fleet are 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 losses, if any.

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.

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 immediately preceding the month of 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 these 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.

Gains and losses on disposal of assets are taken to profit and loss account. 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 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.

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.

Capital work-in-progress

These are stated at cost less impairment, if any and consist of expenditure incurred and advances made in respect of property, plant and equipment 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.

2.5.2 CHANGE IN ACCOUNTING POLICY

During the current year, the Corporation changed its accounting policy in respect of leasehold lands and buildings, that are freely transferable and can be disposed off as and when required, whereby, with effect from the current year, these are carried at their revalued amounts, being the fair value at the date of revaluation, in the case of leasehold lands, and fair value at the date of revaluation less subsequent accumulated depreciation and any accumulated impairment losses, in the case of buildings on the leasehold lands, instead of the past policy of carrying the same at their cost, in the case of leasehold lands, and cost less accumulated depreciation and any accumulated impairment losses in the case of buildings on leasehold lands.

The above change, made to provide a more accurate reflection of the carrying value of the assets of the Corporation, has been accounted for in accordance with the International Accounting Standard (IAS) - 16 "Property, plant and equipment", as required under IAS - 8 "Accounting Policies, Changes in Accounting Estimate and Errors", requiring such a change to be applied prospectively, instead of applying the same retrospectively.

2.6 Intangibles

Intangible assets acquired separately are measured on initial recognition at cost. Costs that are directly associated with identifiable software licenses purchased 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 month of 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. However, there were no intangible assets with indefinite useful lives as of balance sheet date.

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 each reporting date, 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, if any.

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.

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 categorised under held to maturity are subject to annual review for impairment.

2.8 Stores and spare parts

These are valued at lower of cost and net realizable value except goods-in-transit, which are valued at cost incurred up to the balance sheet date. 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 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 (the 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.

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 Pakistan Airline Pilot Association (PALPA), Flight Engineering Association (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, in accordance with the provision of Income Tax Ordinance, 2001. It also includes any adjustment to tax payable in respect of prior years.

Deferred taxation

Deferred income tax is provided using the balance sheet 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.

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.

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 operations, 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 retranslated at the foreign currency spot rate of the balance sheet date. Gains and losses on translation are taken to profit and loss account.

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 financial assets and financial liabilities are taken to the profit and loss account immediately.

Derivative financial instruments and hedge accounting

Derivatives and financial instruments under IAS 39 'Financial Instruments - Recognition and Measurement', are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Corporation determines the classification at initial recognition and re-evaluates this designation at each year end except for those financial instruments measured at fair value through profit or loss.

Derivative financial instruments; comprise fuel hedging derivatives (including options, swaps and futures) measured at fair value on the Corporation's balance sheet date.

The Corporation uses derivative financial instruments such as future forecast transactions to hedge future price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the profit and loss account.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges are accounted for as the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the profit and loss statement.

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.

3. PROPERTY, PLANT AND EQUIPMENT

	Note	December31 2008	December31 2007
		Rupees in '000	
Operating fixed assets	3.1	**114,538,250**	88,075,893
Capital work-in-progress	3.2	**472,087**	7,421,258
		115,010,337	95,497,151

3.1 Operating fixed assets

	Cost / Revalued Amount						Accumulated Depreciation				Written Down Value
	As at January 01, 2008	Additions/ Transfers/* (Disposals)	Revaluation	Adjustment/** (Write-off)	As at December 31, 2008	Annual depreciation rate	As at January 01, 2008	For the year/ (On disposals)	(Write-off)	As at December 31, 2008	As at December 31, 2008
	(Rupees in '000)					%	(Rupees in '000)				
December 31, 2008											
Owned											
Land											
Leasehold (note 3.1.1)	44,280	- (114)	3,360,426	-	3,404,592	-	-	-	-	-	3,404,592
Others (note 3.1.2)	22,854	-	-	-	22,854	-	-	-	-	-	22,854
Buildings on Leasehold land (note 3.1.1)	258,580	269	3,026,179	-	3,285,028	-	97,058	6,460	-	103,518	3,181,510
Other lands (note 3.1.2)	817,620	19,724 (8,083)	-	-	829,261	2.5	269,695	20,777 (5,548)	-	284,924	544,337
Workshops and hangers	830,295	18,599	-	-	848,894	5	706,119	12,088	-	718,207	130,687
Renovation and improvements	566,928	54,019 13,888 *	-	-	634,835	20	454,552	52,949	-	507,501	127,334
Aircraft fleet (notes 3.1.3)	35,009,981	115,766	1,727,992	1,820,339 **	38,674,078	3.85-4.55	15,640,256	3,175,869	-	18,816,125	19,857,953
Operating ground equipment, catering, communication and meteorological equipment	620,591	6,918 (7,210)	-	-	620,299	10	384,257	33,817 (7,205)	-	410,869	209,430
Engineering equipment and tools	1,177,628	146,606	-	-	1,324,234	10-20	925,755	71,896	-	997,651	326,583
Traffic equipment	1,773,891	15,413 (26,164)	-	-	1,763,140	10-20	1,230,700	62,855 (23,548)	-	1,270,007	493,133
Furniture, fixtures and fittings	698,514	58,543 (1,103)	-	-	755,954	10	554,935	28,030 (1,103)	-	581,862	174,092
Motor transport	223,882	36,881 (13,017)	-	-	247,746	25	174,430	14,762 (9,732)	-	179,460	68,286
Office equipment	77,167	1,168 (865)	-	-	77,470	15	69,010	3,142 (865)	-	71,287	6,183
Computer and office automation	1,363,743	42,415 (630)	-	(785)	1,404,743	10-20	1,079,472	100,574 (578)	(785)	1,178,683	226,060
Precision engineering equipment	809,933	1,099	-	-	811,032	10	801,612	1,866	-	803,478	7,554
Printing press equipment	15,039	-	-	-	15,039	20	13,318	688	-	14,006	1,033
Reservation equipment	12,395	-	-	-	12,395	10	12,394	-	-	12,394	1
Other equipment	466,498	2,641 31,565 *	-	-	500,704	10	369,034	16,311	-	385,345	115,359
Capital spares	7,938,602	588,569 (7,122)	-	25,730 (64)	8,545,715	3.85-4.55	2,821,389	512,852 (5,669)	- (64)	3,328,508	5,217,207
	52,728,421	1,108,630 45,453 * (64,308)	8,114,597	1,846,069 (849)	63,778,013		25,603,986	4,114,936 (54,248)	(849)	29,663,825	34,114,188
Leased											
Aircraft fleet (notes 3.1.3)	70,624,859	12,391,267 *	9,946,869	1,035,091 **	93,998,086	4.55	9,740,833	3,885,767	-	13,626,600	80,371,486
Vehicles - Motor Transport	124,008	1,878 (17,888)	-	-	107,998	25	108,804	6,808 (15,561)	-	100,051	7,947
Vehicles - Technical Ground Service	84,430	-	-	-	84,430	10-20	32,202	7,599	-	39,801	44,629
	70,833,297	1,878 12,391,267 * (17,888)	9,946,869	1,035,091	94,190,514		9,881,839	3,900,174 (15,561)	-	13,766,452	80,424,062
	123,561,718	1,110,508 12,436,720 * (82,196)	18,061,466	2,881,160 (849)	157,968,527		35,485,825	8,015,110 (69,809)	(849)	43,430,277	114,538,250

** Represents adjustments in respect of overhauling of engines.

	Cost / Revalued Amount						Accumulated Depreciation				Written Down Value
	As at January 01, 2007	Additions/ Transfers/* (Disposals)	Revaluation	Adjustment/** (Write-off)	As at December 31, 2007	Annual depreciation rate	As at January 01, 2007	For the year/ (On disposals)	(Write-off)	As at December 31, 2007	As at December 31, 2007
	(Rupees in '000)					%	(Rupees in '000)				
December 31, 2007											
Owned											
Leasehold land	66,821	313	-	-	67,134	-	-	-	-	-	67,134
Buildings on leasehold land	1,030,225	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, 3.1.3 and 3.1.4)	27,362,335	3,226,351	643,678	4,362,652	35,009,981	3.85-4.55	14,173,656	2,051,635	-	15,640,256	19,369,725
		(585,035)						(585,035)	-		
Operating ground equipment, catering, communication and meteorological equipment	507,263	116,696	-	-	620,591	10	356,780	30,827	-	384,257	236,334
		(3,368)						(3,350)			
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	-	-	1,773,891	10-20	1,166,790	67,548	-	1,230,700	543,191
		(4,042)						(3,638)			
Furniture, fixtures and fittings	655,196	44,701	-	-	698,514	10	532,070	24,113	-	554,935	143,579
		(1,383)						(1,248)			
Motor transport	207,732	21,845	-	-	223,882	25	164,735	14,116	-	174,430	49,452
		(5,695)						(4,421)			
Office equipment	77,382	531	-	-	77,167	15	66,441	3,258	-	69,010	8,157
		(746)						(689)			
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	-	-	(224)	12,395	10	12,618	-	(224)	12,394	1
Other equipment	438,734	31,592	-	-	466,498	10	359,324	12,017	-	369,034	97,464
		(3,748)		(80)				(2,227)	(80)		
Capital spares	6,834,108	1,200,573	-		7,938,602	3.85-4.55	2,493,084	395,706	-	2,821,389	5,117,213
		(1,729)		(94,350)				(1,729)	(65,672)		
	43,352,633	5,072,664	643,678	4,362,652	52,728,421		23,415,904	2,859,201	(68,782)	25,603,986	27,124,435
		(605,746)		(97,460)				(602,337)			
Leased											
Aircraft fleet (notes 3.1.3 & 3.1.4)	59,303,016	10,488,247	229,045	604,551	70,624,859	4.55	6,999,464	2,741,369	-	9,740,833	60,884,026
Vehicles - Motor Transport	130,142	(6,134)	-	-	124,008	25	103,854	9,026	-	108,804	15,204
								(4,076)			
Vehicles - Technical Ground Service	84,430	-	-	-	84,430	10-20	24,603	7,599	-	32,202	52,228
	59,517,588	10,488,247	229,045	604,551	70,833,297		7,127,921	2,757,994	-	9,881,839	60,951,458
		(6,134)						(4,076)			
	102,870,221	15,560,911	872,723	4,967,203	123,561,718		30,543,825	5,617,195	(68,782)	35,485,825	88,075,893
		(611,880)		(97,460)				(606,413)			

3.1.1 Leasehold land and buildings thereon

These represent leasehold land and buildings owned by the Corporation. These are freely transferable and can be disposed off as and when required.

During the current year, a revaluation exercise was organised by the Corporation, which was carried out by the following independent valuers:

- International Consultant & Machinery Linkers, based in Pakistan;
- Narendar Consultant and Subash Shah & Associates, based in India;
- Streck Real Estate BV, based in the Netherlands; and
- Jon Phillip Mason, based in United States of America.

The revaluations resulted in surplus on leasehold land and buildings thereon of Rs.3,360 million and Rs.3,026 million over their written down values of Rs.44.17 million and Rs.155.33 million, respectively.

The fair values were determined with reference to market based evidence, based on active market prices, adjusted for any difference in nature, location or condition of the specific property.

3.1.2 Others lands and buildings thereon

Lands and buildings classified as Others comprise properties in possession of the Corporation, which are not saleable or transferable.

Lands classified as Others are amenity plots or those with restrictions on the transferability of title, as these were allotted at below market prices. Included herein are amenity plots, aggregating to Rs.21.48 million and non transferable plots, aggregating to Rs.1.37 million.

Buildings on Other lands are constructed on amenity plots, non transferable plots and licensed plots from Civil Aviation Authority (CAA). Included herein are amenity plots, aggregating to Rs.30.92 million, buildings on non transferable plots, aggregating to Rs.21.17 million and buildings on licensed (CAA) lands aggregating to Rs.492.25 million.

3.1.3 Aircraft fleet

During the current year, the aircraft fleet of the Corporation was revalued by an independent valuer, Ascend Worldwide Limited (Airclaims Limited - UK), on the basis of professional assessment of current market values as of December 31, 2008. 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 into account 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 then been 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 above referred valuer, net surplus of Rs.11,675 (2007: Rs.873) million on revaluation of aircraft fleet has arisen over their written down value of Rs.88,554 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.

Ascend Worldwide Limited reviewed the useful lives of the aircraft and these have been estimated as follows:

	2008							
	BOEING						AIRBUS	ATR
	737-300	747-200	747-300	777-200 ER	777-200 LR	777-300 ER	A310-300	
Airframe	25	22	22	26	25	24	25	23
Engine	25	22	22	26	25	24	30	23
Other component	25	22	22	26	25	24	25	23

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

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

	Cost	Accumulated depreciation	Written down value
	(Rupees in '000)		
2008			
Lands - owned	**44,166**	**-**	**44,166**
Buildings - owned	**258,848**	**103,518**	**155,330**
Aircraft fleet	**120,124,581**	**31,569,993**	**88,554,588**
	120,427,595	**31,673,511**	**88,754,084**
2007			
Aircraft fleet	92,250,503	20,082,394	72,168,109

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

	Note	December31 2008	December31 2007
		Rupees in '000	
Cost of services - others	28	**7,809,239**	5,395,614
Distribution costs	29	**72,440**	69,111
Administrative expenses	30	**133,431**	152,470
		8,015,110	5,617,195

3.1.6 Included in "operating fixed assets" is one Fokker and other fixed assets, costing Rs.100.30 (2007: Rs.100.30) million and Rs.4,972 (2007: Rs.4,321) million, respectively, which are fully depreciated.

3.1.7 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)			
Motor vehicles						
To employees						
Toyota Corolla (AKT-462)	Mr. Iftikhar Gul, P-61800	As per Corporation's policy	**969**	**545**	**424**	**680**
Toyota Corolla (GA-6412)	AVM Mohd Rafi, P-61897	-------do-------	**969**	**327**	**642**	**674**
Honda City (AMF-462)	Mr. Zahid Afridi, P-26276	-------do-------	**846**	**174**	**672**	**614**
Honda City (GA-9872)	Mr. M. Alamzaib Afridi, P-26283	-------do-------	**795**	**715**	**80**	**-**
Honda City (GA-4812)	Mr. Shahid Sarwar P-45892	-------do-------	**735**	**661**	**74**	**74**
Honda City (GA-4799)	Mr. Arif Sultan, P-29804	-------do-------	**735**	**662**	**73**	**-**
Honda City (GA-4811)	Mr. Mehmood, P-56797	-------do-------	**735**	**661**	**74**	**-**
Honda City (GA-4790)	Mr. Fazal Ahmed , P-30421	-------do-------	**735**	**661**	**74**	**-**
Honda City (GA-4813)	Mr. M. Haneef Phatan, P-44403	-------do-------	**735**	**661**	**74**	**74**
Honda City (GA-4756)	Mr. Karimuddin Ahmed P-43909	-------do-------	**735**	**661**	**74**	**-**
Honda City (GA-4758)	Mr. Junaid Soophi, P-38551	-------do-------	**735**	**662**	**73**	**-**
Honda City (GA-4817)	Mr. Abdul Aziz Sangi, P-46240	-------do-------	**735**	**662**	**73**	**-**
Honda City (GA-8929)	Captain Jawed Younis, P-38191	-------do-------	**735**	**661**	**74**	**74**
Toyota Corolla (GA-8559)	Mr. Shah Nawaz Rehman, P-32721	-------do-------	**939**	**846**	**93**	**94**
Toyota Corolla (GA-9200)	Mr. Nadeem Ikram, P-56805	-------do-------	**939**	**845**	**94**	**-**
Toyota Corolla (GA-8725)	Mr. Kamran Hasan, P-32444	-------do-------	**939**	**846**	**93**	**94**
Honda City (AHW-623)	Mr. Shahrzad Aminullah, P-61281	-------do-------	**835**	**585**	**250**	**307**
Toyota Corolla (AAH-908)	Mr. Waseem Bari, P-22185	-------do-------	**969**	**678**	**291**	**-**
Honda City (AJG-026)	Mr. Zaheer Hayat Khan , P-26290	-------do-------	**835**	**480**	**355**	**-**
Toyota Corolla (GA-9525)	Mr. Muddassir Asghar P-52660	-------do-------	**939**	**939**	**-**	**-**
Honda City (AJG-4763)	Mr. Khaqan Ibrahim, P-42620	-------do-------	**735**	**662**	**73**	**73**
Honda City (LRD-5509)	Mr. S. Javed Kamran, P-30387	-------do-------	**735**	**661**	**74**	**13**
Honda City (GA-8487)	Mr. Ghazanfar Mashkoor P-31786	-------do-------	**735**	**661**	**74**	**74**
Toyota Corolla (GA-8662)	Mr. Anwar Rasool Khan, P-26101	-------do-------	**939**	**845**	**94**	**94**
Toyota Corolla (GA-9524)	Mr. Arif Majeed, P-30702	-------do-------	**939**	**846**	**93**	**93**
Various *						
Aggregate value of items where written down value (WDV) is above Rs.50,000	Various	-------do-------	**30,049**	**24,655**	**5,394**	**184,787**
WDV is less than Rs.50,000	Various	-------do-------	**31,475**	**28,547**	**2,928**	**23,927**
	Total	**2008**	**82,196**	**69,809**	**12,387**	**211,746**
		2007	611,880	606,413	5,467	110,049

* 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.

3.2 Capital work-in-progress

	Note	December 31 2008	December 31 2007
		Rupees in '000	
Buildings		2,382	25,883
Other equipment		856,559	757,730
Renovation and improvements		89,086	86,699
Non-refundable advances against the purchase of aircraft and related equipment		11,979,863	10,823,084
		12,927,890	11,693,396
Less: Transfer to operating fixed assets		12,436,720	4,268,076
Items written off		19,083	4,062
		12,455,803	4,272,138
		472,087	7,421,258

4. INTANGIBLES

	Note	2008	2007
Computer software			
Cost	4.1	273,046	239,396
Accumulated amortisation	4.2	159,892	135,921
		113,154	103,475

4.1 Cost

	Note	2008	2007
Opening balance		239,396	199,601
Additions during the year		33,650	39,795
		273,046	239,396

4.2 Accumulated amortisation

	Note	2008	2007
Opening balance		135,921	101,326
Amortisation for the year	4.2.1	23,971	34,595
		159,892	135,921
Useful life		5-10 years	5-10 years

4.2.1 Amortisation charge for the year has been allocated as under:

	Note	2008	2007
Cost of services - others	28	2,461	2,532
Distribution costs	29	1,706	1,604
Administrative expenses	30	19,804	30,459
		23,971	34,595

	Note	December31 2008	December31 2007
		Rupees in '000	
5. LONG TERM INVESTMENTS			
Investments in related parties - at cost			
Subsidiaries - unquoted	5.1	**4,415,712**	4,415,712
Associate - unquoted	5.2	**396**	396
Joint venture - unquoted	5.3	**2**	2
		4,416,110	4,416,110
Other investments	5.4	**81,532**	124,119
		4,497,642	4,540,229

5.1 Subsidiaries - unquoted

	2008	2007
PIA Investment Limited (PIAIL)		
792,000 (2007: 792,000) fully paid Ordinary shares of AED 100 each Equity held 99% (2007: 99%). [Break-up value of each Ordinary share of AED 100: Rs.21,059 (2007: Rs.18,664) per Ordinary share, based on the latest audited financial statements available for the year ended December 31, 2008]	**2,245,155**	2,245,155
Advance against shares pending allotment	**2,170,557**	2,170,557
	4,415,712	4,415,712
Sky Rooms (Private) Limited		
4,000,000 (2007: 4,000,000) fully paid Ordinary shares of Rs.10 each Equity held 100% (2007: 100%). [Break-up value of each Ordinary share of Rs.10: Rs.Nil [2007: Rs.Nil] per Ordinary share, based on the latest audited financial statements available for the year ended December 31, 2008]	**40,000**	40,000
Midway House (Private) Limited (under winding-up)		
2,960,000 (2007: 2,960,000) fully paid Ordinary shares of Rs.10 each Equity held 100% (2007: 100%). [Break-up value of each Ordinary share of Rs.10: Rs.Nil [2007: Rs.(Nil)] per Ordinary share. Financial statements thereof are not available	**28,520**	28,520
	68,520	68,520
Provision for diminution in value of investments	**(68,520)**	(68,520)
	-	-
	4,415,712	4,415,712

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

	Note	December31 2008	December31 2007
		Rupees in '000	
5.2 Associate – unquoted			
Minhal Incorporated-Sharjah			
1,600 (2007: 1,600) fully paid Ordinary shares of AED 100 each Equity held 40% (2007: 40%). [Break-up value of each Ordinary share of AED 100: Rs.113.62 (2007: Rs.113.66) per Ordinary share, based on the latest audited financial statements available for the year ended December 31, 2008]		396	396
5.3 Joint venture – unquoted			
Abacus Distribution Systems Pakistan (Private) Limited			
200,948 (2007: 89,310) fully paid Ordinary shares of Rs.100 each. Equity held 45% (2007: 20%).		2	2

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, the shareholding of the Corporation will increase to 75% during the period of 9 years. As at December 31, 2008, the shareholding of PIA was 45%. The Abacus Distribution Systems Pakistan (Private) Limited is a joint venture between the Corporation and Abacus International (Private) Limited, Singapore.

	Note	December31 2008	December31 2007
5.4 Other investments			
Available for sale	5.4.1	74,829	98,930
Held to maturity	5.4.2	6,703	25,189
		81,532	124,119
5.4.1 Available for sale			
Quoted			
Pakistan Services Limited			
172,913 (2007: 172,913) Ordinary shares of Rs.10 each, having a market value of Rs.431 per Ordinary share of Rs.10 each (2007: Rs.570)		74,460	98,561
Unquoted			
Pakistan Tourism Development Corporation Limited			
10,000 (2007: 10,000) Ordinary shares of Rs.10 each		100	100
Duty Free Shops Limited – Pakistan			
87,512 (2007: 87,512) Ordinary shares of Rs.100 each Equity held 11.31% (2007: 11.31%)		269	269
		74,829	98,930
5.4.2 Held to maturity			
Promissory notes issued by the Nigerian Government		32,343	44,147
Current maturity thereof shown under short term investments	13	(25,640)	(18,958)
		6,703	25,189

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 the 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.

	Note	December31 2008	December31 2007
		Rupees in '000	

6. LONG TERM RECEIVABLE

	Note	2008	2007
Long term receivable	6.1	-	-
Employees' Pension Fund	22.3	-	1,283,000

6.1 This represents advances given to Sky Rooms (Private) Limited (Subsidiary) and Midway House (Private) Limited (Subsidiary) amounting to Rs. 37,042,000 and Rs. 82,476,000 respectively. The amount was considered doubtful, hence, fully provided.

7. LONG TERM DEPOSITS AND PREPAYMENTS

	Note	2008	2007
Deposits			
Aircraft fleet lease deposits		3,069,478	2,314,125
Engine maintenance		72,551	56,505
Rent		59,096	31,489
Utilities		12,547	11,201
Aircraft fuel		8,276	6,984
Guarantee deposit		4,450	3,610
Others		119,244	91,967
		3,345,642	2,515,881
Prepayments			
Exposure fee to support financing	7.1	1,893,412	1,805,498
Current portion shown under short term prepayments	11.1	(229,602)	(222,991)
		1,663,810	1,582,507
		5,009,452	4,098,388

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. This fee is adjusted against future lease rentals of leased aircraft fleet (note 20).

8. STORES AND SPARE PARTS

	Note	2008	2007
Stores		938,488	849,517
Spare parts		4,449,512	3,986,246
		5,388,000	4,835,763
Provision for slow moving and obsolete stores and spare parts	8.1	(2,216,611)	(1,930,145)
		3,171,389	2,905,618
Inventory held for disposal		2,207,092	2,207,092
Adjustment to write down surplus inventory to net realizable value	8.2	(1,944,539)	(1,944,539)
Disposal during the year		(9,694)	-
		252,859	262,553
Stores and spares-in-transit		302,692	83,769
		3,726,940	3,251,940

	Note	December31 2008	December31 2007
		Rupees in '000	
8.1 Movement in provision is as follows:			
Balance at the beginning of the year		**1,930,145**	1,604,338
Provision written back		**-**	(8,712)
Provision made during the year	28	**286,466**	334,519
		2,216,611	1,930,145

8.2 This represents inventory held with a foreign third party, aggregating Rs.1,945 (2007: Rs.1,945) million for sale in the open market.

9. TRADE DEBTS

	Note	2008	2007
Considered good		**5,757,849**	5,012,778
Considered doubtful		**740,330**	721,000
Provision against debts considered doubtful	9.1	**(740,330)**	(721,000)
		-	-
		5,757,849	5,012,778

	Note	2008	2007
9.1 Movement in provision is as follows:			
Balance at the beginning of the year		**721,000**	455,000
Provision written back		**(67,000)**	(136,211)
Provision made during the year	31	**86,330**	402,211
		740,330	721,000

9.2 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.

10. ADVANCES

	Note	2008	2007
Considered good			
Subsidiary			
Skyrooms (Private) Limited	10.1	**82,968**	80,582
Others			
Employees		**224,530**	154,361
Suppliers		**961,815**	363,538
Civil Aviation Authority		**143,835**	-
Others		**5,462**	5,989
		1,335,642	523,888
Considered doubtful		**31,700**	31,319
Provision for advances considered doubtful	10.2	**(31,700)**	(31,319)
		-	-
		1,418,610	604,470

10.1 Maximum aggregate amount due from the subsidiary at any month end was Rs.82,968 (2007: Rs.80.58) million.

	Note	December 31 2008	December 31 2007
		Rupees in '000	
10.2 Movement in provision is as follows:			
Balance at the beginning of the year		**31,319**	28,985
Provision made during the year	31	**381**	2,334
		31,700	31,319
11. TRADE DEPOSITS AND PREPAYMENTS			
Trade deposits		**47,059**	42,866
Prepayments	11.1	**1,544,524**	980,446
		1,591,583	1,023,312
11.1 Prepayments			
Current portion of long term prepayment	7	**229,602**	222,991
Commission to agents		**853,244**	340,657
Interest on leased aircraft		**324,086**	340,667
Insurance		**129,789**	68,742
Rent		**7,562**	5,470
Others		**241**	1,919
		1,544,524	980,446
12. OTHER RECEIVABLES			
Considered good			
Insurance and other claims		**189,305**	312,261
Excise duty	26.1(b)	**100,000**	100,000
Sales tax		**150,643**	258,609
Receivables against manufacturers' credits		**-**	119,450
Receivable from the GoP	12.1	**738,473**	-
Others		**263,143**	253,651
		1,441,564	1,043,971
Considered doubtful		**30,257**	30,257
Provision for receivables considered doubtful		**(30,257)**	(30,257)
		-	-
		1,441,564	1,043,971

12.1 This represents maintenance and other charges incurred during the year, in respect of aircraft owned by the GoP.

	Note	December31 2008	December31 2007
		Rupees in '000	
13. SHORT TERM INVESTMENTS			
Held to maturity			
Current portion of other investment	5.4.2	**25,640**	18,958
Available for sale			
Unquoted			
SITA INC N.V.			
325,491 Ordinary shares (2007: 325,491 Ordinary shares) of Rs.100 each		**19,220**	19,220
Provision for diminution in the value of investment	13.1	**(2,355)**	(6,085)
		16,865	13,135
		42,505	32,093

13.1 Movement in provision is as follows:

Balance at the beginning of the year	**6,085**	6,221
Provision written back during the year	**(3,730)**	(136)
	2,355	6,085

14. CASH AND BANK BALANCES

	Note	2008	2007
In hand		**6,083**	6,648
In transit		**178,042**	61,769
		184,125	68,417
With banks			
In current accounts		**134,825**	288,315
In short term deposit accounts	14.1	**470,605**	1,618,727
		605,430	1,907,042
		789,555	1,975,459

14.1 These carry interest, ranging between 12% to 15% (2007: 10% to 13%) per annum, having maturity of 3-4 months.

15. SHARE CAPITAL

No. of shares December31 2008	No. of shares December31 2007		December31 2008	December31 2007
			Rupees in '000	
		Authorized capital		
		Ordinary share capital		
2,949,250,000	2,949,250,000	'A' class shares of Rs.10 each	**29,492,500**	29,492,500
1,500,000	1,500,000	'B' class shares of Rs.5 each	**7,500**	7,500
2,950,750,000	2,950,750,000		**29,500,000**	29,500,000
		Preference share capital		
50,000,000	50,000,000	Preference shares of Rs.10 each	**500,000**	500,000
3,000,750,000	3,000,750,000		**30,000,000**	30,000,000
		Issued, subscribed and paid up share capital		
		Ordinary share capital		
		'A' class shares of Rs.10 each		
1,906,685,874	1,852,191,870	Issued for consideration in cash (note 15.1)	**19,066,859**	18,521,919
		Issued for consideration other than cash		
931,028	931,028	- for acquisition of shares	9,310	9,310
233,934,482	233,934,482	Issued as bonus shares	2,339,345	2,339,345
2,141,551,384	2,087,057,380		21,415,514	20,870,574
		'B' class shares of Rs.5 each		
1,003,374	1,003,374	Issued for consideration in cash	**5,017**	5,017
		Issued for consideration other than cash		
2,625	2,625	- for acquisition of shares	**13**	13
494,000	494,000	Issued as bonus shares	**2,470**	2,470
1,499,999	1,499,999		**7,500**	7,500
			21,423,014	20,878,074

15.1 Under the terms of the financial package, as discussed in note 1, a sum of Rs.544.94 (2007: Rs.1,404) million was received from the GoP as equity contribution. Accordingly, 54,494,004 Ordinary shares of Rs.10 each (2007: 140,444,307 Ordinary shares of Rs.10 each) have been issued to the GoP during the current year.

15.2 The GoP held 1,931,397,849 and 1,462,515 'A' class Ordinary shares and 'B' class Ordinary shares, respectively, (2007: 1,876,903,846 and 1,462,515 'A' class Ordinary shares and 'B' class Ordinary shares respectively) at the close of the current year.

16. RESERVES

	Note	December 31 2008	December 31 2007
		Rupees in '000	
Capital reserves			
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
		2,501,038	2,501,038
Revenue reserve		**1,779,674**	1,779,674
		4,280,712	4,280,712
Unrealised gain on remeasurement of investment		**73,265**	97,366
Accumulated losses		**(72,353,647)**	(37,159,710)
Other reserves	23.5	**(125,271)**	-
		(72,405,653)	(37,062,344)
		(68,124,941)	(32,781,632)

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 - 1990, 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

	2008	2007
Opening balance	**972,040**	926,318
Surplus arising as a result of revaluation on:		
Aircraft	**11,674,861**	872,723
Land	**3,360,426**	-
Building	**3,026,179**	-
	18,061,466	872,723
Related deferred tax effect of revaluation on:		
Aircraft	**(4,086,201)**	(305,453)
Building	**(68,385)**	-
	(4,154,586)	(305,453)
Transferred to statement of changes in equity on account of incremental depreciation for the current year-net of tax	**(686,220)**	(521,548)
	14,192,700	972,040

18. LONG TERM FINANCING – secured

Financier	Type of facility	Limit (Rupees in million)	Repayment year	Number of Installments/ mode	Mark-up %	December 31, 2008	December 31, 2007
						(Rupees in '000)	
From Banking Companies							
United Bank Limited (notes 18.1 and 18.2)	Syndicate Finance	1,650	2005-2010	6 half-yearly	6 months KIBOR + 0.79%	675,458	1,215,825
Citibank / DVB Bank (notes 18.3 and 18.4)	Syndicate Finance	6,603	2006-2008	Bullet	1 month LIBOR + 0.77%	-	3,184,462
Habib Bank Limited (note 18.5)	Demand Finance	530	2006-2009	36 monthly	1 month KIBOR + 1.50%	88,333	267,000
Citibank N.A (notes 18.6 and 18.7)	Demand Finance	6,285	2006-2017	20 half-yearly	5.28% fixed	5,261,363	4,599,184
Habib Bank Limited (note 18.8)	Demand Finance	200	2006-2009	36 monthly	1 month KIBOR + 1.75%	55,556	122,222
Royal Bank of Scotland (note 18.9)	Demand Finance	4,543	2009-2013	19 quarterly	3 months LIBOR + 1.6%	4,339,396	3,132,458
National Bank of Pakistan /Habib Bank Limited (note 18.10)	Syndicate Finance	11,969	Bullet	1 Bullet	3 months LIBOR + 1.325%	9,468,000	7,374,000
Standard Chartered Bank DXB (note 18.11)	Demand Finance	3,025	2007-2009	12 quarterly	3 months LIBOR + 1.325%	1,643,750	2,304,375
National Bank of Pakistan (note 18.12)	Demand Finance	500	2007-2010	12 quarterly	3 months KIBOR + 1.5%	333,333	500,000
National Bank Bahrain (note 18.13)	Demand Finance	3,400	2008-2010	24 monthly	6 months LIBOR + 2.55%	2,958,750	-
						24,823,939	22,699,526
Current maturity shown under current liabilities						(5,352,528)	(5,662,451)
						19,471,411	17,037,075

18.1 The 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 The 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 up to sale value of Rs.693.70 million.

18.6 The 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 guarantee.

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 bank to finance 15% balance of the purchase price of two B777-300 aircraft acquired from the Boeing company.

This finance is secured against the GoP guarantee.

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

18.11 Three years term finance secured against the GoP Guarantee.

18.12 Three years term finance against the receivables in connection with the PIAC ticket sales.

18.13 Three year loan where the bank will have a lien over the initial collection account and all collections received subsequently for ticket sales and cargo services in favour of the bank.

18.14 All the aforementioned charges have not been registered with the Securities and Exchange Commission of Pakistan (SECP).

19. TERM FINANCE CERTIFICATES (TFCs)

	Note	December31 2008	December31 2007
		Rupees in '000	
TFCs - secured (non participatory)		**12,430,143**	13,246,970
Current maturity		**-**	(2,523,232)
		12,430,143	10,723,738

During the current year, the Board of Directors of the Corporation decided to restructure TFCs, in coordination with the Ministry of Finance (MoF), as duly approved by the Ministry in a financial restructuring plan, vide their letter no. F.No.4 (4) (F-111/2006-336), dated February 22, 2007.

In accordance with the said plan, the Corporation has replaced its existing TFCs aggregating to the original face value of Rs.15,140 million, with newly issued TFCs, aggregating to Rs.12,430 million, carried at after the redemption of Rs.816.83 million. The plan was executed after obtaining waivers on account of early redemption from the majority of TFCs holders. The Corporation has not classified any amount under current maturity as the same has been deferred for a period of 2 years. However, interest accrued on the same is based on revised rates as shown in note 24 to these financial statements. The aforesaid TFCs have been issued subsequent to the period on February 20, 2009.

The salient features of the TFCs are as follows:

Installment payable:	Semi - annually in arrears
Repayment period:	2011-2013, 5 years including two years grace period (previously, 2003-2011)
Rate of profit:	6 months KIBOR plus 85 basis points with no floor and cap. (2007: 50 basis points above the base rate with a floor of 8.00% and a cap of 12.50% per annum. Average rate prevailed during the prior year was 10.50% 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, Standard Chartered Bank has been appointed as the Trustee under the trust deed so that 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 enforcement will be distributed amongst the TFC holders, on a pari passu basis in proportion to the amounts owed to them.

The TFCs have an embedded call option for early redemption exercisable by the Corporation at any time (2007: 24, 48 and 72 months from the date of issue) with a 30 (2007: 90) days notice period. The TFCs will be redeemed at a NIL premium, (2007: 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.26,500 (2007: Rs.20,000) million approved by GoP and are secured against guarantees issued by the GoP.

20. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

	Note	December 31 2008	December 31 2007
		Rupees in '000	
Present value of future rental obligations - aircraft fleet			
A 310-300	20.2	**5,845,881**	5,149,590
B 777-200 ER	20.3	**17,176,361**	15,101,574
B 777-200 LR	20.4	**16,682,976**	14,156,116
B 777-300 ER	20.5	**32,555,909**	16,794,148
		72,261,127	51,201,428
Present value of future rental obligations - vehicles	20.6	**16,392**	47,091
		72,277,519	51,248,519
Current portion thereof		**(7,252,859)**	(4,724,495)
		65,024,660	46,524,024

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

	2008			2007		
	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	**10,012,834**	**2,759,975**	**7,252,859**	7,210,461	2,485,966	4,724,495
Later than one year and not later than five years	**39,141,177**	**7,976,307**	**31,164,870**	28,040,174	7,418,773	20,621,401
Later than five years	**36,828,040**	**2,968,250**	**33,859,790**	29,212,634	3,310,011	25,902,623
	85,982,051	**13,704,532**	**72,277,519**	64,463,269	13,214,750	51,248,519

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

	December 31 2008	December 31 2007
Discount rate	**5.2%**	5.2%
Lease period	**144 months**	144 months
Security deposit (Rupees in thousand)	**255,636**	199,098

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 31 2008	December 31 2007
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)	**748,319**	582,816

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:

	December31 2008	December31 2007
Discount rate - aircraft and propulsor	**Three months LIBOR- 0.02%**	Three months LIBOR - 0.02%
Lease period - aircraft	**144 months**	144 months
Lease period - propulsor	**96 months**	96 months
Security deposit (Rupees in thousand)	**604,044**	470,450

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 Royal Bank of Scotland. Salient features of the lease are as under:

Discount rate - one aircraft	**5.25%**	5.25%
Discount rate - two aircraft	**Three months LIBOR- 0.04%**	Three months LIBOR - 0.04%
Lease period - aircraft	**144 months**	144 months
Lease period - engine	**96 months**	96 months
Security deposit (Rupees in thousand)	**830,309**	593,078

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

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

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

21. LONG TERM DEPOSITS

	Note	December31 2008	December31 2007
		Rupees in '000	
Deposits from agents		**115,500**	118,000
Retention money		**186,095**	202,447
Deposits of PIA Employees		**175**	1,100
		301,770	321,547

22. DEFERRED LIABILITIES

	Note	2008	2007
Deferred custom duties		**123,205**	178,588
Obligation for compensated absences	22.1	**1,689,000**	1,445,000
Post retirement medical benefits	22.2	**1,425,000**	1,425,578
Actuarial Pension obligation	22.3	**6,000**	-
		3,243,205	3,049,166

22.1 Obligation for compensated absences

	December31 2008	December31 2007
	Rupees in '000	
Liability recognised in the balance sheet		
Balance at beginning of the year	1,445,000	1,284,000
Charge for the year	244,000	161,000
	1,689,000	1,445,000

22.1.1 Actuarial valuation of liability for compensated absences has been carried out at December 31, 2008. The valuation has been carried out, using the Projected Unit Credit Method and the following assumptions have been used:

	2008	2007
	Per annum	
Discount rate	**16.00%**	11.00%
Expected long term rate of increase in salary level	**13.79%**	8.90%
Utilization of leaves	As leave prior to retirement	

22.2 Post retirement medical benefits

	December31 2008	December31 2007
	Rupees in '000	
Liability recognised in the balance sheet		
Present value of defined benefit obligation	**1,425,000**	1,425,578
Movement in liability during the year		
Balance at the beginning of the year	**1,425,878**	1,353,000
Charge for the year	**133,000**	173,300
Payments made during the year	**(133,878)**	(100,722)
	1,425,000	1,425,578
Expense recognized in profit and loss account		
Current service cost	**27,000**	26,000
Past service cost	**33,000**	-
Interest cost	**150,000**	143,300
Net actuarial (gain) / loss recognized	**(77,000)**	4,000
	133,000	173,300

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

	2008	2007	2006	2005	2004
	Rupees in '000				
Present value of benefit obligation	**1,425,000**	1,426,000	1,353,000	1,211,000	925,000

Actuarial valuation of post retirement medical benefit scheme was carried out at December 31, 2008. The valuation has been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2008	2007
	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	**10.48%**	5.70%
Expected rate of return on plan assets	**10.00%**	11.00%

Number of employees covered by the scheme as at December 31, 2008 was 11,477 (2007: 11,661).

22.3 Actuarial Pension obligation

	December31 2008	December31 2007
	Rupees in '000	
Asset recognized in the balance sheet		
Present value of defined benefit obligation	**(11,294,000)**	(10,241,000)
Less: Fair value of plan assets	**11,288,000**	11,524,000
	(6,000)	1,283,000
Expense recognized in profit and loss account		
Current service cost	**206,000**	222,000
Past service cost	**513,000**	1,000,000
Interest cost	**1,084,000**	(1,191,000)
Expected return on plan assets	**(1,118,000)**	468,000
Actuarial loss recognized - net	**702,000**	-
	1,387,000	499,000
Movement in asset during the year		
Balance at the beginning of the year	**1,283,000**	1,684,000
Charge for the year	**(1,386,864)**	(499,000)
Payments made during the year	**97,864**	98,000
	(6,000)	1,283,000
Actual return on plan assets	**460,000**	1,042,000
Movement in the defined benefit obligation		
Obligation as at January 1	**10,241,000**	9,466,000
Service cost	**206,000**	222,000
Interest cost	**1,084,000**	1,000,000
Benefits paid	**(794,000)**	(766,000)
Past service cost	**513,000**	-
Actuarial loss	**44,000**	319,000
Obligation as at December 31	**11,294,000**	10,241,000
Movement in fair value of plan assets		
Fair value as at January 1	**11,524,000**	11,150,000
Expected return on plan assets	**1,118,000**	1,191,000
Employer contributions	**98,000**	98,000
Benefits paid	**(794,000)**	(766,000)
Actuarial loss	**(658,000)**	(149,000)
Fair value as at December 31	**11,288,000**	11,524,000

22.3.1 Actuarial valuation of pension funds was carried out at December 31, 2008. The valuation has been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2008	2007
	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	10.48%	5.70%
Expected rate of return on plan assets	10.00%	11.00%

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:

	2008	2007	2006	2005	2004
	Rupees in '000				
Fair value of plan assets	**11,288,000**	11,524,000	11,150,000	10,891,000	10,910,000
Present value of benefit Obligation	**11,294,000**	10,241,000	9,466,000	8,930,000	8,998,000
Surplus	**(6,000)**	1,283,000	1,684,000	1,961,000	1,912,000

	2008	2007	2006	2005	2004
Experience adjustment:					
Actuarial loss / (gain) on obligation	-	3%	2%	0%	(1)%
Actuarial loss / (gain) on plan assets	(6)%	(1)%	(2)%	(2)%	(3)%

22.3.2 Number of employees covered by the scheme as at December 31, 2008 was 11,477 (2007: 11,661).

22.3.3 The fair value of plan assets include investments in the Corporation's shares, amounting to Rs.1.99 (2007: Rs.3.76) million.

22.3.4 Actuarial valuation of pension funds was carried out at December 31, 2008. The valuation has been carried out using Projected Unit Credit method and the significant financial assumptions have been used (refer note 22.2).

23. TRADE AND OTHER PAYABLES INCLUDING PROVISIONS

	December31 2008	December31 2007
	Rupees in '000	
Trade Payables		
Creditors		
Goods	**6,147,945**	3,078,367
Services	**1,894,687**	2,729,197
Airport related charges	**902,115**	621,384
	8,944,747	6,428,948
Other payables		
Accrued liabilities	**3,712,551**	3,645,916
Advance against transportation (unearned revenue)		
Normal	**6,895,273**	4,762,490
Hajj	**326,125**	1,342,673
	7,221,398	6,105,163
Balance c/f	**19,878,696**	16,180,027

	Note	December31 2008	December31 2007
		Rupees in '000	
Balance b/f		**19,878,696**	16,180,027
Advances from customers		**358,046**	304,388
Due to Employees' Provident Fund		**1,149,430**	201,800
Unclaimed dividend - Preference shares		**8,504**	8,507
Collection on behalf of others		**933,136**	802,273
Custom and central excise duty		**514,645**	507,662
Capital value tax		**953,544**	608,823
Income tax deducted at source		**89,285**	37,134
Provision for frequent flyer programme	23.1	**179,600**	99,776
Provision for construction of University Road, Karachi	23.2	**-**	215,000
Provision for Civil Aviation Claims	26.1(a)	**1,500,000**	-
Short term deposits		**168,865**	149,332
Liabilities acquired from subsidiaries - net	23.3	**-**	18,690
Murabaha financing	23.4	**1,200,524**	921,751
Fair value of cash flow hedges	23.5	**192,725**	-
		27,127,000	20,055,163

23.1 Provision for frequent flyer programme

Balance at the beginning of the year	**99,776**	61,664
Charge for the year	**79,824**	38,112
	179,600	99,776

23.2 Provision for construction of University Road, Karachi

Balance at the beginning of the year	**215,000**	215,000
Reversal made during the year	**(215,000)**	-
	-	215,000

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

23.4 The Corporation has arranged a short term murabaha financing facility from a commercial bank for an aggregate sum of US$ 15.00 million equivalents to Rs.921.75 million. The said facility is secured against the promissory note issued by the Corporation, carrying mark-up at LIBOR + 1.25%.

23.5 As at December 31, 2008, the Corporation held fuel price hedge contracts with commercial banks, designated as cash flow hedges for highly probable forecast future transactions in respect of purchase of Jet fuel for certain operations.

During the year, net unrealized losses on the cash flow hedges, recognized in equity under other reserves, amounted to Rs.1,227 million out of which net realized losses of Rs.1,034 million have been transferred to aircraft fuel cost. Accordingly, net unrealized losses, amounting to Rs.125.27 million, net of deferred tax assets, amounting to Rs.67.45 million, relating to the hedge instrument, are included in equity as of the balance sheet date.

The notional value of financial instruments used as cash flow hedging instruments to hedge fuel price aggregates Rs.3,420 million having maturity latest by January 31, 2009.

24. ACCRUED INTEREST / MARK-UP / PROFIT

	Note	December31 2008	December31 2007
		Rupees in '000	
On long term financing		**113,756**	164,177
On term finance certificates		**655,848**	506,833
On short term borrowings		**705,852**	307,307
		1,475,456	978,317

25. SHORT TERM BORROWINGS - secured

	Note	December31 2008	December31 2007
Short term loans	25.1	**27,183,250**	16,033,876
Running finances under mark-up arrangements	25.2	**3,316,812**	2,072,008
		30,500,062	18,105,884

25.1 Short term loans - secured

Financier	Security	Repayment period	Mark up rate	December31 2008	December31 2007
				Rupees in '000	
From Banking Companies					
Habib Bank Limited	GoP Guarantee	3 months	1 month KIBOR + 0.65%	**2,000,000**	2,000,000
Habib Bank Limited	GoP Guarantee	1 year	1 month KIBOR + 0.90%	**1,600,000**	-
Habib Bank Limited	Charge over receivables	1 year	1 month KIBOR + 2.50%	**600,000**	-
Habib Bank Limited - NYC	Euro receivables	1 year	3 months LIBOR + 4.50%	**384,788**	-
United Bank Limited - Dubai	UAE Receivables	1 year	1 month LIBOR + 2.00%	**1,736,211**	1,359,997
United Bank Limited	GoP Guarantee	1 year	6 months LIBOR + 1.25%	**789,000**	-
Habib Allied Bank Limited - London	Euro Receivables	1 year	1 month LIBOR + 2.25%	**710,100**	553,050
Habib Allied Bank Limited - London	Euro Receivables	1 year	1 month LIBOR + 2.50%	**328,750**	-
United Bank Limited - Bahrain	UAE Receivables	1 year	1 month LIBOR + 2.25%	**1,030,381**	802,375
Habib Bank Limited	GoP Guarantee/ Domestic Receivables	1 year	1 month KIBOR + 0.65% - 2.00%	**2,850,000**	2,850,000
Standard Chartered Bank - Dubai	GoP Guarantee	1 year	3 months LIBOR + 2.00%	**3,578,115**	3,072,500
Standard Chartered Bank - Dubai	Remittance Routings	1 year	1 month LIBOR + 1.50%	**-**	553,050
Habib Bank Limited	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	GoP Guarantee	6 months	6 months KIBOR + 0.75%	**2,999,905**	2,999,404
National Bank of Pakistan	GoP Guarantee	1 Year	3 months KIBOR + 0.60%	**1,100,000**	-
National Bank of Pakistan	GoP Guarantee	1 Year	3 months KIBOR + 0.65%	**1,500,000**	-
United Bank Limited	GoP Guarantee	1Year	3 months KIBOR + 0.50%	**976,000**	-
Habib Bank Limited	GoP Guarantee	1 Year	3 months KIBOR + 0.65%	**1,000,000**	-

Financier	Security	Repayment period	Mark up rate	December31 2008	December31 2007
				Rupees in '000	
Hong Kong Shanghai Bank Corporation	GoP Guarantee	1 Year	3 months KIBOR + 0.35%	1,000,000	-
Barclays PLC	GoP Guarantee	1 Year	3 months KIBOR + 0.65%	1,000,000	-
Askari Bank Limited	GoP Guarantee	1 Year	3 months KIBOR + 0.65%	1,500,000	-
KASB Bank Limited	GoP Guarantee	1 Year	3 months KIBOR + 0.65%	500,000	-
				27,183,250	16,033,876

25.2 Running finances under mark-up arrangements - secured

Financier	Security	Repayment period	Mark up rate	December31 2008	December31 2007
				Rupees in '000	
From Banking Companies					
United Bank Limited	First pari passu hypothecation charge over stock & trade debts	1 Year	1 month KIBOR + 2.00%	2,505,112	1,497,008
National Bank of Pakistan	First pari passu hypothecation charge over stock & trade debts	1 Year	1 month KIBOR + 1.25%	575,000	575,000
Habib Allied International Bank Limited - London	Receivables in Europe	1 Year	1 month LIBOR + 2.25%	236,700	-
				3,316,812	2,072,008

The rate of mark-up ranges between 15.30 % and 16.10 % (2007: 7.50% and 11.50%) per annum, payable monthly, quarterly or semi-annually.

Facilities amounting to Rs. 65.89 (2007: Rs.1,073) 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.3,381 (2007: Rs.3,008) million, in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest / surcharge etc. The matter has been referred to 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 an exercise. However, as a matter of prudence, the Corporation has made a provision of Rs.1,500 million against the above referred claim of CAA which the management considered adequate should the additional liability arises.

(b) The Collector Central Excise had raised a demand of Rs.568 (2007: Rs.717) 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. The Corporation has already paid a sum of Rs.100 million (note 12) under protest which is considered fully recoverable by the management. The Corporation has filed appeals with the Customs, Central Excise & Sales Tax Tribunal, which are currently pending adjudication. The management is confident that the decision will be made in favour of the Corporation. Consequently, no provision has been made there against.

(c) During the current year, a show cause notice was served to the Corporation by the Additional Collector, LTU Karachi, as a result of finding during the audit of PIAC records pertaining 2004-2005 and 2005-2006. The Collector has raised demands of Rs.6.80 million for the federal excise duty and Rs. 277.62 million for sales tax in respect of the late filing of monthly returns of excise duty, sales tax of various taxable activities and incorrect rate of duty charged and paid along with input tax paid on various utilities. The Corporation has filed an appeal to the Additional Collector (Adjudication), which is currently pending for adjudication. The Corporation is confident that the decision will be in its favour. Consequently, no provision has been made in these financial statements for the same.

(d) During the current year, a show cause notice was issued to the Corporation by the Collector of Customs, demanding a sum of Rs.87.93 million in respect of custom duty on the import of simulator. The Corporation has filed an appeal to the Appellant Tribunal Karachi for adjudication. The Corporation is confident that the decision will be in its favour. Consequently, no provision has been made in these financial statements.

(e) During the current year, a show cause notice has been served to the Corporation by Additional Collectorate LTU for claim of sales tax amounting to Rs.1,319 million, and federal excise duty amounting to Rs.2.07 million, on the basis of investigation conducted by Directorate General Intelligence, FBR. The amount was claimed against incorrect / inadmissible adjustment on exempt activity and incorrect charging of rates on FED and sales tax rate. The Corporation is confident that the appeal, which it intends to file, will be in its favour.

(f) The Corporation is contesting litigations relating to suits filed against it on dispute over throughput charges aggregating to Rs.125 (2007: Rs.125) million against which it has filed appeals with the Honourable High Court of Sindh, Karachi and District Court which are currently 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.

(g) 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 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 aggregating to Rs.2,864 (2007: Rs.2,112) million.

(h) 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.

(i) Contingencies relating to income tax matters are disclosed in note 34.1.

(j) 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.11.20 (2007: Rs.11.20) million.

(k) Claims against Corporation not acknowledged as debt amount to Rs.350 million (2007: Rs.Nil).

26.2 Commitments

(a) Commitments for purchase of aircraft amounted to Rs.Nil (2007: Rs.18.87) million.

(b) Commitments for capital expenditure amounted to Rs.394.50 (2007: Rs.436.40) million.

(c) Outstanding letters of credit amounted to Rs.65.30 (2007: Rs.200.00) million.

(d) Outstanding letters of guarantee amounted to Rs.203.90 (2007: Rs.176.40) million.

27. REVENUE – net

	December31 2008	December31 2007
	Rupees in '000	
Passenger	**79,817,592**	62,002,315
Cargo	**5,458,688**	4,849,735
Excess baggage	**875,530**	865,657
Charter	**183,806**	163,806
Engineering services	**936,578**	718,733
Handling and related services	**686,755**	712,686
Mail	**263,215**	305,265
Others	**979,403**	862,537
	89,201,567	70,480,734

28. COST OF SERVICES – others

	Note	December31 2008	December31 2007
		Rupees in '000	
Salaries, wages and allowances		**7,938,243**	6,921,590
Welfare and social security costs		**83,531**	68,723
Retirement benefits		**853,456**	375,208
Compensated absences		**148,218**	97,800
Legal and professional charges		**6,850**	7,879
Stores and spares consumed		**1,547,138**	2,188,619
Maintenance and overhaul		**3,829,943**	3,267,244
Flight equipment rental		**1,032,138**	3,124,857
Landing and handling		**9,123,722**	7,690,712
Passenger services		**2,833,399**	2,848,517
Crew layover		**2,196,650**	2,004,869
Provision for slow moving stores and spare parts	8.1	**286,466**	334,519
Staff training		**89,855**	80,743
Utilities		**5,170**	4,909
Communication		**66,930**	65,016
Insurance		**1,112,775**	1,038,143
Rent, rates and taxes		**362,134**	318,927
Printing and stationery		**96,597**	132,361
Depreciation	3.1.5	**7,809,239**	5,395,614
Amortization	4.2.1	**2,461**	2,532
Others		**283,005**	272,554
		39,707,920	36,241,336

29. DISTRIBUTION COSTS

	Note	December31 2008	December31 2007
Salaries, wages and allowances		**1,482,987**	1,440,391
Welfare and social security costs		**177,376**	177,831
Retirement benefits		**437,512**	192,492
Compensated absences		**45,500**	30,022
Distribution and advertising expenses		**2,101,761**	1,595,112
Legal and professional charges		**24,498**	14,905
Repairs and maintenance		**87,046**	73,566
Insurance		**12,958**	8,782
Printing and stationery		**36,037**	33,543
Communication		**384,325**	373,332
Staff training		**45,521**	35,959
Rent, rates and taxes		**329,766**	276,196
Utilities		**35,694**	31,942
Depreciation	3.1.5	**72,440**	69,111
Amortization	4.2.1	**1,706**	1,604
Others		**114,505**	93,886
		5,389,632	4,448,674

30. ADMINISTRATIVE EXPENSES

	Note	December 31 2008	December 31 2007
		Rupees in '000	
Salaries, wages and allowances		**1,774,714**	1,633,976
Welfare and social security costs		**872,112**	699,819
Retirement benefits		**551,162**	379,371
Compensated absences		**50,282**	33,178
Legal and professional charges		**223,562**	289,658
Repairs and maintenance		**289,066**	242,155
Insurance		**14,967**	23,234
Printing and stationery		**62,175**	77,250
Staff training		**61,408**	44,149
Rent, rates and taxes		**371,005**	371,650
Utilities		**510,906**	429,006
Auditors' remuneration	30.1 & 30.2	**10,828**	10,631
Communication		**538,364**	522,963
Depreciation	3.1.5	**133,431**	152,470
Amortization	4.2.1	**19,804**	30,459
Donations	30.3	**2,899**	3,288
Others		**331,533**	313,443
		5,818,218	5,256,700

30.1 Auditors' remuneration

Audit fee	6,726	6,000
Fee for review of interim financial statements, Consolidation and Code of Corporate Governance	3,361	3,742
Out of pocket expenses	741	889
	10,828	10,631

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.

31. OTHER PROVISIONS AND ADJUSTMENTS - net

	Note	2008	2007
Loss on disposal of capital spares		**1,453**	28,678
Provision for debts consider doubtful - net	9.1	**19,330**	402,211
Provision for doubtful advances	10.2	**381**	2,334
Provision for CAA	26.1(a)	**1,500,000**	-
Others		**15**	-
		1,521,179	433,223

32. OTHER OPERATING INCOME

	2008	2007
Income from financial assets		
Profit on bank deposits	**163,540**	207,464
Income from investment		
Gain on disposal of short term investments	**-**	19,650
Dividend on investments	**1,077,900**	568,548

	Note	December31 2008	December31 2007
		Rupees in '000	
Income from assets other than financial assets			
Gain on disposal of operating fixed assets		**200,814**	104,582
Insurance claims		**37,746**	12,497
Liabilities no longer payable - written back		**284,116**	73,384
Others		**66,804**	13,308
		1,830,920	999,433

33. FINANCE COSTS

	Note	December31 2008	December31 2007
Mark-up on			
long term financing		**1,635,226**	1,168,250
long term murabaha		**192,228**	47,644
short-term borrowings		**2,346,199**	1,436,326
		4,173,653	2,652,220
Return on term finance certificates		**1,540,209**	1,378,177
Interest on liabilities against assets subject to finance lease		**2,506,124**	2,966,224
Arrangement, agency and commitment fee		**88,249**	97,717
Bank charges, guarantee commission and other related charges		**43,413**	41,507
		8,351,648	7,135,845

34. TAXATION

	Note	December31 2008	December31 2007
Current	34.1	**-**	352,404
Deferred	34.2	**(3,849,133)**	(24,619)
		(3,849,133)	327,785

34.1 In view of available tax losses for the year, no provision for taxation has been made. Further due to the withdrawal of section 113 "Minimum Tax" of Income Tax Ordinance, 2001 through Finance Act 2008, no provision in respect of the same has been provided in these financial statements. Accordingly, no numeric tax rate reconciliation is provided.

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

The minimum tax on turnover, under section 80D of the repealed Act, was levied by the tax authorities up to the assessment year 2002-03, after adding 10% of net turnover on estimated basis. The Corporation filed appeals there against for the assessment years 1991-1992, 1992-1993 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 1991-1992, 1992-1993 and 1997-1998 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 pending.

34.2 Deferred taxation

	Note	December31 2008	December31 2007
		Rupees in '000	
Deferred tax credits:			
Accelerated tax depreciation		**29,027,268**	22,663,100
Surplus on revaluation of:			
Aircraft	17	**4,086,201**	305,453
Building	17	**68,385**	-
Unrealised gain on re-measurement of investments		**-**	26,724
		33,181,854	22,995,277
Deferred tax debits:			
Unused tax losses		**(30,983,276)**	(20,638,429)
Unrealised loss on cash flow hedges		**(64,454)**	-
Provisions for liabilities and to write down other assets		**(2,134,124)**	(2,356,848)
		(33,181,854)	(22,995,277)
		-	-

Net deferred tax asset of Rs.15,453 (2007: Rs.7,821) million, in excess of deferred tax liabilities of Rs.33,182 (2007: Rs.22,995) million as shown above, has not been recognised in view of the accounting policy of the Corporation as stated in note 2.15.

35. LOSS PER SHARE

	2008	2007
Loss for the year	35,880,157	13,398,706
	Number of Shares	
Weighted average number of Ordinary shares outstanding	2,016,835,227	2,007,508,768
	Rupees	
Loss per share		
'A' class Ordinary share	**17.79**	6.61
'B' class Ordinary share	**8.90**	3.31

35.1 Loss per share has no dilution effect.

36. CASH (USED IN) / GENERATED FROM OPERATIONS

	Note	December31 2008	December31 2007
		Rupees in '000	
Loss before taxation		**(39,729,290)**	(13,070,921)
Adjustments for:			
Depreciation	31.5	**8,015,110**	5,617,195
Gain on disposal of operating fixed assets	32	**(200,814)**	(75,904)
Amortization	4.2.1	**23,971**	34,595
Provision for slow moving stores and spares	8.1	**286,466**	334,519
Provision for doubtful debts	9.1	**86,330**	402,211
Provision for doubtful advances and other receivable	10.2	**381**	2,334
Provision for employees' benefits		**989,548**	1,108,071
Finance costs	33	**8,351,648**	7,135,845

	Note	December31 2008	December31 2007
		Rupees in '000	
Gain on disposal of short term investments		**-**	(19,650)
Dividend on investments		**(1,077,900)**	(568,548)
Profit on bank deposits	32	**(163,540)**	(207,464)
Provision against CAA liabilities		**1,500,000**	-
Liabilities no longer payable written back	32	**284,116**	(73,384)
Before working capital changes		**18,095,316**	13,689,820
Working capital changes			
(Increase) in stores and spares		**(761,466)**	(215,419)
(Increase) / Decrease in trade debts		**(831,401)**	712,350
(Increase) in advances		**(814,521)**	(12,402)
(Increase) / Decrease in trade deposits and prepayments		**(568,271)**	206,021
(Increase) in other receivables		**(397,593)**	(171,531)
Increase in trade and other payables		**5,287,721**	3,449,339
		1,914,469	3,968,358
		(19,719,505)	4,587,257

37. REMUNERATION OF CHAIRMAN, MANAGING DIRECTOR AND EXECUTIVES

	Chairman & Managing Director 2008	Chairman & Managing Director 2007	Executives 2008	Executives 2007
	Rupees in '000		Rupees in '000	
Managerial remuneration	**7,953**	5,431	**1,427,186**	1,288,019
Corporation's contribution to provident fund	**156**	101	**63,115**	47,588
Perquisites and benefits	**-**	79	**990,522**	719,622
	8,109	5,611	**2,480,823**	2,055,229
Number	**2**	1	**1,112**	929

Directors, other than the Chairman / CEO, are non-executive directors. Aggregate amount charged in financial statements for fee to directors was Rs.0.68 (2007: Rs.0.49) million. Chairman / CEO, Directors and certain executives are also provided with the Corporation's maintained cars and facilities as per the Corporation's rules.

38. GEOGRAPHICAL SEGMENTS

	December31 2008	December31 2007
	Rupees in '000	
Revenue analysis		
USA / Canada	**5,679,522**	5,727,136
Europe	**17,074,819**	15,257,823
Middle East / Africa	**17,201,955**	13,703,231
Asia (excluding Pakistan)	**4,738,861**	3,369,481
Pakistan	**44,506,410**	32,423,063
	89,201,567	70,480,734

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.

	December31 2008	December31 2007
	Rupees in '000	
Financing	**24,823,939**	22,699,526
Term Finance Certificates	**12,430,143**	13,246,970
Short-term borrowings	**30,500,062**	18,105,884
Trade and other payables	**27,080,861**	20,055,163
Mark-up accrued on short-term borrowings	**1,475,456**	978,317
Cash and bank balances	**(789,555)**	(1,975,459)
Net debt	**95,520,906**	73,110,401
Issued, subscribed and paid-up capital	**21,423,014**	20,878,074
Reserve	**(68,124,941)**	(32,781,632)
Total capital	**(46,701,927)**	(11,903,558)
Capital and net debt	**48,818,979**	61,206,843

39.2 Risk management

(a) Concentration of credit risk

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

(b) Currency risk

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

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk in respect of all financial assets and liabilities especially, borrowings and bank balances. The Corporation's income and expenses are affected by changes in interest rates due to the impact of such changes on interest income and expenses from short term deposits and other interest bearing financial assets and liabilities. The Corporation manages its interest rate risk through use of financing at fixed and variable interest rates.

(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) Jet fuel price risk

Jet fuel price risk is the risk attributable to fluctuation in the international jet fuel prices arising from external / market factors. The Corporation manages this issue to the extent possible by taking counter measures including hedging of jet fuel prices (note 23.5).

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

2008

	Interest / mark-up bearing				Non-Interest / mark-up bearing				
	Maturity up to one year	Maturity one year to five years	Maturity five years and above	Sub total	Maturity up to one year	Maturity one year to five years	Maturity five years and above	Sub total	Total
	Rupees in '000				Rupees in '000				
Financial assets									
Investment	25,640	6,703	-	32,343	16,865	-	74,829	91,694	124,037
Advances and other receivables	-	-	-	-	2,609,531	-	-	2,609,531	2,609,531
Deposits	-	-	-	-	47,059	-	3,345,642	3,392,701	3,392,701
Trade debts	-	-	-	-	5,757,849	-	-	5,757,849	5,757,849
Accrued interest	-	-	-	-	1,325	-	-	1,325	1,325
Cash and bank balances	470,605	-	-	470,605	318,950	-	-	318,950	789,555
	496,245	6,703	-	502,948	8,751,579	-	3,420,471	12,172,050	12,674,998
Financial liabilities									
Long term financing	5,352,528	18,505,629	965,782	24,823,939	-	-	-	-	24,823,939
Term finance certificates	-	12,430,143	-	12,430,143	-	-	-	-	12,430,143
Liabilities against assets subject to finance lease	7,252,859	31,164,870	33,859,790	72,277,519	-	-	-	-	72,243,237
Deposits	-	-	-	-	-	301,770	-	301,770	301,770
Deferred liabilities	-	-	-	-	-	3,120,000	-	3,120,000	3,120,000
Trade and other payables	-	-	-	-	26,901,261	-	-	26,901,261	26,901,261
Accrued interest / mark-up/profit	1,475,456	-	-	1,475,456	-	-	-	-	1,475,456
Borrowings	30,500,062	-	-	30,500,062	-	-	-	-	30,500,062
	44,580,905	62,100,642	34,825,572	141,507,119	26,901,261	3,421,770	-	30,323,031	171,795,868
Net financial (liabilities) / assets	(44,084,660)	(62,093,939)	(34,825,572)	(141,004,171)	(18,149,682)	(3,421,770)	3,420,471	(18,150,981)	(159,120,870)

2007

	Interest / mark-up bearing				Non-Interest / mark-up bearing				
	Maturity up to one year	Maturity one year to five years	Maturity five years and above	Sub total	Maturity up to one year	Maturity one year to five years	Maturity five years and above	Sub total	Total
	Rupees in '000				Rupees in '000				
Financial assets									
Investment	18,958	25,189	-	44,147	13,135	-	98,930	112,065	156,212
Advances and other receivables	-	1,283,000	-	1,283,000	1,289,832	-	-	1,289,832	2,572,832
Deposits	-	-	-	-	42,866	-	2,515,881	2,558,747	2,558,747
Trade debts	-	-	-	-	5,012,778	-	-	5,012,778	5,012,778
Accrued interest	-	-	-	-	32,789	-	-	32,789	32,789
Cash and bank balances	1,618,727	-	-	1,618,727	356,732	-	-	356,732	1,975,459
	1,637,685	1,308,189	-	2,945,874	6,748,132	-	2,614,811	9,362,943	12,308,817
Financial liabilities									
Long term financing	5,662,451	14,436,881	2,600,194	22,699,526	-	-	-	-	22,699,526
Term finance certificates	2,523,232	10,723,738	-	13,246,970	-	-	-	-	13,246,970
Liabilities against assets subject to finance lease	4,724,495	20,621,401	25,902,623	51,248,519	-	-	-	-	51,248,519
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 / mark-up/ profit	978,317	-	-	978,317	-	-	-	-	978,317
Borrowings	18,105,884	-	-	18,105,884	-	-	-	-	18,105,884
	31,994,379	45,782,020	28,502,817	106,279,216	11,783,801	3,192,125	-	14,975,926	121,255,142
Net financial (liabilities) / assets	(30,356,694)	(44,473,831)	(28,502,817)	(103,333,342)	(6,035,669)	(3,192,125)	2,614,811	(5,612,983)	(108,946,325)

Effective interest rates

	2008	2007
	Percentages	
Investment	5.20	5.20
Advances	2.78 - 11.00	2.78 - 11.00
Deposits	13.00 - 15.00	10.00 - 13.00
Cash and bank balances	3.00 - 13.00	3.00 - 4.00
Long term financing	4.34 - 14.00	5.28 - 11.33
Term finance certificates	10.50 - 14.00	10.00 - 10.50
Murabaha	8.02 - 6.20	7.06 - 8.02
Liabilities against assets subject to finance lease	5.32 - 13.32	4.70 - 11.00
Mark-up / interest accrued on loans	3.45 - 16.40	4.70 - 11.33

41. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of subsidiaries, associates, joint ventures, directors, key management personnel and employees' benefits funds. 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, 2008, the Corporation has made provision for doubtful debts relating to amounts owed by related parties amounting to Rs.188.04 (2007: Rs.188.04) million. An assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Other material transactions with related parties are given below:	December31 2008	December31 2007
	Rupees in '000	
Skyrooms (Private) Limited - Subsidiary		
Catering services	-	6,426
Retirement funds		
Contribution	**801,825**	533,190
Interest on advances	-	16,901
Profit oriented state – controlled entities – various		
Rent	**122,000**	112,000
Aeronautical expenses	**1,673,900**	1,507,000
Non Aero expenses	**113,000**	56,000
Insurance premium	**1,325,510**	1,040,000

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

42. CORRESPONDING FIGURES

Prior year's figures have been reclassified as follows for better presentation:

From	TO	Rupees in '000
Other provisions and adjustments - net Provision for slow moving stores and spare parts	**Cost of services - others** Provision for slow moving stores and spare parts	**334,519**

43. AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements were authorized for issue in the Board of Directors meeting held on March 26, 2009.

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 and US Dollar unless, otherwise stated.

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Group consolidated financial statements

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

Anjum Asim Shahid Rahman
Chartered Accountants
1st Floor, Modern Motors House
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Auditors' Report on Consolidated Financial Statements

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Pakistan International Airlines Corporation (the Holding company) and its subsidiary companies as at December 31, 2008 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, except one subsidiary which is audited by one of the joint auditors, whose reports have been furnished to us and our opinion, in so far 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 the accompanying 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 company PIA Investment Limited (PIAIL) have qualified their opinion as follows:

a) "as more fully explained in note 6 to the consolidated financial statements, the PIAIL's receivable from Centre Hotel comprises of the share of the joint venture's net current assets, amounting to Rs.596,027 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 19.14 the Roosevelt Hotel Corporation (RHC) Operating LLC has entered into certain loan agreements aggregating to Rs.12,359 million (US$156,640,641). The loan agreements matured on November 09, 2008 and the Company has an option for three separate one year extensions. In May 2008, the Company exercised the option for first of one year extensions, extending the maturity date to November 09, 2009. The amounts due under these loan agreements have been classified as long term as the Company intends to exercise the option for one year extension extending the repayment to November 09, 2010. We consider that loan 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, debt of Rs.12,359 million (US$156,640,641) classified as long term should be classified as current".

Had the above debt been classified as long term, the non-current liabilities shown in the consolidated balance sheet would have been lower by Rs.12,359 million and current liabilities would have been higher by the same amount.

c) "as more fully explained in note 13.1, receivables includes Rs.57,891 million (US$733,732) receivables from Pakistan Cricket Board (PCB) on account of various payments made during the year 1980 to 1981 and in 2008. During 2007, a joint venture agreement was signed and in 2008 a separate Company was formed with the name of Avant Hotels (Private) Limited (Avant). According to joint venture agreement, an alternative plot of land was to be transferred to Avant for developing the property. Against the said transfer, Avant was to issue shares to both PCB and the Company in the agreed ratio. The amount spent in 1980 to 1981 amounting to Rs.56,141 million (US$711,549) was provided but in view of joint venture agreement that provision was reversed in 2007. However, to date the said piece of land has not been transferred to Avant and Avant has not been able to issue shares. The negotiations with PCB are continuing. In view of the age of the debt and uncertainty about outcome of negotiations, we consider that the amount receivable should be fully provided for".

Had the above provision been provided for in the accompanying consolidated financial statements, loss before tax for the year would have been higher by Rs.57,891 million (US$733,732) and other receivable would have been lower by the same amount.

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, 2008 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.35,880 (2007: Rs.13,399) million during the year ended December 31, 2008, resulting in accumulated losses of Rs.72,354 (2007: Rs.37,160) million at the close of the year, and, as of that date, the Holding company's current liabilities exceeded its current assets by Rs.56,669 (2007: Rs.38,798) 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 Skyroom (Private) Limited - a subsidiary company have modified their report by adding emphasis of matter paragraphs as follows:

iii) "the Subsidiary company has accumulated losses of Rs.90.991 (2007: Rs.103.675) million, as against the paid-up share capital of Rs.40.000 million and, as of that date, the Company's total liabilities exceed its total assets by Rs.50.991 (2007: Rs.63.674) million. However, financial and operational support from the holding company, override the existence of any uncertainty about the Company's ability to continue as a going concern. Accordingly, the financial statements of the above subsidiary Company, have been prepared on a going concern basis; and

iv) the subsidiary company's lease agreement with the Civil Aviation Authority (CAA) for land and hotel building expired on June 02, 2001. During the year, terms of lease agreement for renewal of land and hotel's building have been finalised. However, the revised agreement has not yet been executed / signed".

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Anjum Asim Shahid Rahman
Chartered Accountants

Karachi: March 26, 2009

Consolidated Balance sheet

As At December 31, 2008

	Note	December31 2008	December31 2007	December31 2008	December31 2007
		Rupees in '000		US$ in '000	
ASSETS					
NON CURRENT ASSETS					
Fixed assets					
Property, plant and equipment	3	**157,811,321**	132,470,820	**2,000,143**	2,155,750
Intangibles	4	**2,745,223**	2,067,117	**34,794**	33,639
		160,556,544	134,537,937	**2,034,937**	2,189,389
Long term investments	5	**140,185**	188,465	**1,777**	3,067
Receivable from Centre Hotel	6	**596,027**	464,206	**7,554**	7,554
Long term loans, advances and other receivable	7	**7,629**	1,291,092	**97**	21,010
Long term deposits and prepayments	8	**5,173,580**	4,242,703	**65,571**	69,043
		166,473,965	140,724,403	**2,109,936**	2,290,063
CURRENT ASSETS					
Stores and spare parts	9	**3,764,276**	3,286,170	**47,709**	53,477
Trade debts	10	**6,190,561**	5,395,745	**78,461**	87,807
Short term loans and advances	11	**1,379,248**	549,900	**17,481**	8,949
Trade deposits and prepayments	12	**1,688,239**	1,257,980	**21,397**	20,472
Accrued interest		**1,325**	32,789	**17**	534
Other receivables	13	**1,623,644**	1,170,866	**20,579**	19,054
Short term investments	14	**97,977**	182,771	**1,242**	2,974
Taxation - net		**321,855**	310,239	**4,079**	5,049
Cash and bank balances	15	**4,059,865**	4,233,180	**51,456**	68,888
		19,126,990	16,419,640	**242,421**	267,204
TOTAL ASSETS		**185,600,955**	157,144,043	**2,352,357**	2,557,267

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated Balance sheet

As At December 31, 2008

	Note	December31 2008	December31 2007	December31 2008	December31 2007
		Rupees in '000		US$ in '000	
EQUITY AND LIABILITIES					
SHARE CAPITAL AND RESERVES					
Share capital	16	**21,423,014**	20,878,074	**271,521**	339,757
Reserves	17	**(67,359,472)**	(29,535,125)	**(853,732)**	(480,640)
Attributable to the Holding company's shareholders		**(45,936,458)**	(8,657,051)	**(582,211)**	(140,883)
Minority Interest		**743,935**	527,860	**9,429**	8,590
Total equity		**(45,192,523)**	(8,129,191)	**(572,782)**	(132,293)
Surplus on Revaluation of Fixed Assets	18	**28,493,164**	10,190,057	**361,130**	165,827
		(16,699,359)	2,060,866	**(211,652)**	33,534
NON CURRENT LIABILITIES					
Long term financing	19	**34,426,312**	28,994,934	**436,326**	471,846
Term finance certificates	20	**12,430,143**	10,723,738	**157,543**	174,512
Liabilities against assets subject to finance leases	21	**65,088,789**	46,524,024	**824,953**	757,104
Long term deposits	22	**301,902**	321,679	**3,826**	5,235
Advance rent		**3,486**	-	**47**	-
Deferred liabilities	23	**16,269,775**	14,669,765	**206,208**	238,727
		128,520,407	101,234,140	**1,628,903**	1,647,424
CURRENT LIABILITIES					
Trade and other payables, including provisions	24	**28,860,083**	21,652,372	**365,781**	352,358
Accrued interest / mark-up / profit	25	**1,475,456**	978,317	**18,700**	15,921
Short term borrowings	26	**30,500,062**	18,105,884	**386,566**	294,644
Tax payable		**23,534**	19,388	**298**	316
Current maturities of:					
Long term financing		**5,649,136**	5,845,349	**71,599**	95,124
Term finance certificates		**-**	2,523,232	**-**	41,062
Advance rent		**3,300**	-	**41**	-
Liabilities against assets subject to finance leases		**7,268,336**	4,724,495	**92,121**	76,884
		73,779,907	53,849,037	**935,106**	876,309
CONTINGENCIES AND COMMITMENTS	27				
TOTAL EQUITY AND LIABILITIES		**185,600,955**	157,144,043	**2,352,357**	2,557,267

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated Profit and loss account

For The Year Ended December 31, 2008

	Note	December31 2008	December31 2007	December31 2008	December31 2007
		Rupees in '000		US$ in '000	
REVENUE - net	28	**99,171,686**	78,554,483	**1,256,929**	1,278,348
COST OF SERVICES					
Aircraft fuel		**45,854,358**	30,315,159	**581,171**	493,330
Others	29	**47,414,881**	42,529,257	**600,949**	692,096
		93,269,239	72,844,416	**1,182,120**	1,185,426
GROSS PROFIT		**5,902,447**	5,710,067	**74,809**	92,922
Distribution costs	30	**5,389,632**	4,448,674	**68,310**	72,395
Administrative expenses	31	**5,862,577**	5,293,654	**74,303**	86,146
Other provisions and adjustments - net	32	**1,521,179**	433,223	**19,280**	7,050
Exchange loss - net		**24,118,823**	720,151	**305,689**	11,719
Other operating income	33	**(757,963)**	(614,523)	**(9,607)**	(10,000)
		36,134,248	10,281,179	**457,975**	167,310
LOSS FROM OPERATIONS		**30,231,801**	4,571,112	**383,166**	74,388
Finance costs	34	**9,027,003**	7,938,364	**114,411**	129,184
Share of loss / (profit) from an associated company		**397**	(20,211)	**5**	(329)
LOSS BEFORE TAXATION		**39,259,201**	12,489,265	**497,582**	203,243
Taxation	35	**(3,282,690)**	726,390	**(41,606)**	11,821
NET LOSS FOR THE YEAR		**35,976,511**	13,215,655	**455,976**	215,064
Attributable to:					
Shareholders of the holding company		**35,999,584**	13,208,487	**456,268**	214,947
Minority interests		**(23,073)**	7,168	**(292)**	117
		35,976,511	13,215,655	**455,976**	215,064
		(Rupees)		**(US$)**	
LOSS PER SHARE	36				
'A' class Ordinary shares of Rs.10 each		**17.84**	6.25	**0.23**	0.10
'B' class Ordinary shares of Rs. 5 each		**8.92**	3.12	**0.11**	0.05

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated Cash flow statement

For The Year Ended December 31, 2008

	Note	December31 2008	December31 2007	December31 2008	December31 2007
		Rupees in '000		US$ in '000	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations after working capital changes	37	**12,983,094**	8,753,067	**164,551**	142,442
Profit on bank deposits received		**197,768**	225,685	**2,507**	3,673
Deferred custom duty paid		**(55,383)**	-	**(701)**	-
Finance costs paid		**(8,529,864)**	(7,772,325)	**(108,110)**	(126,482)
Taxes paid		**(3,275,220)**	(796,301)	**(41,511)**	(12,959)
Staff retirement benefits paid		**(133,878)**	(874,493)	**(1,697)**	(14,231)
Gratuity paid		**(3,926)**	-	**(50)**	-
Long term deposits - net		**(930,877)**	(836,306)	**(11,798)**	(13,610)
Net cash from / (used in) operating activities		**251,714**	(1,300,673)	**3,191**	(21,167)
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditure incurred		**(9,952,440)**	(12,722,326)	**(126,140)**	(207,035)
Proceeds from disposal of property, plant and equipment		**211,746**	193,671	**2,683**	3,152
Investments - net		**42,587**	(12,030)	**540**	(196)
Receivable from Centre Hotel		**-**	(4,381)	**-**	(72)
Proceeds from sale of investment		**(89,552)**	427,491	**(1,135)**	6,957
Intangibles		**-**	(50,778)	**-**	(826)
Long term advances and other receivable		**1,283,463**	402,985	**16,267**	6,558
Net cash used in investing activities		**(8,504,196)**	(11,765,368)	**(107,785)**	(191,462)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		**-**	1,404,443	**-**	22,855
Proceeds of long term financing - net		**5,235,165**	13,442,899	**66,352**	218,762
Redemption of term finance certificates		**(816,827)**	(756,970)	**(10,353)**	(12,318)
Repayment of obligations under finance lease		**(8,733,349)**	(5,651,529)	**(110,689)**	(91,970)
Repayment of long term murabaha		**-**	(781,165)	**-**	(12,712)
Net cash (used in) / from financing activities		**(4,315,011)**	7,657,678	**(54,690)**	124,617
Decrease in cash and cash equivalents during the year		**(12,567,493)**	(5,408,363)	**(159,284)**	(88,012)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**(13,872,704)**	(8,464,341)	**(175,826)**	(137,744)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**(26,440,197)**	(13,872,704)	**(335,110)**	(225,756)
CASH AND CASH EQUIVALENTS					
Cash and bank balances	15	**4,059,865**	4,233,180	**51,456**	68,888
Short term borrowings	26	**(30,500,062)**	(18,105,884)	**(386,566)**	(294,644)
		(26,440,197)	(13,872,704)	**(335,110)**	(225,756)

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Consolidated Statement of changes in equity

For The Year Ended December 31, 2008

	ATTRIBUTABLE TO SHAREHOLDERS OF THE HOLDING COMPANY									
		RESERVES								
	Issued subscribed, and paid-up capital	Capital reserves	Revenue reserve	Unrealized gain /(loss) on remeasurement of investments	Foreign currency translation reserves	Accumulated losses	Other reserve	Total	Minority interest	Total equity
Balance as at December 31, 2006	19,473,631	2,501,038	1,779,674	21,013	1,847,591	(23,717,778)	-	1,905,169	520,692	2,425,861
Issue of share capital 'A' class Ordinary shares	1,404,443	-	-	-	-	-	-	1,404,443	-	1,404,443
Unrealised gain on re-measurement of investments recognised directly in equity	-	-	-	76,353	-	-	-	76,353	-	76,353
Surplus on revaluation of aircraft fleet and Hotel building realised during the year on account of incremental depreciation charged thereon	-	-	-	-	-	896,621	-	896,621	-	896,621
Foreign currency translation	-	-	-	-	268,850	-	-	268,850	-	268,850
Loss for the year	-	-	-	-	-	(13,208,487)	-	(13,208,487)	-	(13,208,487)
Minority interest arising on business combination	-	-	-	-	-	-	-	-	7,168	7,168
Balance as at December 31, 2007	20,878,074	2,501,038	1,779,674	97,366	2,116,441	(36,029,644)	-	(8,657,051)	527,860	(8,129,191)
Issue of share capital 'A' class Ordinary shares	544,940	-	-	-	-	-	-	544,940	-	544,940
Unrealised loss on re-measurement of investments	-	-	-	(24,101)	-	-	-	(24,101)	-	(24,101)
Surplus on revaluation of aircraft fleet and Hotel building realised during the year on account of incremental depreciation charged thereon	-	-	-	-	-	1,001,525	-	1,001,525	-	1,001,525
Fair value of cash flow hedge - net of tax	-	-	-	-	-	-	(125,271)	(125,271)	-	(125,271)
Mandatory statutory reserve	-	-	-	-	-	-	30,132	30,132	-	30,132
Foreign currency translation	-	-	-	-	(2,718,455)	-	-	(2,718,455)	181,336	(2,537,119)
Loss for the year	-	-	-	-	-	(35,976,511)	-	(35,976,511)	-	(35,976,511)
Dividend paid	-	-	-	-	-	(11,666)	-	(11,666)	11,666	-
Minority interest arising on business combination	-	-	-	-	-	-	-	-	23,073	23,073
Balance as at December 31, 2008	21,423,014	2,501,038	1,779,674	73,265	(602,014)	(71,016,296)	(95,139)	(45,936,458)	743,935	(45,192,523)

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

Ch. Ahmed Mukhtar
Chairman

Husain Lawai
Director

Notes to the Consolidated financial Statements

For The Year Ended
December 31, 2008

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%. Following are the details of PIAIL's subsidiaries.

	2008 PIAIL's Holding %	2007 PIAIL's Holding %
Roosevelt Hotel Corporation, N.V.	**100**	100
Minhal France (Curacao) N.V.	**100**	100
Minhal France B.V.	**100**	100
Minhal France S.A.	**90**	90

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

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

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

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

Associate

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

Joint venture

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

1.2 During the year, the Group has incurred a net loss of Rs.35,976 (2007: Rs.13,216) million, resulting in accumulated losses of Rs.71,016 (2007: Rs.36,030) million as of the balance sheet date. Further, as of that date the current liabilities of the Group exceeded its current assets by Rs.54,653 (2007: Rs.37,429) million.

1.3 The management of the holding company and its subsidiaries 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.35,880 (2007: Rs.13,399) million, resulting in accumulated losses of Rs.72,354 (2007: Rs.37,160) 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.56,669 (2007: Rs.38,798) 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 September 02, 2008, 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 at 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. The new TFCs have already been issued on February 20, 2009.

(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 lands and buildings at various locations.

In addition to initiating the above referred financial measures, the Holding company 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.

Further, the Holding company issued 54,494,004 Ordinary shares of Rs.10 each, aggregating to Rs.545 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 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.

The subsidiaries of the Holding Company have also improved their performance as evidenced by the Holding Company receiving a dividend of US$ 14.60 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 reported a net profit of Rs.12.68 (2007: net loss of Rs.2.97) million during the year ended December 31, 2008, resulting in accumulated losses of Rs.90.99 (2007: Rs.103.67) million at the close of the year, and, as of that date, the company's current liabilities exceeded its current assets by Rs.68.83 (2007: Rs.38.09) million. However, the Holding company has provided financial assistance of Rs.37.04 (2007: Rs.37.04) 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, 1956 and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirement of Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the requirements of the PIAC Act, 1956 or the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of preparation

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

- Group's leasehold lands are stated at revalued amounts and buildings thereon are stated at the revalued amounts less accumulated depreciation and impairment, if any, as referred to in notes 3.1.1 and 3.1.2;
- Group's aircraft fleet is stated at revalued amount less accumulated depreciation and impairment, if any, as referred to in notes 3.1.4;
- Certain financial instruments, which are stated at fair values / amortized cost in accordance with the requirements of IAS - 39 "Financial Instruments: Recognition and Measurement", as referred to in notes 5.3.1 and 20; and
- Defined benefits obligations are stated at present value in accordance with the requirements of IAS - 19 "Employee Benefits", as referred to in note 24.

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.78.90 = US$1 (2007: Rs.61.45 = 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.

For the purpose of impairment testing goodwill acquired in a business combination is, for the acquisition date, allocation from each of the group cash generating units that are expected to benefit for the synergies of the combination. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The impairment loss, if any, resulting from such review is charged to the profit and loss account.

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.

All intra-group transactions, balances income and expenses and unrealised gains on transactions between group companies are eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

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

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated profit and loss 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 amortised or separately tested for impairment.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account, 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 of 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 amortised.

The financial statements of the joint venture are prepared for the same reporting year as of 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 require the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements 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 consolidated 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 benefits 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 consolidated financial statements.

Stores and spare parts

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 cost of completion and estimated costs necessary to make the sale. Provision against the slow moving stores and spares is made in proportion to estimated average useful life of the relevant category of the aircraft attained up to the balance sheet date.

Taxation

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

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

Trade debts

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

Provision for frequent flyer programme

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

Unearned and earned revenue

The value of unutilized passenger tickets and cargo airway bills is determined by the management on the basis of estimated number of days delay between the date of sale of ticket / air waybills 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 standards or interpretations:

Standard or Interpretation	Effective date (accounting periods beginning on or after)
IAS 1 - Presentation of Financial Statements (Revised)	01 January 2009
IAS 23 - Borrowings Costs (Revised)	01 January 2009
IAS 27 - Consolidated and Separate Financial Statements (Revised)	01 January 2009
IFRS 3 - Business Combinations (Revised)	01 July 2009
IFRS 4 - Insurance Contracts	01 January 2009
IFRS 7 - Financial Instruments: Disclosures	01 July 2008
IFRS 8 - Operating segments	01 January 2009
IFRIC 13 - Customer Loyalty Programs	01 July 2008
IFRIC 15 - Agreements for the Construction of Real Estate	01 January 2009
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	01 October 2008
IFRIC 17 - Distributions of Non-cash Assets to owners	01 July 2009
IFRIC 18 - Transfers of Assets from Customers	01 July 2009
IFAS 2 - Ijarah	01 January 2009

The Group expects that the above standards and interpretations are either not relevant or will have no material impact on the Group's financial statements in the period of initial application other than as stated below:

IAS 1 "Presentation of Financial Statements". The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owners changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income. It presents all items of recognized income and expense, either in one single statement, or in two linked statements.

IAS 23 "Borrowing Cost (Revised)". This standard requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing cost has been removed.

IFRS 7 "Financial Instruments: Disclosures". This standard prescribes presentation and disclosure requirements in respect of financial instruments including qualitative and quantitative information about exposure to risks arising from financial instruments such as credit risk, liquidity risk and market risk.

IFRS 8 "Operating Segment". This standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

IFRIC 13 "Customer loyalty programmes". This interpretation addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. It applies to sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customer can redeem in the future for free or discounted goods or services. The interpretation requires that an entity recognises credits that are awarded to customers as separately identifiable components of revenue, which would be deferred at the date of initial sale.

In addition to the above, amendments and improvements to various accounting standards have also been issued by IASB which are generally effective for accounting periods beginning on or after 1 January 2009. The management is in the process of evaluating the impact of such amendments and improvements on the Group's financial statements for the ensuing periods.

2.6 Fixed assets

2.6.1 Property, plant and equipment

Owned

Lands classified as others in note 3.1 are stated at cost, whereas buildings classified as others in the aforesaid note are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Leasehold lands, 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.

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.

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 immediately preceding the month of 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 these financial statements.

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

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

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

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

- The surplus / deficit arising on revaluation of fixed assets is credited / (debited) to the "Surplus on Revaluation of Fixed Assets Account" and it is shown in the balance sheet after share capital and reserves.
- An annual transfer from the surplus on revaluation of fixed assets account to unappropriated profit / accumulated losses through statement of changes in equity is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the asset's original cost.

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

Gains and losses on disposal of assets are taken to profit and loss account. 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 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.

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.

Capital work-in-progress

These are stated at cost less impairment, if any and consist of expenditure incurred and advances made in respect of property, plant and equipment 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.

2.6.2 CHANGE IN ACCOUNTING POLICY

During the current year, the Holding Company has changed its accounting policy in respect of leasehold lands and buildings, that are freely transferable and can be disposed off as and when required, whereby, with effect from the current year, these are carried at their revalued amounts, being the fair value at the date of revaluation, in the case of leasehold lands, and fair value at the date of revaluation less subsequent accumulated depreciation and any accumulated impairment losses, in the case of buildings on the leasehold lands, instead of the past policy of carrying the same at their cost, in the case of leasehold lands, and cost less accumulated depreciation and any accumulated impairment losses in the case of buildings on leasehold lands.

The above change, made to provide a more accurate reflection of the carrying value of the assets of the Group, has been accounted for in accordance with the International Accounting Standard (IAS) - 16 "Property, plant and equipment", as required under IAS - 8 "Accounting Policies, Changes in Accounting Estimate and Errors", requiring such a change to be applied prospectively, instead of applying the same retrospectively.

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 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 4.1.

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.

2.8 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, if any.

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 spare parts

These are valued at lower of cost and net realizable value except goods-in-transit, which are valued at cost incurred up to the balance sheet date. 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 necessary to be incurred in order to make the sale.

2.10 Trade debts and other receivables

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

2.11 Cash and cash equivalents

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

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

2.12 Trade and other payables

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

2.13 Interest / Mark-up bearing loans and borrowings

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

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

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

2.14 Employee benefits

Provident Fund

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

Pension funds

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

Post retirement medical benefits

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

Compensated absences

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

Gratuity funds

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

Skyrooms (Private) Limited operate 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, in accordance with the provision of Income Tax Ordinance, 2001. It also includes any adjustment to tax payable in respect of prior years.

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 profits 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.

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.

In view of the limitation of the Group'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 / air waybills and the date of actual travel / lift. In case of Hajj operations, the value of unutilised passenger tickets is determined on the basis of actual unutilised passenger coupons.

Engineering and other services

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

Room, food and beverages

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

Interest / Mark-up and dividend income

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

2.18 Borrowing costs

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

2.19 Provision

A provision is recognized in the balance sheet when:

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

2.20 Impairment

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

2.21 Foreign currency translation

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

Monetary assets and liabilities in foreign currencies are retranslated at the foreign currency spot rate of the balance sheet date. Gains and losses on translation are taken to profit and loss account.

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.

The assets and liabilities of foreign currency operations are translated into Pak Rupees (Presentation currency) at the rate of exchange prevailing at the balance sheet date and their profit and loss account are translated at exchange rates approximately those ruling on the last week of the preceding month's average rate of exchange rate of the transactions. The exchange differences arising on the translation are taken directly to a separate components of equity.

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, as amended from time to time. The agreement provides for a base management fee, calculated at 1.20% of gross operating revenues per year, and an incentive management fee, calculated at 14.50% of net operating income, as defined in the agreement. This amended agreement will expire in January 2012, unless earlier terminated.

Minhal France S.A.

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

Scribe Hotel

Scribe Hotel is currently managed by ACCOR with assistance of Parisian Management Company B.V, related parties, under a management agreement. The agreement provides for a base management fee calculated at 2.625% of turnover per year and an incentive management fee calculated at 9.00% of gross operating profit, as defined in the agreement. However, the agreement further provides that the fee to be paid would be capped at 4.25% 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.

Derivative financial instruments and hedge accounting

Derivatives and financial instruments under IAS 39 'Financial Instruments - Recognition and Measurement', are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition and re-evaluates this designation at each year end except for those financial instruments measured at fair value through profit or loss.

Derivative financial instruments; comprise fuel hedging derivatives (including options, swaps and futures) measured at fair value on the Group's balance sheet date.

The Group uses derivative financial instruments such as future forecast transactions to hedge future price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the profit and loss account.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges are accounted for as the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the profit and loss statement.

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.

3. PROPERTY, PLANT AND EQUIPMENT

	Note	December 31 2008	December 31 2007
		Rupees in '000	
Operating fixed assets	3.1	157,332,451	125,049,562
Capital work-in-progress	3.2	478,870	7,421,258
		157,811,321	132,470,820

3.1 Operating fixed assets

	Cost / Revalued Amount						Accumulated Depreciation				Written Down Value
	As at January 01, 2008	Additions/ Transfers/* (Disposals)	Revaluation	Adjustment/** (Write-off)	As at December 31, 2008	Annual depreciation rate	As at January 01, 2008	For the year/ (On disposals)	(Write-off)	As at December 31, 2008	As at December 31, 2008
December 31, 2008	(Rupees in '000)					%	(Rupees in '000)				
Owned											
Land											
Leasehold (note 3.1.1)	44,280	- (114)	3,360,426	-	3,404,592	-	-	-	-	-	3,404,592
Others (note 3.1.2)	22,854	-	-	-	22,854	-	-	-	-	-	22,854
Buildings on Leasehold land (note 3.1.1)	300,963	25,817	3,026,179	-	3,352,959	-	121,501	8,122	-	129,623	3,223,336
Other lands (note 3.1.2)	817,620	19,724 (8,083)	-	-	829,261	2.5	269,695	22,439 (5,548)	-	286,586	542,675
Hotel property (note 3.1.3)	37,819,249	101,621	(3,199,792)	11,058,008 *** (525,001)	45,254,085	-	2,706,558	2,270,348 815,146 ***	(525,001)	5,267,051	39,987,034
Workshops and hangers	830,295	18,599	-	-	848,894	5	706,119	12,088	-	718,207	130,687
Renovation and improvements	566,928	54,019 13,888 *	-	-	634,835	20	454,552	52,949	-	507,501	127,334
Aircraft fleet (note 3.1.4)	35,009,981	115,766	1,727,992	1,820,339 **	38,674,078	3.85-4.55	15,640,256	3,175,869	-	18,816,125	19,857,953
Operating ground equipment, catering, communication and meteorological equipment	628,372	10,352 (7,210)	-	-	631,514	10	391,623	34,246 (7,205)	-	418,664	212,850
Engineering equipment and tools	1,177,631	146,692	-	-	1,324,323	10-20	925,758	71,913	-	997,671	326,652
Traffic equipment	1,773,891	15,413 (26,164)	-	-	1,763,140	10-20	1,230,700	62,855 (23,548)	-	1,270,007	493,133
Furniture, fixtures and fittings	4,542,603	242,790 - (103,998)	-	1,087,181 *** (208,621)	5,559,955	10	2,566,513	330,732 284,924 *** (83,397)	-	3,098,772	2,461,183

	Cost / Revalued Amount						Accumulated Depreciation				Written Down Value
	As at January 01, 2008	Additions/ Transfers/* (Disposals)	Revaluation	Adjustment/** (Write-off)	As at December 31, 2008	Annual depreciation rate	As at January 01, 2008	For the year / (On disposals)	(Write-off)	As at December 31, 2008	As at December 31, 2008
	(Rupees in '000)					%	(Rupees in '000)				
Motor transport	228,843	131,008 - (13,017)	-	162,459 *** 208,622 **	717,915	25	176,943	15,983 673 *** (9,732)	-	183,867	534,048
Office equipment	78,783	1,189 (865)	-	-	79,107	15	69,429	3,161 (865)	-	71,725	7,382
Computer and office automation	1,365,528	43,138 (630)	-	- (785)	1,407,251	10-20	1,080,487	101,002 (578)	- (785)	1,180,126	227,125
Precision engineering equipment	809,933	1,099	-	-	811,032	10	801,612	1,866	-	803,478	7,554
Printing press equipment	15,039	-	-	-	15,039	20	13,318	688	-	14,006	1,033
Reservation equipment	12,395	-	-	-	12,395	10	12,394	-	-	12,394	1
Heat ventilation and air conditioning	8,412	2,281	-	-	10,693	10	4,344	893	-	5,237	5,456
Kitchen and bar equipment	3,484	2,413	-	-	5,897	10	3,181	292	-	3,473	2,424
Television/ dish/ stand	2,729	32	-	-	2,761	10	2,000	429	-	2,429	332
Other equipment	470,813	2,727 31,565*	-	-	505,105	10	372,752	16,809	-	389,561	115,544
Capital spares	7,938,602	588,569 (7,122)	-	25,730 (64)	8,545,715	3.85-4.55	2,821,389	512,852 (5,669)	(64)	3,328,508	5,217,207
	94,469,228	1,523,249 45,453* (167,203)	4,914,805	2,054,691 ** 12,307,648 *** (734,471)	114,413,400		30,371,124	6,695,536 1,100,743 *** (136,542)	(525,850)	37,505,011	76,908,389
Leased											
Aircraft fleet (notes 3.1.4)	70,624,859	12,391,267*	- 9,946,869	1,035,091**	93,998,086	4.55	9,740,833	3,885,767	-	13,626,600	80,371,486
Vehicles - Motor Transport	124,008	1,878 (17,888)	-	-	107,998	25	108,804	6,808 (15,561)	-	100,051	7,947
Vehicles - Technical Ground Service	84,430	-	-	-	84,430	10-20	32,202	7,599	-	39,801	44,629
	70,833,297	1,878 12,391,267* (17,888)	9,946,869	1,035,091 **	94,190,514		9,881,839	3,900,174 (15,561)	-	13,766,452	80,424,062
	165,302,525	1,525,127 12,436,720* (185,091)	14,861,674	3,089,782 ** 12,307,648 *** (734,471)	208,603,914		40,252,963	10,595,710 1,100,743 *** (152,103)	(525,850)	51,271,463	157,332,451

** Represents adjustments in respect of overhauling of engines.

***Represents adjustments in respect of foreign currency translations.

	Cost / Revalued Amount					Accumulated Depreciation				Written Down Value
	As at January 01, 2007	Additions/ (disposals)	Revaluation/ * Adjustment/ ** (write-off)	As at December 31, 2007	Annual depreciation rate	As at January 01, 2007	For the year/ (on disposals)	Revaluation/ * Adjustment/ ** (write-off)	As at December 31, 2007	As at December 31, 2007
	(Rupees in '000)				%	(Rupees in '000)				
December 31, 2007										
Owned										
Leasehold land	66,821	313	-	67,134	-	-	-	-	-	67,134
Buildings on leasehold land	1,072,608	45,975	-	1,118,583	2.5	362,658	28,538	-	391,196	727,387
Hotel Property	24,320,909	49,595	12,658,295 * 790,450 **	37,819,249	-	2,233,513	473,045	-	2,706,558	35,112,691
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	- (1,525)	566,928	20	412,506	43,571	- (1,525) **	454,552	112,376
Aircraft fleet (note 3.1.4)	27,362,335	3,226,351 (585,035)	643,678 * 4,362,652 **	35,009,981	8.85-4.55	14,173,656	2,051,635 (585,035)	-	15,640,256	19,369,725
Operating ground equipment, catering, communication and meteorological equipment	514,683	117,057 (3,368)	-	628,372	10	364,146	30,827 (3,350)	-	391,623	236,749
Engineering equipment and tools	1,043,160	135,275	- (804)	1,177,631	10-20	869,721	56,841	- (804) **	925,758	251,873
Traffic equipment	1,703,811	74,122 (4,042)	-	1,773,891	10-20	1,166,790	67,548 (3,638)	-	1,230,700	543,191
Furniture, fixture and fittings	4,178,808	378,616 (247,732)	232,911 **	4,542,603	10	2,556,101	257,825 (164,713)	(82,700) *	2,566,513	1,976,090
Motor transport	212,323	23,445 (6,925)	-	228,843	25	166,783	15,073 (4,913)	-	176,943	51,900
Office equipment	77,845	1,684 (746)	-	78,783	15	66,844	3,274 (689)	-	69,429	9,354
Computer and office automation	1,285,583	80,422	(477)	1,365,528	10-20	966,485	114,479	- (477) **	1,080,487	285,041
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	-	- (224)	12,395	10	12,618	-	- (224) **	12,394	1

	Cost / Revalued Amount					Accumulated Depreciation				Written Down Value
	As at January 01, 2007	Additions/ (disposals)	Revaluation/ * Adjustment/ ** (write-off)	As at December 31, 2007	Annual depreciation rate	As at January 01, 2007	For the year/ (on disposals)	Revaluation/ * Adjustment/ ** (write-off)	As at December 31, 2007	As at December 31, 2007
	(Rupees in '000)				%	(Rupees in '000)				
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 (3,748)	- (80)	470,813	10	363,042	12,017 (2,227)	- (80) **	372,752	98,061
Capital spares	6,834,108	1,200,573 (1,729)	- (94,350)	7,938,602	8.85-4.55	2,493,084	395,706 (1,729)	(65,672) **	2,821,389	5,117,213
	71,272,049	5,459,978 (853,325)	13,301,973 * 5,386,013 ** (97,460)	94,469,228		27,719,485	3,569,415 (766,294)	(82,700) * (68,782) **	30,371,124	64,098,104
Leased Aircraft fleet (notes 3.1.4, 3.1.5, 3.1.6, 3.1.7 & 3.1.8)	59,303,016	10,488,247	229,045 * 604,551 **	70,624,859	4.55	6,999,464	2,741,369	-	9,740,833	60,884,026
Vehicles - Motor Transport	130,142	- (6,134)	-	124,008	25	103,854	9,026 (4,076)	-	108,804	15,204
Vehicles - Technical Ground Service	84,430	-	-	84,430	10-20	24,603	7,599	-	32,202	52,228
	59,517,588	10,488,247 (6,134)	229,045 * 604,551 **	70,833,297		7,127,921	2,757,994 (4,076)	-	9,881,839	60,951,458
	130,789,637	15,948,225 (859,459)	13,531,018 * 5,990,564 ** (97,460)	165,302,525		34,847,406	6,327,409 (770,370)	(82,700) * (68,782) **	40,252,963	125,049,562

3.1.1 Leasehold land and buildings thereon

These represent leasehold land and buildings owned by the Holding Company. These are freely transferable and can be disposed off as and when required.

During the current year, a revaluation exercise was organised by the Holding Company, which was carried out by the following independent valuers:

- International Consultant & Machinery Linkers, based in Pakistan;
- Narendar Consultant and Subash Shah & Associates, based in India;
- Streck Real Estate BV, based in the Netherlands; and
- Jon Phillip Mason, based in United States of America.

The revaluations resulted in surplus on leasehold land and buildings thereon of Rs.3,360 million and Rs.3,026 million over their written down values of Rs.44.17 million and Rs.155.33 million, respectively.

The fair values were determined with reference to market based evidence, based on active market prices, adjusted for any difference in nature, location or condition of the specific property.

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

	Cost	Accumulated depreciation	Book value
	---------------Rupees in '000---------------		
Lands - owned	**44,166**	**-**	**44,166**
Buildings - owned	**258,848**	**103,518**	**155,330**
	303,014	**103,518**	**199,496**

3.1.2 Others lands and buildings thereon

Lands and buildings classified as Others comprise properties in possession of the Holding Company, which are not saleable or transferable.

Lands classified as Others are amenity plots or those with restrictions on the transferability of title, as these were allotted at below market prices. Included herein are amenity plots, aggregating to Rs.21.48 million and non transferable plots, aggregating to Rs.1.37 million.

Buildings on Other lands are constructed on amenity plots, non transferable plots and licensed plots from Civil Aviation Authority (CAA). Included herein are amenity plots, aggregating to Rs.30.92 million, buildings on non transferable plots, aggregating to Rs.21.17 million and buildings on licensed (CAA) lands aggregating to Rs.492.25 million.

3.1.3 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, as amended from time to time. The agreement provides for a base management fee, calculated at 1.20% of gross operating revenues per year, and an incentive management fee, calculated at 14.50% of net operating income, as defined in the agreement. This amended agreement will expire in January 2012, unless earlier terminated.

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 31 December 2008 is Rs.27.62 billion (US$ 350,000,000). The carrying value of the land, building, improvements, furniture, fixtures and equipment at 31 December 2008 amounted to Rs.31.50 billion (US$ 39,919,700) and, accordingly, Rs.38.82 billion (US$ 49,197,000) has been credited to revaluation surplus account.

The revised carrying value of Rs.11.48 billion (US$ 145,542,095) for land is not depreciated and the value of building and improvements of Rs.15.68 billion (US$ 198,777,416) is being amortized over 28 years and 4 months period beginning in January 2009. The carrying value of furniture and equipment of Rs.45.21 billion (US$ 5,730,610) is being amortized over 7 years.

The historical costs of building and improvements are being depreciated over a period ranging between of 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, 2008, 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	10,411,293	3,133,786	7,277,507
Furniture and equipment	1,916,377	1,721,199	195,178

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.7.58 billion (Euro 83,500,000).

This value has been apportioned between land amounting to Rs.1.28 billion (Euro 20,875,000) and buildings amounting to Rs.3.85 billion (Euro 62,625,000). The value assigned to land is not amortized and other building value is being amortized over a period of 30 years.

Another valuation of the property was carried out in December 2008 by an independent appraiser Deloitte. The appraiser determined that the value of fee simple interest in the property as on October 2006 amounted to Euro 140 million equivalents to US $194.84 million. The carrying value of land, building and improvements and furniture and equipment at December 31, 2008 amounted to Rs.14.69 billion (US$ 186.20 million) and, accordingly, the resulting difference of Rs.6.82 billion (US$ 8.64 million) was credited to revaluation reserve.

The carrying amount of the assets as at December 31, 2008, if the assets had been carried at historical cost, would have been as follows:

	Cost	Accumulated depreciation	Book value
	----------------Rupees in '000----------------		
Land, buildings and improvements	8,599,845	1,609,752	6,990,093
Furniture and equipment	2,524,211	1,320,556	1,203,655

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

Assets	Year
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

3.1.4 Aircraft fleet

During the current year, the aircraft fleet of the Holding Company was revalued by an independent valuer, Ascend Worldwide Limited (Airclaims Limited - UK), on the basis of professional assessment of current market values as of December 31, 2008. 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 into account the expressed views of informed industry sources.

The appraiser 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 then been 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.

Ascend Worldwide Limited reviewed the useful lives of the aircraft and these have been estimated as follows:

	2008							
	Boeing						Air Bus	ATR
	737-300	747-200	747-300	777-200 ER	777-200 LR	777-300 ER	A310-300	
Airframe	25	22	22	26	25	24	25	23
Engine	25	22	22	26	25	24	30	23
Other component	25	22	22	26	25	24	25	23

	2007					
	Boeing				Air Bus	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

3.1.5 Had there been no revaluation, the written down values of the revalued aircraft fleet in the balance sheet would have been as follows:

	Cost	Accumulated depreciation	Book value
	---Rupees in '000---		
Aircraft fleet - 2008	**120,124,581**	**31,569,993**	**88,554,588**
Aircraft fleet - 2007	92,250,503	20,082,394	72,168,109

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

	Note	December31 2008	December31 2007
		Rupees in '000	
Cost of services - others	29	**11,490,349**	6,105,680
Distribution costs	30	**72,440**	69,111
Administrative expenses	31	**133,664**	152,618
		11,696,453	6,327,409

3.1.7 Included in "operating fixed assets" is one Fokker and other fixed assets, costing Rs.100.30 (2007: Rs.100.30) million and Rs.4,972 (2007: Rs.4,321) million, respectively, which are fully depreciated.

3.1.8 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---------------			
Motor vehicles						
To employees						
Toyota Corolla (AKT-462)	Mr. Iftikhar Gul, P-61800	As per Corporation's policy	969	545	424	680
Toyota Corolla (GA-6412)	AVM Mohd Rafi, P-61897	-------do------	969	327	642	674
Honda City (AMF-462)	Mr. Zahid Afridi, P-26276	-------do------	846	174	672	614
Honda City (GA-9872)	Mr. M. Alamzaib Afridi, P-26283	-------do------	795	715	80	-
Honda City (GA-4812)	Mr. Shahid Sarwar P-45892	-------do------	735	661	74	74
Honda City (GA-4799)	Mr. Arif Sultan, P-29804	-------do------	735	662	73	-
Honda City (GA-4811)	Mr. Mehmood, P-56797	-------do------	735	661	74	-
Honda City (GA-4790)	Mr. Fazal Ahmed , P-30421	-------do------	735	661	74	-
Honda City (GA-4813)	Mr. M. Haneef Phatan, P-44403	-------do------	735	661	74	74
Honda City (GA-4756)	Mr. Karimuddin Ahmed P-43909	-------do------	735	661	74	-
Honda City (GA-4758)	Mr. Junaid Soophi, P-38551	-------do------	735	662	73	-
Honda City (GA-4817)	Mr. Abdul Aziz Sangi, P-46240	-------do------	735	662	73	-
Honda City (GA-8929)	Captain Jawed Younis, P-38191	-------do------	735	661	74	74
Toyota Corolla (GA-8559)	Mr. Shah Nawaz Rehman, P-32721	-------do------	939	846	93	94
Toyota Corolla (GA-9200)	Mr. Nadeem Ikram, P-56805	-------do------	939	845	94	-
Toyota Corolla (GA-8725)	Mr. Kamran Hasan, P-32444	-------do------	939	846	93	94
Honda City (AHW-623)	Mr. Shahrzad Aminullah, P-61281	-------do------	835	585	250	307
Toyota Corolla (AAH-908)	Mr. Waseem Bari, P-22185	-------do------	969	678	291	-
Honda City (AJG-026)	Mr. Zaheer Hayat Khan , P-26290	-------do------	835	480	355	-
Toyota Corolla (GA-9525)	Mr. Muddassir Asghar P-52660	-------do------	939	939	-	-
Honda City (AJG-4763)	Mr. Khaqan Ibrahim, P-42620	-------do------	735	662	73	73
Honda City (LRD-5509)	Mr. Javed Kamran, P-30387	-------do------	735	661	74	13
Honda City (GA-8487)	Mr. Ghazanfar Mashkoor P-31786	-------do------	735	661	74	74
Toyota Corolla (GA-8662)	Mr. Anwar Rasool Khan, P-26101	-------do------	939	845	94	94
Toyota Corolla (GA-9524)	Mr. Arif Majeed, P-30702	-------do------	939	846	93	93
Various *						
Aggregate value of items where written down value (WDV) is above Rs.50,000	Various	-------do------	30,049	24,655	5,394	184,787
WDV is less than Rs.50,000	Various	-------do------	31,475	28,547	2,928	23,927
	Total	2008	82,196	69,809	12,387	211,746
		2007	859,459	770,370	89,089	193,671

* 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 operating fixed assets is made through the disposal committee, in accordance with the prescribed procedures.

3.2 Capital work-in-progress

	December 31 2008	December 31 2007
	Rupees in '000	
Buildings on leasehold land	**6,794**	25,883
Other equipment	**858,930**	757,730
Renovation and improvements	**89,086**	86,699
Non-refundable advances against the purchase of aircraft and related equipment	**11,979,863**	10,823,084
	12,934,673	11,693,396
Less: Transfer to operating fixed assets	**12,436,720**	4,268,076
Items written off	**19,083**	4,062
	12,455,803	4,272,138
	478,870	7,421,258

4. INTANGIBLES

	Cost				Accumulated Amortisation			Written Down Value
	As at January 01, 2008	Addition/ Translation adjustment	As at December 31, 2008	Annual amortisation years	As at January 01, 2008	For the year	As at December 31, 2008	As at December 31, 2008
	---Rupees in '000---				---Rupees in '000---			
December 31, 2008								
Computer software	**239,396**	**33,650**	**273,046**	**5-10**	**135,921**	**23,971**	**159,892**	**113,154**
Lease land acquisition premium	**50,778**	**-**	**50,778**	**30**	**11,848**	**1,693**	**13,541**	**37,237**
Goodwill	**2,027,062**	**670,120**	**2,697,182**		**102,350**	**-**	**102,350**	**2,594,832**
	2,317,236	**33,650**	**3,021,006**		**250,119**	**25,664**	**275,783**	**2,745,223**
		670,120*						

	Cost				Accumulated Amortisation			Written Down Value
	As at January 01, 2007	Addition/ Translation adjustment	As at December 31, 2007	Annual amortisation years	As at January 01, 2007	For the year	As at December 31, 2007	As at December 31, 2007
	---Rupees in '000---				---Rupees in '000---			
December 31, 2007								
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
Goodwill	1,976,803	50,259*	2,027,062	-	102,350	-	102,350	1,924,712
	2,176,404	50,259*	2,317,236		203,676	46,443	250,119	2,067,117
		90,573						

4.1 Amortisation charge for the year has been allocated as under:

	Note	December31 2008	December31 2007
		Rupees in '000	
Cost of services - others	29	**4,069**	13,788
Distribution costs	30	**1,706**	1,604
Administrative expenses	31	**19,889**	31,051
		25,664	46,443

5. LONG TERM INVESTMENTS

Investments in related parties

	Note	2008	2007
Associate - unquoted	5.1	**58,651**	64,346
Joint venture -unquoted	5.2	**2**	2
		58,653	64,348
Share in post acquisition losses		**-**	(2)
		58,653	64,346
Other investments	5.3	**81,532**	124,119
		140,185	188,465

5.1 Associate – unquoted

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

Name of associate	Note	Country of incorporation/ listing	Date of financial year end	Total Assets	Total Liabilities	Net Assets	Share of Net assets	Revenues	Interest held %
				Rupees in '000					
2008									
Minhal Incorporated		Sharjah	December 31	150,081	3,454	146,627	58,651	75	40
2007									
Minhal Incorporated		Sharjah	December 31	116,994	3,193	113,801	45,521	40,001	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	Note	Country of incorporation/ listing	Date of financial year end	Total Assets	Total Liabilities	Net Assets	Share of Net assests	Revenues	Interest held %
				Rupees in '000					
2008									
Abacus Distribution System Pakistan (Private) Limited		Pakistan	December 31	104,355	107,793	(3,438)	(1,547)	226,778	45
2007									
Abacus Distribution System Pakistan (Private) Limited		Pakistan	December 31	81,275	83,953	(2,678)	(1,205)	159,871	45

5.3 Other investments

	Note	December31 2008	December31 2007
		Rupees in '000	
Available for sale	5.3.1	**74,829**	98,930
Held to maturity	5.3.2	**6,703**	25,189
		81,532	124,119

5.3.1 Available for sale

	December31 2008	December31 2007
Quoted		
Pakistan Services Limited		
172,913 (2007: 172,913) Ordinary shares of Rs.10 each, having a market value of Rs.431 per Ordinary share of Rs.10 each (2007: Rs.570)	**74,460**	98,561
Unquoted		
Pakistan Tourism Development Corporation Limited		
10,000 (2007: 10,000) Ordinary shares of Rs.10 each	**100**	100
Duty Free Shops Limited - Pakistan		
87,512 (2007: 87,512) Ordinary shares of Rs.100 each Equity held 11.31% (2007: 11.31%)	**269**	269
	74,829	98,930

5.3.2 Held to maturity

	Note	December31 2008	December31 2007
Promissory notes issued by the Nigerian Government		**32,343**	44,147
Current maturity thereof shown under short term investments	14	**(25,640)**	(18,958)
		6,703	25,189

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 has 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.841.55 million (US$10,666,666) [company's share Rs.412.384 million (US$5,226,666)] have not been considered as these amounts have been spent without authorization from the company.

A notice of arbitration was served on Sheikh Hamdan's estate by PIA Investments Limited - a subsidiary 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 July 12, 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 AI 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	December31 2008	December31 2007
		Rupees in '000	
Long term loans	7.1	**7,629**	7,967
Long term advances		-	125
Other receivable - pension fund	23.4	-	1,283,000
		7,629	1,291,092

7.1 Long term loans - unsecured

	Note	2008	2007
Employees		**11,849**	11,534
Current maturity shown under short term loans	11	**(4,220)**	(3,567)
		7,629	7,967

The loans carry interest at the rate of 12% to 20% (2007: 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.12.28 (2007: Rs.14.33) million. There are no loans to directors, chief executive officers and other executives.

8. LONG TERM DEPOSITS AND PREPAYMENTS

	Note	December 31 2008	December 31 2007
		Rupees in '000	
Deposits			
Aircraft fleet lease deposits		**3,069,478**	2,314,125
Engine maintenance		**72,551**	56,505
Rent		**59,096**	31,489
Utilities		**14,508**	13,162
Aircraft fuel		**8,276**	6,984
Guarantee deposit		**4,450**	3,610
Occupancy coefficient		**12,502**	10,993
Others		**126,278**	96,953
		3,367,139	2,533,821
Prepayments			
Finance fee	8.1	**58,999**	58,606
Rental commission		**29,940**	29,760
Rental income	8.2	**53,692**	37,454
Exposure fee to support financing	8.3	**1,893,412**	1,805,498
Others		**-**	555
		2,036,043	1,931,873
Current portion shown under short term prepayment	12.1	**(229,602)**	(222,991)
		5,173,580	4,242,703

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. This fee is adjusted against future lease rentals of leased aircraft fleet (note 21).

9. STORES AND SPARE PARTS

	Note	2008	2007
Stores		**974,157**	883,747
Spare parts		**4,451,179**	3,986,246
		5,425,336	4,869,993
Provision for slow moving stores and spares parts	9.1	**(2,216,611)**	(1,930,145)
		3,208,725	2,939,848
Inventory held for disposal	9.2	**2,207,092**	2,207,092
Adjustment to write down surplus inventory to net realizable value		**(1,944,539)**	(1,944,539)
Disposal during the year		**(9,694)**	-
		252,859	262,553
Stores and spare parts in-transit		**302,692**	83,769
		3,764,276	3,286,170

9.1 Movement in provision is as follows:

	Note	December 31 2008	December 31 2007
		Rupees in '000	
Balance at the beginning of the year		1,930,145	1,604,338
Provision written back		-	(8,712)
Provision made during the year	29	286,466	334,519
		2,216,611	1,930,145

9.2 This includes inventory held with a foreign third party, aggregating Rs.1,945 (2007: Rs.1,945) million for sale in the open market.

10. TRADE DEBTS

	Note	2008	2007
Considered good		6,190,561	5,395,745
Considered doubtful		740,655	721,000
Provision against debts considered doubtful	10.1	(740,655)	(721,000)
		-	-
		6,190,561	5,395,745

10.1 Movement in provision is as follows:

	Note	2008	2007
Balance at the beginning of the year		721,000	455,000
Provision written back		(67,000)	(136,211)
Provision made during the year	32	86,655	402,211
		740,655	721,000

10.2 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.

11. SHORT TERM LOANS AND ADVANCES

	Note	2008	2007
Loans - unsecured			
Current maturity of long-term loans			
Employees	7.1	4,220	3,567
Advances - secured			
Due from related party		37,881	22,445
		42,101	26,012
Others			
Employees		224,781	154,361
Suppliers		961,815	363,538
CAA		143,835	-
Others		6,716	5,989
		1,337,147	523,888
Considered doubtful		31,700	31,319
Provision for advances considered doubtful	11.1	(31,700)	(31,319)
		-	-
		1,379,248	549,900

11.1 Movement in provision is as follows:

	Note	December31 2008	December31 2007
		Rupees in '000	
Balance at the beginning of the year		**31,319**	28,985
Provision made during the year	32	**381**	2,334
		31,700	31,319

12. TRADE DEPOSITS AND PREPAYMENTS

	Note	2008	2007
Trade deposits		**47,059**	42,866
Prepayments	12.1	**1,641,180**	1,215,114
		1,688,239	1,257,980

12.1 Prepayments

	Note	2008	2007
Current portion of long term prepayment	8	**229,602**	222,991
Commission to agents		**853,244**	340,657
Interest on leased aircraft		**324,086**	340,667
Insurance		**129,789**	68,742
Rent		**7,562**	240,048
Others		**96,897**	2,009
		1,641,180	1,215,114

13. OTHER RECEIVABLES

	Note	2008	2007
Considered good			
Insurance and other claims		**189,305**	312,261
Excise duty	27.1(b)	**100,000**	100,000
Sales tax		**150,643**	258,609
Receivables against commercial development of land	13.1	**180,465**	122,696
Receivables against manufacturers' credits		**-**	119,450
Receivable from the GoP	13.2	**738,473**	-
Others		**264,758**	257,850
		1,623,644	1,170,866
Considered doubtful		**30,257**	30,257
Provision for receivables considered doubtful		**(30,257)**	(30,257)
		-	-
		1,623,644	1,170,866

13.1 This includes Rs.57,891 million (US$733,732) receivable from Pakistan Cricket Board (PCB) formerly Board of Cricket Control in Pakistan (BCCP) on account of various payments made during 1980 to 1981 and 2008 in terms of an agreement dated October 07, 1980 and October 11, 2007 between PIAIL - a subsidiary Company and the PCB for commercial development of land 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.

PIAIL - a subsidiary 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 PIAIL 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.

13.2 This represents maintenance and other charges incurred during the year, in respect of aircraft owned by the GoP.

14. SHORT TERM INVESTMENTS

	Note	December31 2008	December31 2007
		Rupees in '000	
Held to maturity			
Current portion of other investment	5.3.2	**25,640**	18,958
Held for trading			
Bred Institution			
13 Ordinary shares (2007: 29 Ordinary shares)		**55,472**	150,678
Unquoted			
SITA INC N.V.			
325,491 Ordinary shares (2007: 325,491 Ordinary shares)	14.1	**19,220**	19,220
Provision for diminution in the value of investment	14.2	**(2,355)**	(6,085)
		16,865	13,135
		97,977	182,771

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

14.2 Movement in provision is as follows:

	2008	2007
Balance at the beginning of the year	**6,085**	6,221
Provision written back during the year	**(3,730)**	(136)
	2,355	6,085

15. CASH AND BANK BALANCES

	Note	2008	2007
In hand		**9,642**	8,973
In transit		**186,181**	68,862
		195,823	77,835
With banks			
In current accounts		**2,921,859**	2,218,401
In short term deposit accounts	15.1	**942,183**	1,936,944
		3,864,042	4,155,345
		4,059,865	4,233,180

15.1 These carry interest, ranging between 11% to 15% (2007: 10% to 13%) per annum, having maturity of 3-4 months.

16. SHARE CAPITAL

No. of shares December31 2008	No. of shares December31 2007		December31 2008	December31 2007
			Rupees in '000	
		Authorized capital		
		Ordinary share capital		
2,949,250,000	2,949,250,000	'A' class shares of Rs.10 each	**29,492,500**	29,492,500
1,500,000	1,500,000	'B' class shares of Rs.5 each	**7,500**	7,500
2,950,750,000	2,950,750,000		**29,500,000**	29,500,000
		Preference share capital		
50,000,000	50,000,000	Preference shares of Rs.10 each	**500,000**	500,000
3,000,750,000	3,000,750,000		**30,000,000**	30,000,000
		Issued, subscribed and paid up share capital		
		Ordinary share capital		
		'A' class shares of Rs.10 each		
1,906,685,874	1,852,191,870	Issued for consideration in cash (note 16.1)	**19,066,859**	18,521,919
		Issued for consideration other than cash		
931,028	931,028	- for acquisition of shares	**9,310**	9,310
233,934,482	233,934,482	Issued as bonus shares	**2,339,345**	2,339,345
2,141,551,384	2,087,057,380		**21,415,514**	20,870,574
		'B' class shares of Rs.5 each		
1,003,374	1,003,374	Issued for consideration in cash	**5,017**	5,017
		Issued for consideration other than cash		
2,625	2,625	- for acquisition of shares	**13**	13
494,000	494,000	Issued as bonus shares	**2,470**	2,470
1,499,999	1,499,999		**7,500**	7,500
			21,423,014	20,878,074

16.1 Under the terms of the financial package, as discussed in note 1, a sum of Rs.544.94 (2007: Rs.1,404) million was received from the GoP as equity contribution. Accordingly, 54,494,004 Ordinary shares of Rs.10 each (2007: 140,444,307 Ordinary shares of Rs.10 each) have been issued to the GoP during the current year.

16.2 The GoP held 1,931,397,849 and 1,462,515 'A' class Ordinary shares and 'B' class Ordinary shares, respectively, (2007: 1,876,903,846 and 1,462,515 'A' class Ordinary shares and 'B' class Ordinary shares respectively) at the close of the current year.

17. RESERVES

	Note	2008	2007
Capital reserves			
Reserve for replacement of fixed assets	17.1	**1,966,779**	1,966,779
Capital redemption reserve fund		**250,000**	250,000
Others		**284,259**	284,259
		2,501,038	2,501,038
Revenue reserve		**1,779,674**	1,779,674
		4,280,712	4,280,712
Unrealized gain on remeasurement of investments		**73,265**	97,366
Accumulated losses		**(71,016,296)**	(36,029,644)
Foreign exchange translation reserve		**(602,014)**	2,116,441
Other reserves		**(95,139)**	-
		(71,640,184)	(33,815,837)
		(67,359,472)	(29,535,125)

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 - 1990, 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

	December31 2008	December31 2007
	Rupees in '000	
Surplus on revaluation of fixed assets - Group	**28,208,232**	10,009,693
Surplus on revaluation of fixed assets - Minority	**284,932**	180,364
	28,493,164	10,190,057

19. LONG TERM FINANCING – SECURED

Financier	Type of facility	Limit (Rupees in million)	Repayment year	Number of Instalments/ mode	Mark-up %	December 31, 2008	December 31, 2007
						(Rupees in '000)	
From Banking Companies							
United Bank Limited (notes 19.1 and 19.2)	Syndicate Finance	1,650	2005-2010	6 half-yearly	6 months KIBOR + 0.79%	**675,458**	1,215,825
Citibank / DVB Bank (notes 19.3 and 19.4)	Syndicate Finance	6,603	2006-2008	Bullet	1 month LIBOR + 0.77%	**-**	3,184,462
Habib Bank Limited (note 19.5)	Demand Finance	530	2006-2009	36 monthly	1 month KIBOR + 1.50%	**88,333**	267,000
Citibank N.A (notes 19.6 and 19.7)	Demand Finance	6,285	2006-2017	20 half-yearly	5.28% fixed	**5,261,363**	4,599,184
Habib Bank Limited (note 19.8)	Demand Finance	200	2006-2009	36 monthly	1 month KIBOR + 1.75%	**55,556**	122,222
Royal Bank of Scotland (note 19.9)	Demand Finance	4,543	2009-2013	19 quarterly	3 months LIBOR + 1.60%	**4,339,396**	3,132,458
National Bank of Pakistan/ Habib Bank Limited (note 19.10)	Syndicate Finance	11,969	Bullet	1 Bullet	3 months LIBOR + 1.325%	**9,468,000**	7,374,000
Standard Chartered Bank DXB (note 19.11)	Demand Finance	3,025	2007-2009	12 quarterly	3 months LIBOR + 1.325%	**1,643,750**	2,304,375
National Bank of Pakistan (note 19.12)	Demand Finance	500	2007-2010	12 quarterly	3 months KIBOR + 1.50%	**333,333**	500,000
National Bank Bahrain (note 19.13)	Demand Finance	3,400	2008-2010	24 monthly	6 months LIBOR + 2.55%	**2,958,750**	-
JP Morgan Chase (note 19.13)	Loan	6,087	2006-2009	variable	6.025%pa	**7,624,947**	5,938,567
JP Morgan Chase (notes 19.14,19.15 & 19.16)	Mezzanine Finance	3,652	2006-2009	variable	6.025%pa	**4,734,000**	3,687,000
Hong Kong Shanghai Banking Corporation	Loan	2,362	2004-2012	variable	3 months EURIBOR +1.15%	**2,892,562**	2,515,190
						40,075,448	34,840,283
Current maturity shown under current liabilities						**(5,649,136)**	(5,845,349)
						34,426,312	28,994,934

19.1 The 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 The 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 up to sale value of Rs.693.70 million.

19.6 The 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 guarantee.

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 bank to finance 15% balance of the purchase price of two B777-300 aircraft acquired from the Boeing company.

This finance is secured against the GoP guarantee.

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

19.11 Three years term finance secured against the GoP Guarantee.

19.12 Three years term finance against the receivables in connection with the PIAC ticket sales.

19.13 Three year loan where the bank will have a lien over the initial collection account and all collections received subsequently for ticket sales and cargo services in favour of the bank.

19.14 On September 8, 2006, the Roosevelt Hotel Corporation (RHC) Operation LLC entered into loan agreement and three mezzanine loan agreements in the amount of $ 96,640,641 and $ 60,000,000 ($20,000,000 each) respectively. The loan agreement mature on November 9, 2009 with an option for two 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 2008 and 2007). The carrying value of the loans payable to banks approximates the fair value of these instruments.

19.15 RHC Operating LLC has entered into an interest cap agreement with the intent of managing its exposure to interest rate risk. This interest rate cap agreement, with a notional amount of approximately US $ 157 million expires on November 9, 2009 and effectively caps the variable rate debt at a maximum rate of 7% per annum. The cost of interest rate cap was US $ 24,000. 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 determined the fair value of this derivative at December 31, 2008 approximates the carry value.

19.16 The loan from HSBC CCF includes a loan of Euro 16,267,353 refinanced on March 22, 2008 and an additional loan of Euro 600,000 obtained at that time by Minhal France S.A. The loan was initially obtained to partially finance the acquisition of Scribe Gestion and Canadian National France. The refinanced loan matures on May 13, 2017. The loan bears interest at a variable rate indexed on the EURIBOR plus 1.15%. Further during 2006 the Company obtained a loan of Euro 12,000,000 for renovation works. The loan matures on May 13, 2017. The loan bears interest at a variable rate indexed on the EURIBOR three month plus 1.15%. The loans are secured by mortgage on the building located at 1 rue Scribe amounting to Euro16,867,353 plus 10% for associated costs and Euro 12 million plus 10% for associated costs. There is a first ranking pledge of MFSA's goodwill 'Fond de Commerce' for a total amount of Euro 12 million plus 10% related to associated costs and a third ranking pledge of MFSA's goodwill 'Fond de Commerce' for a total amount of Euro 16,867,353 plus 10% related to associated costs. The Banks also hold a pledge on the MFSA's cash account

19.17 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.1.07 billion (Euro 11.80 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.14.53 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.

19.18 All the aforementioned charges have not been registered with the Securities and Exchange Commission of Pakistan (SECP).

20. Term Finance Certificates (TFCs)

	December31 2008	December31 2007
	Rupees in '000	
TFCs - secured (non participatory)	12,430,143	13,246,970
Current maturity	-	(2,523,232)
	12,430,143	10,723,738

During the current year, the Board of Directors of the Holding Company decided to restructure TFCs, in coordination with the Ministry of Finance (MoF), as duly approved by the Ministry in a financial restructuring plan, vide their letter no. F.No.4 (4) (F-111/2006-336), dated February 22, 2007.

In accordance with the said plan, the Holding Company has replaced its existing TFCs aggregating to the original face value of Rs.15,140 million, with newly issued TFCs, aggregating to Rs.12,430 million, carried at after the redemption of Rs.816.83 million. The plan was executed after obtaining waivers on account of early redemption from the majority of TFCs holders. The Holding Company has not classified any amount under current maturity as the same has been deferred for a period of 2 years. However, interest accrued on the same is based on revised rates as shown in note 25 to these financial statements. The aforesaid TFCs have been issued subsequent to the period on February 20, 2009.

The salient features of the TFCs are as follows:

Installment payable:	Semi - annually in arrears
Repayment period:	2011-2013, 5 years including two years grace period (previously, 2003-2011)
Rate of profit:	6 months KIBOR plus 85 basis points with no floor and cap. (2007: 50 basis points above the base rate with a floor of 8.00% and a cap of 12.50% per annum. Average rate prevailed during the prior year was 10.50% 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 TFCs holders, Standard Chartered Bank has been appointed as the Trustee under the trust deed so that in case, the Holding Company defaults on any of its obligations, the Trustee may enforce the Holding Company's obligations in accordance with the terms of the trust deed. The proceeds of any such enforcement will be distributed amongst the TFCs holders, on a pari passu basis in proportion to the amounts owed to them.

The TFCs have an embedded call option for early redemption exercisable by the Holding Company at any time (2007: 24, 48 and 72 months from the date of issue) with a 30 (2007: 90) days notice period. The TFCs will be redeemed at a NIL premium (2007: 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.26,500 (2007: Rs.20,000) million approved by GoP and are secured against guarantees issued by the GoP.

21. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

	Note	December31 2008	December31 2007
		Rupees in '000	
Present value of future rental obligations - aircraft fleet			
A 310-300	21.2	5,845,881	5,149,590
B 777-200 ER	21.3	17,176,361	15,101,574
B 777-200 LR	21.4	16,682,976	14,156,116
B 777-300 ER	21.5	32,555,909	16,794,148
		72,261,127	51,201,428
Present value of future rental obligations - vehicles	21.6	16,392	47,091
- equipment		79,606	-
		72,357,125	51,248,519
Current portion thereof		(7,268,336)	(4,724,495)
		65,088,789	46,524,024

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

	2008			2007		
	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	**10,035,095**	**2,766,759**	**7,268,336**	7,210,461	2,485,966	4,724,495
Later than one year and not later than five years	**39,213,524**	**7,984,524**	**31,229,000**	28,040,174	7,418,773	20,621,401
Later than five years	**36,828,039**	**2,968,250**	**33,859,789**	29,212,634	3,310,011	25,902,623
	86,076,658	**13,719,533**	**72,357,125**	64,463,269	13,214,750	51,248,519

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:

	December31 2008	December31 2007
Discount rate	**5.2%**	5.2%
Lease period	**144 months**	144 months
Security deposit (Rupees in thousand)	**255,636**	199,098

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

Discount rate - two aircraft	**4.65%**	4.65%
Discount rate - one aircraft and spare engines	**Three months LIBOR**	Three months LIBOR
Lease period - aircraft	**144 months**	144 months
Lease period - spare engines	**96 months**	96 months
Security deposit (Rupees in thousands)	**748,319**	582,816

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:

Discount rate - aircraft and propulsor	**Three months LIBOR - 0.02%**	Three months LIBOR - 0.02%
Lease period - aircraft	**144 months**	144 months
Lease period - propulsor	**96 months**	96 months
Security deposit (Rupees in thousands)	**604,044**	470,450

21.5 In 2006, the Group 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 Royal Bank of Scotland. Salient features of the lease are as under:

	December31 2008	December31 2007
Discount rate - one aircraft	**5.25%**	5.25%
Discount rate - two aircraft	**Three months LIBOR - 0.04%**	Three months LIBOR - 0.04%
Lease period - aircraft	**144 months**	144 months
Lease period - engine	**96 months**	96 months
Security deposit (Rupees in thousands)	**830,309**	593,078

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

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

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

22. LONG TERM DEPOSITS

	Note	December31 2008	December31 2007
		Rupees in '000	
Deposits from agents		**115,500**	118,000
Retention money		**186,095**	202,579
Others		**307**	1,100
		301,902	321,679

23. DEFERRED LIABILITIES

	Note	2008	2007
Deferred custom duties		**123,205**	178,588
Deferred gratuity		**33,052**	49,102
Deferred taxation	23.1	**12,993,518**	11,571,497
Obligation for compensated absences	23.2	**1,689,000**	1,445,000
Post retirement medical benefits	23.3	**1,425,000**	1,425,578
Actuarial pension obligation	23.4	**6,000**	-
		16,269,775	14,669,765

23.1 Deferred taxation

	Note	December31 2008	December31 2007
		Rupees in '000	
Roosevelt Hotel Corporation, N.V	23.1.1	**8,462,762**	8,032,066
Minhal France, S.A	23.1.2	**4,524,165**	3,539,431
Skyroom (Private) Limited	23.1.3	**6,591**	-
		12,993,518	11,571,497

23.1.1 Roosevelt Hotel Corporation, N.V

The components of the net deferred tax liability are as follows:		
Excess of book over tax depreciation	**364,831**	305,224
Allowance for doubtful accounts	**3,939**	2,154
Alternative minimum tax credit	**-**	23,349
Net operating loss carry forward	**73,572**	57,561
Deferred tax asset excluding affect of revaluation surplus	**442,342**	388,288
Deferred tax liability relating to revaluation of land and building	**(8,905,104)**	(8,420,354)
	8,462,762	8,032,066

At December 31, 2006, the Roosevelt Hotel Corporation, N.V. has approximately $3,100,000 ($1,395,000 net of tax effect) of net operating loss carry forward for income tax purposes which expire at various dates through 2014.

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	**2,329,610**	1,945,273
Revaluation of land and building	**2,045,111**	1,494,019
Fiscal depreciation provision	**136,378**	89,285
Provision for major repairs	**18,337**	15,106
Employees pension plan	**(5,271)**	(4,252)
	4,524,165	3,539,431

During the year, the Group has 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.

23.1.3 Skyroom (Private) Limited

Deferred tax credits:		
Accelerated tax depreciation	**9,122**	2,293
Lease land acquisition premium	**9,479**	-
	18,601	2,293
Deferred tax debits:		
Provision against trade debts	**(114)**	(114)
Provision against other receivable	**(328)**	(328)
Provision for gratuity	**(11,568)**	(17,186)
	(12,010)	(17,628)
	6,591	(15,335)

23.2 Obligation for compensated absences

	December31 2008	December31 2007
	Rupees in '000	
Liability recognised in the balance sheet		
Balance at beginning of the year	**1,445,000**	1,284,000
Charge for the year	**244,000**	161,000
	1,689,000	1,445,000

23.2.1 Actuarial valuation of liability for compensated absences has been carried out at December 31, 2008. The valuation has been carried out, using the Projected Unit Credit Method and the following assumptions have been used:

	2008	2007
	Per annum	
Discount rate	**16.00%**	11.00%
Expected long term rate of increase in salary level	**13.79%**	8.90%
Utilization of leaves	As leave prior to retirement	

23.3 Post retirement medical benefits

	December31 2008	December31 2007
	Rupees in '000	
Liability recognised in the balance sheet		
Present value of defined benefit obligation	**1,425,000**	1,425,578
Movement in liability during the year		
Balance at the beginning of the year	**1,425,878**	1,353,000
Charge for the year	**133,000**	173,300
Payments made during the year	**(133,878)**	(100,722)
	1,425,000	1,425,578
Expense recognized in profit and loss account		
Current service cost	**27,000**	26,000
Past service cost	**33,000**	-
Interest cost	**150,000**	143,300
Net actuarial (gain) / loss recognized	**(77,000)**	4,000
	133,000	173,300

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

	2008	2007	2006	2005	2004
	--------- Rupees in '000 ---------				
Present value of benefit obligation	**1,425,000**	1,426,000	1,353,000	1,211,000	925,000

Actuarial valuation of post retirement medical benefit scheme was carried out at December 31, 2008. The valuation has been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2008	2007
	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	**10.48%**	5.70%
Expected rate of return on plan assets	**10.00%**	11.00%

Number of employees covered by the scheme as at December 31, 2008 was 11,477 (2007: 11,661).

23.4 Actuarial Pension obligation

	December31 2008	December31 2007
	Rupees in '000	
Asset recognized in the balance sheet		
Present value of defined benefit obligation	**(11,294,000)**	(10,241,000)
Less: Fair value of plan assets	**11,288,000**	11,524,000
	(6,000)	1,283,000
Expense recognized in profit and loss account		
Current service cost	**206,000**	222,000
Past service cost	**513,000**	1,000,000
Interest cost	**1,084,000**	(1,191,000)
Expected return on plan assets	**(1,118,000)**	468,000
Actuarial loss recognized - net	**702,000**	-
	1,387,000	499,000
Movement in asset during the year		
Balance at the beginning of the year	**1,283,000**	1,684,000
Charge for the year	**(1,386,864)**	(499,000)
Payments made during the year	**97,864**	98,000
	(6,000)	1,283,000
Actual return on plan assets	**460,000**	1,042,000
Movement in the defined benefit obligation		
Obligation as at January 1	**10,241,000**	9,466,000
Service cost	**206,000**	222,000
Interest cost	**1,084,000**	1,000,000
Benefits paid	**(794,000)**	(766,000)
Past service cost	**513,000**	-
Actuarial loss	**44,000**	319,000
Obligation as at December 31	**11,294,000**	10,241,000
Movement in fair value of plan assets		
Fair value as at January 1	**11,524,000**	11,150,000
Expected return on plan assets	**1,118,000**	1,191,000
Employer's contribution	**98,000**	98,000
Benefits paid	**(794,000)**	(766,000)
Actuarial loss	**(658,000)**	(149,000)
Fair value as at December 31	**11,288,000**	11,524,000

23.4.1 Actuarial valuation of pension funds was carried out at December 31, 2008. The valuation has been carried out using Projected Unit Credit method and the following significant financial assumptions have been used:

	2008	2007
	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	**10.48%**	5.70%
Expected rate of return on plan assets	**10.00%**	11.00%

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:

	2008	2007	2006	2005	2004
	---------- Rupees in '000 ----------				
Fair value of plan assets	**11,288,000**	11,524,000	11,150,000	10,891,000	10,910,000
Present value of benefit obligation	**11,294,000**	10,241,000	9,466,000	8,930,000	8,998,000
(Deficit) / Surplus	**(6,000)**	1,283,000	1,684,000	1,961,000	1,912,000
Experience adjustment:					
Actuarial loss / (gain) on obligation	**-**	3%	2%	0%	(1)%
Actuarial loss / (gain) on plan assets	**(6)%**	(1)%	(2)%	(2)%	(3)%

23.4.2 Number of employees covered by the scheme as at December 31, 2008 were 11,477 (2007: 11,661).

23.4.3 The fair value of plan assets include investments in the Group's shares, amounting to Rs.1,990 (2007: Rs.3.76) million.

23.4.4 Actuarial valuation of pension funds was carried out at December 31, 2008. The valuation has been carried out using Projected Unit Credit method and the significant financial assumptions have been used (refer note 22.2).

24. TRADE AND OTHER PAYABLES INCLUDING PROVISIONS

	December31 2008	December31 2007
	Rupees in '000	
Trade		
Creditors		
Goods	**6,147,945**	3,078,367
Services	**1,894,687**	2,729,197
Airport related charges	**902,115**	621,384
Others	**317,239**	355,463
	9,261,986	6,784,411
Other payables		
Accrued liabilities	**4,561,026**	4,506,500
Advance against transportation (unearned revenue)		
Normal	**6,895,273**	4,762,490
Hajj	**326,125**	1,342,673
	7,221,398	6,105,163
	21,044,410	17,396,074
Advances from customers	**358,046**	304,388
Amount due to related party	**146,635**	85,661
Advances and deposits	**189,284**	110,761
Earnest money	**2,237**	-
Payable to Employees' Provident Fund	**1,149,430**	201,800
Unclaimed dividend - Preference shares	**8,504**	8,507
Collection on behalf of others	**933,136**	802,273
Custom and central excise duty	**514,645**	507,662

	Note	December31 2008	December31 2007
		Rupees in '000	
Capital value tax		**953,544**	608,823
Income tax deducted at source		**89,674**	37,134
Provision for frequent flyer programme	24.1	**179,600**	99,776
Sales tax payable		**3,758**	4,052
Provision made to CAA claims		**1,500,000**	-
Bed tax		**13,987**	5,021
Payable to EOBI/SESSI		**6,230**	5,689
Provision for construction of University Road, Karachi	24.2	**-**	215,000
Short term deposits		**168,865**	149,332
Liabilities acquired from subsidiaries - net	24.3	**-**	18,690
Murabaha financing	24.4	**1,200,524**	921,751
Fair value of cash flow hedges	24.5	**192,725**	-
Others		**204,849**	169,978
		28,860,083	21,652,372

24.1 Provision for frequent flyer programme

Balance at the beginning of the year	**99,776**	61,664
Charge for the year	**79,824**	38,112
	179,600	99,776

24.2 Provision for construction of University Road, Karachi

Balance at the beginning of the year	**215,000**	215,000
Reversal made during the year	**(215,000)**	-
	-	215,000

24.3 The subsidiaries of the Group, 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 Group.

24.4 The Group has arranged a short term murabaha financing facility from a commercial bank for an aggregate sum of US$ 15.00 million equivalent to Rs.921.75 million. The said facility is secured against the promissory note issued by the Group, carrying mark-up at LIBOR + 1.25%.

24.5 As at December 31, 2008, the Group held fuel price hedge contracts with commercial banks, designated as cash flow hedges for highly probable forecast future transactions in respect of purchase of Jet fuel for certain operations.

During the year, net unrealized losses on the cash flow hedges, recognized in equity under other reserves, amounted to Rs.1,227 million out of which net realized losses of Rs.1,034 million have been transferred to aircraft fuel cost. Accordingly, net unrealized losses, amounting to Rs.125.27 million, net of deferred tax assets, amounting to Rs.67.45 million, relating to the hedge instrument, are included in equity as of the balance sheet date.

The notional value of financial instruments used as cash flow hedging instruments to hedge fuel price aggregates Rs.3,420 million having maturity latest by January 31, 2009.

	Note	December31 2008	December31 2007
		Rupees in '000	

25. ACCRUED INTEREST / MARK-UP / PROFIT

		2008	2007
On long term financing		**113,756**	164,177
On term finance certificates		**655,848**	506,833
On short term borrowings		**705,852**	307,307
		1,475,456	978,317

26. SHORT TERM BORROWINGS – SECURED

	Note	2008	2007
Short term loans	26.1	**27,183,250**	16,033,876
Running finances under mark-up arrangements	26.2	**3,316,812**	2,072,008
		30,500,062	18,105,884

26.1 Short term loans – secured

Financier	Security	Repayment period	Mark-up rate	December 31, 2008	December 31, 2007
				Rupees in '000	
From Banking Companies					
Habib Bank Limited	GoP Guarantee	3 months	1 month KIBOR + 0.65%	**2,000,000**	2,000,000
Habib Bank Limited	GoP Guarantee	1 year	1 month KIBOR + 0.90%	**1,600,000**	-
Habib Bank Limited	Charge over receivables	1 year	1 month KIBOR + 0.90%	**600,000**	-
Habib Bank Limited - NYC	Euro receivables	1 year	3 months LIBOR + 4.50%	**384,788**	-
United Bank Limited - Dubai	UAE Receivables	1 year	1 month LIBOR + 2.00%	**1,736,211**	1,359,997
United Bank Limited	GoP Guarantee	1 year	6 months LIBOR + 1.25%	**789,000**	-
Habib Allied Bank Limited - London	Euro Receivables	1 year	1 month LIBOR + 2.25%	**710,100**	553,050
Habib Allied Bank Limited - London	Euro Receivables	1 year	1 month LIBOR + 2.50%	**328,750**	-
United Bank Limited - Bahrain	UAE Receivables	1 year	1 month LIBOR + 2.25%	**1,030,381**	802,375
Habib Bank Limited	GoP Guarantee/ Domestic Receivables	1 year	1 month KIBOR + 0.65% - 2.00%	**2,850,000**	2,850,000
Standard Chartered Bank - Dubai	GoP Guarantee	1 year	3 months LIBOR + 2.00%	**3,578,115**	3,072,500
Standard Chartered Bank - Dubai	Remittance Routings	1 year	1 month LIBOR + 1.50%	**-**	553,050
Habib Bank Limited	Hypothecation charge over current assets/ Gop Guarantee	1 Year	3-6 months LIBOR + 0.25% - 1.25%	**-**	1,843,500
Standard Chartered Bank (Pakistan) Limited	GoP Guarantee	6 months	6 months KIBOR + 0.75%	**2,999,905**	2,999,404
National Bank of Pakistan	GoP Guarantee	1 Year	3 months KIBOR + 0.60%	**1,100,000**	-
National Bank of Pakistan	GoP Guarantee	1 Year	3 months KIBOR + 0.65%	**1,500,000**	-
United Bank Limited	GoP Guarantee	1 Year	3 months KIBOR + 0.50%	**976,000**	-
Habib Bank Limited	GoP Guarantee	1 Year	3 months KIBOR + 0.65%	**1,000,000**	-
Hong Kong Shanghai Bank Corporation	GoP Guarantee	1 Year	3 months KIBOR + 0.35%	**1,000,000**	-
Barclays PLC	GoP Guarantee	1 Year	3 months KIBOR + 0.65%	**1,000,000**	-
Askari Bank Limited	GoP Guarantee	1 Year	3 months KIBOR + 0.65%	**1,500,000**	-
KASB Bank Limited	GoP Guarantee	1 Year	3 months KIBOR + 0.65%	**500,000**	-
				27,183,250	16,033,876

26.2 Running finances under mark-up arrangements – secured

Financier	Security	Repayment period	Mark-up rate	December 31, 2008	December 31, 2007
				---------- Rupees in '000 ----------	
From Banking Companies					
United Bank Limited	First pari passu hypothecation charge over stock & trade debts	1 Year	1 month KIBOR + 2.00%	**2,505,112**	1,497,008
National Bank of Pakistan	First pari passu hypothecation charge over stock & trade debts	1 Year	1 month KIBOR + 1.25%	**575,000**	575,000
Habib Allied International Bank Limited - London	Receivables in Europe	1 Year	1 month LIBOR + 2.25%	**236,700**	-
				3,316,812	2,072,008

The rate of mark-up ranges between 15.30 % and 16.10 % (2007: 7.50% and 11.50%) per annum, payable monthly, quarterly, semi-annually or annually.

Facilities amounting to Rs. 65.89 (2007: Rs.1,073) 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.3,381 (2007: Rs.3,008) million, in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest / surcharge etc. The matter has been referred to 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 an exercise. However, as a matter of prudence, the Group has made a provision of Rs.1,500 million against the above referred claim of CAA which the management considered adequate should the additional liability arises.

(b) The Collector Central Excise had raised a demand of Rs.568 (2007: Rs.717) 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. The Group has already paid a sum of Rs.100 million (note 13) under protest which is considered fully recoverable by the management. The Group has filed appeals with the Customs, Central Excise & Sales Tax Tribunal, which are currently pending adjudication. The management is confident that the decision will be made in favour of the Group. Consequently, no provision has been made there against.

(c) During the current year, a show cause notice was served to the Group by the Additional Collector, LTU Karachi, as a result of finding during the audit of PIAC records pertaining 2004-2005 and 2005-2006. The Collector has raised demands of Rs.6.80 million for the federal excise duty and Rs. 277.62 million for sales tax in respect of the late filing of monthly returns of excise duty, sales tax of various taxable activities and incorrect rate of duty charged and paid along with input tax paid on various utilities. The Group has filed an appeal to the Additional Collector (Adjudication), which is currently pending for adjudication.

The Group is confident that the decision will be in its favour. Consequently, no provision has been made in these financial statements for the same.

(d) During the current year, a show cause notice was issued to the Group by the Collector of Customs, demanding a sum of Rs.87.93 million in respect of custom duty on the import of simulator. The Group has filed an appeal to the Appellant Tribunal Karachi for adjudication. The Group is confident that the decision will be in its favour. Consequently, no provision has been made in these financial statements.

(e) During the current year, a show cause notice has been served to the Group by Additional Collectorate LTU for claim of sales tax amounting to Rs.1,319 million, and federal excise duty amounting to Rs.2.07 million, on the basis of investigation conducted by Directorate Governor Intelligence, FBR. The amount was claimed against incorrect / inadmissible adjustment on exempt activity and incorrect charging of rates on FED and sales tax rate. The Group is confident that the appeal, which it intends to file, will be in its favour.

(f) The Group is contesting litigations relating to suits filed against it on dispute over throughput charges aggregating to Rs.125 (2007: Rs.125) million against which it has filed appeals with the Honourable High Court of Sindh, Karachi and District Court which are currently 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.

(g) 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 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 aggregating to Rs.2,864 (2007: Rs.2,112) million.

(h) 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.

(i) Contingencies relating to income tax matters are disclosed in note 35.1.

(j) 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.11.20 (2007: Rs.11.20) million.

(k) Claims against Group not acknowledged as debt amount to Rs.350 million (2007: Rs.Nil).

(l) 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.

(m) During the year, Income Tax Authorities impose penalties on non-compliance of various section of Income Tax Ordinance, 2001, amounting to Rs.0.25 million. The management has counter filed the petition before Income Tax Appellate Tribunal (ITAT) and is of the view that case would be decided in favour of the Company. Accordingly, the charge against penalties imposed and corresponding liability has not been recognised in these consolidated financial statements.

27.2 Commitments

(a) Commitments for purchase of aircraft amounted to Rs.Nil (2007: Rs.18,873) million.

(b) Commitments for capital expenditure amounted to Rs.400.60 (2007: Rs.436.40) million.

(c) Outstanding letters of credit amounted to Rs.65.30 (2007: Rs.200.00) million.

(d) Outstanding letters of guarantee amounted to Rs.203.90 (2007: Rs.176.40) million.

(e) Outstanding letters of guarantee of Minhal France SA amounted to Rs.0.25 (2007: Rs.0.18) million.

(f) Commitments in respect of staff retirement indemnities of Minhal France S.A. amounts to Rs.15.95 (2007: Rs.9.99) million.

(g) 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:

	Note	December31 2008	December31 2007
		Rupees in '000	
Years			
2008		-	178,307
2009		**224,549**	174,916
2010		**189,833**	147,874
2011		**167,663**	130,584
2012		**171,923**	520,354
2013		**158,194**	-
Thereafter		**337,995**	-
		1,250,157	1,152,035

28. REVENUE – net

	Note	2008	2007
Passenger		**79,817,592**	62,002,315
Cargo		**5,458,688**	4,849,735
Excess baggage		**875,530**	865,657
Charter		**183,806**	163,806
Engineering services		**936,578**	718,733
Handling and related services		**686,755**	712,686
Mail		**263,215**	305,265
Room, food and beverages sales		**9,205,365**	7,546,179
Others		**1,744,157**	1,390,107
		99,171,686	78,554,483

29. COST OF SERVICES – OTHERS

	Note	2008	2007
Salaries, wages and allowances		**7,992,134**	6,977,240
Welfare and social security costs		**112,469**	94,953
Retirement benefits		**853,456**	375,208
Compensated absences		**148,218**	97,800
Legal and professional charges		**6,850**	7,879
Stores and spares consumed		**1,547,138**	2,188,619
Maintenance and overhaul		**3,829,943**	3,275,218
Flight equipment rental		**1,032,138**	3,124,857
Landing and handling		**9,123,722**	7,690,712
Passenger services		**2,833,399**	2,848,517
Crew layover		**2,196,650**	2,004,869
Provision for slow moving stores and spare parts	9.1	**286,466**	334,519
Hotel running expenses		**3,874,477**	5,410,808

	Note	December 31 2008	December 31 2007
		Rupees in '000	
Staff training		89,855	-
Food cost		33,522	23,163
Utilities		30,640	21,206
Communication		67,302	65,234
Insurance		1,112,858	1,038,223
Rent, rates and taxes		368,619	344,491
Printing and stationery		97,602	133,061
Amortization	4.1	4,069	13,788
Depreciation	3.1.6	11,490,349	6,105,680
Others		283,005	353,212
		47,414,881	42,529,257

30. DISTRIBUTION COSTS

	Note	December 31 2008	December 31 2007
Salaries, wages and allowances		1,482,987	1,440,391
Welfare and social security costs		177,376	177,831
Retirement benefits		437,512	192,492
Compensated absences		45,500	30,022
Distribution and advertising expenses		2,101,761	1,595,112
Legal and professional charges		24,498	14,905
Repairs and maintenance		87,046	73,566
Insurance		12,958	8,782
Printing and stationery		36,037	33,543
Communication		384,325	373,332
Staff training		45,521	35,959
Rent, rates and taxes		329,766	276,196
Utilities		35,694	31,942
Amortization	4.1	1,706	1,604
Depreciation	3.1.6	72,440	69,111
Others		114,505	93,886
		5,389,632	4,448,674

31. ADMINISTRATIVE EXPENSES

	Note	December 31 2008	December 31 2007
Salaries, wages and allowances		1,782,063	1,641,565
Welfare and social security costs		876,058	703,396
Retirement benefits		551,162	379,371
Compensated absences		50,282	33,178
Legal and professional charges		224,532	290,471
Repairs and maintenance		289,066	242,155
Insurance		15,398	23,238
Printing and stationery		62,598	77,550
Staff training		61,408	44,149

	Note	December31 2008	December31 2007
		Rupees in '000	
Rent, rates and taxes		**371,346**	372,245
Utilities		**512,247**	429,863
Auditors' remuneration	31.1 & 31.2	**21,132**	18,672
Communication		**538,736**	523,180
Amortization	4.1	**19,889**	31,051
Depreciation	3.1.6	**133,664**	152,618
Donations	31.3	**2,899**	3,288
Others		**350,097**	327,664
		5,862,577	5,293,654

31.1 Auditors' remuneration

	Note	2008	2007
Audit fee - Holding company	31.2	**6,726**	6,726
Fee for review of interim financial statements	31.2	**2,361**	2,016
Remuneration of subsidiaries' auditors		**10,292**	8,029
Consolidation	31.2	**1,000**	1,000
Out of pocket expenses		**753**	901
		21,132	18,672

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.

32. OTHER PROVISIONS AND ADJUSTMENTS - NET

	Note	2008	2007
Loss on disposal of capital spares		**1,453**	28,678
Provision for debts considered doubtful	10.1	**19,330**	402,211
Provision for doubtful advances	11.1	**381**	2,334
Provision against CAA claims	27.1(a)	**1,500,000**	-
Others		**15**	-
		1,521,179	433,223

33. OTHER OPERATING INCOME

	Note	2008	2007
Income from financial assets			
Profit on bank deposits		**166,304**	207,464
Income from investments			
Gain on disposal of short term investments		-	19,650
Dividend on investments		-	17,548

	Note	December31 2008	December31 2007
		Rupees in '000	
Income from assets other than financial assets			
Gain on disposal of operating fixed assets		**200,814**	104,582
Insurance claims		**37,746**	12,497
Liabilities no longer payable - written back		**284,116**	73,384
Others		**68,983**	179,398
		757,963	614,523

34. FINANCE COSTS

	Note	December31 2008	December31 2007
Mark-up on long term financing		**2,310,556**	1,168,250
Profit on term finance certificates		**1,540,209**	1,378,177
Interest on liabilities against assets subject to finance lease		**2,506,124**	2,966,224
Mark-up on long term murabaha		**192,228**	47,644
Mark-up on short-term borrowings		**2,346,199**	1,436,326
Arrangement, agency and commitment fee		**88,249**	97,717
Bank charges, guarantee commission and other related charges		**43,438**	844,026
		9,027,003	7,938,364

35. TAXATION

	Note	December31 2008	December31 2007
Current	35.1	**801,473**	724,240
Prior		**-**	2,150
Deferred		**(4,084,163)**	-
		(3,282,690)	726,390

35.1 This represents current taxation of subsidiary Companies, however, in view of available tax losses for the year, no provision for taxation has been made in the Holding Company. Further due to the withdrawal of section 113 "Minimum Tax" of Income Tax Ordinance, 2001 through Finance Act 2008, no provision in respect of the same has been provided in these financial statements. Accordingly, no numeric tax rate reconciliation is provided.

Returns for the tax year 2003 to tax year 2007 have been deemed to be finalized under 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 2002-2003, after adding 10% of net turnover on estimated basis. The Group filed appeals there against for the assessment years 1991-1992, 1992-1993 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 1991-1992, 1992-1993 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 pending.

36. LOSS PER SHARE

	December31 2008	December31 2007
	Rupees in '000	
Loss for the year	**35,976,511**	13,215,655
	Number of shares	
Weighted average number of ordinary shares outstanding	**2,016,835,227**	2,027,508,768
	Rupees	
Loss per share		
"A" class Ordinary share	**17.84**	6.25
"B" class Ordinary share	**8.92**	3.12

36.1 Loss per share has no dilution effect.

37. CASH GENERATED FROM OPERATIONS

	Note	December31 2008	December31 2007
		Rupees in '000	
Loss before taxation		**(39,259,201)**	(12,489,265)
Adjustments for:			
Depreciation	3.1.6	**11,696,453**	6,327,409
Gain on disposal of operating fixed assets	33	**(200,814)**	(104,582)
Amortization	4.1	**25,664**	46,443
Provision for slow moving stores and spares	9.1	**286,466**	334,519
Provision for debts considered doubtful - net	10.1	**19,330**	402,211
Provision for doubtful advances and other receivable	11.1	**381**	2,334
Provision for the construction of University Road, Karachi		**(215,000)**	-
Provision scrapage capital spare		**1,453**	-
Provision against CAA claims		**1,500,000**	-
Provision for employees' benefits		**2,074,006**	1,108,071
Others provisions		**(68,968)**	-
Finance costs	34	**9,027,003**	7,938,364
Share of loss/(profit) from associates		**-**	(20,211)
Dividend on investments		**-**	(17,548)
Profit on bank deposits	33	**(166,304)**	(207,464)
Exchange loss and scrappage		**24,239,543**	99,606
Gain on sale of investment	33	**-**	(19,650)
Liabilities no longer payable written back	33	**(284,116)**	(73,384)
		8,675,896	3,326,853

	December31 2008	December31 2007
	Rupees in '000	
Working capital changes		
(Increase) / Decrease in stores and spares	(478,106)	96,158
(Increase) / Decrease in trade debts	(794,816)	1,125,841
(Increase) / Decrease in advances	(829,348)	2,956
(Increase) / Decrease in trade deposits and prepayments	(430,259)	218,165
(Increase) / Decrease in short term investments	84,794	424,097
(Increase) in other receivables	(452,778)	(70,190)
Increase in trade and other payables	7,207,711	3,629,187
	4,307,198	5,426,214
	12,983,094	8,753,067

38. REMUNERATION OF CHAIRMAN, MANAGING DIRECTOR AND EXECUTIVES

	CHAIRMAN, MANAGING DIRECTOR		EXECUTIVES	
	2008	2007	2008	2007
	---------- Rupees in '000 ----------		---------- Rupees in '000 ----------	
Managerial remuneration	7,953	5,431	1,430,507	1,291,003
Group's contribution to provident fund	156	101	63,115	47,588
Other perquisites	-	79	990,522	719,622
	8,109	5,611	2,484,144	2,058,213
Number	2	1	1,113	930

Directors, other than the Chairman / Managing Director, are non-executive directors. Aggregate amount charged in the financial statements for fee to directors was Rs.0.68 (2007: Rs.0.49) million. Chairman / Managing Director, Directors and certain executives are also provided with the Group maintained cars and facilities as per the Group's rules.

39. SEGMENTS INFORMATION

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

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

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

Transaction between business segments, other than services provided by Skyrooms (Private) Limited to the Holding company's transit passengers, are set on arm's length basis at price determined under permissible method as allowed under Companies Ordinance, 1984. 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	
	2008	2007	2008	2007	2008	2007	2008	2007
	Rupees in '000							
Revenue								
External sales	**89,201,567**	70,480,734	**9,661,502**	8,073,749	**-**	-	**98,863,069**	78,554,483
Inter segment sales	**-**	-	**206,260**	161,745	**(206,260)**	(161,745)	**-**	-
Total revenue	**89,201,567**	70,480,734	**9,867,762**	8,235,494	**(206,260)**	(161,745)	**98,863,069**	78,554,483
Results								
Segment results	**(31,541,182)**	(6,693,540)	**1,646,075**	2,036,259	**(501,028)**	(80,873)	**(30,396,135)**	(4,738,154)
Interest expense							**(9,027,003)**	(7,938,364)
Interest income							**163,540**	207,464
Share of associates' loss / (profit)			**397**	(20,211)			**397**	(20,211)
Income taxes							**(3,282,690)**	(726,390)
Loss							**(42,541,891)**	(13,215,655)

	Airlines Operations		Hotel Operations		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	Rupees in '000							
Other information								
Segment assets	**139,669,867**	118,773,178	**47,775,514**	38,450,827	**(3,113,002)**	(80,358)	**184,332,379**	157,143,647
Investment in associates			**398**	396			**398**	396
							184,332,777	157,144,043
Segment liabilities	**172,179,094**	129,705,092	**30,204,198**	25,458,443	**(82,968)**	(80,358)	**202,300,324**	155,083,177
Capital expenditure	**13,547,228**	15,560,911	**508,746**	387,314				
Depreciation	**8,015,110**	5,617,195	**3,661,343**	710,214				
Amortisation	**23,971**	34,595	**1,693**	11,848				

39.2 Secondary reporting format – geographical segments

2008	Pakistan	United States	Europe	Others	Total
	Rupees in '000				
Segment revenue	**44,743,921**	**14,103,117**	**19,586,894**	**20,737,754**	**99,171,686**
Carrying amount of assets	**136,702,524**	**31,126,359**	**15,694,099**	**809,397**	**184,332,379**

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

The major revenue earning assets comprise the aircraft fleet, all of 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 all financial assets and liabilities especially, borrowings and bank balances. The Group's income and expenses are affected by changes in interest rates due to the impact of such changes on interest income and expenses from short term deposits and other interest bearing financial assets and liabilities. The Group manages its interest rate risk through use of financing at fixed and variable interest rates.

(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) Jet fuel price risk

Jet fuel price risk is the risk attributable to fluctuation in the international jet fuel prices arising from external / market factors. The Group manages this issue to the extent possible by taking counter measures including hedging of jet fuel prices (note 24.5).

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

2008

	Interest / mark-up bearing				Non-Interest / mark-up bearing				
	Maturity up to one Year	Maturity one year to five years	Maturity five years and above	Sub total	Maturity up to one Year	Maturity one year to five years	Maturity five years and above	Sub total	Total
	Rupees in '000				Rupees in '000				
Financial assets									
Investments	25,640	6,703	-	32,343	-	-	130,699	130,699	163,042
Long term loans, advances and other receivables	4,220	7,629	-	11,849	2,609,869	-	-	2,609,869	2,621,718
Deposits	-	-	-	-	47,059	-	3,367,139	3,414,198	3,414,198
Trade debts	-	-	-	-	6,190,561	-	-	6,190,561	6,190,561
Accrued interest	-	-	-	-	1,325	-	-	1,325	1,325
Cash and bank balances	942,183	-	-	942,183	3,117,682	-	-	3,117,682	4,059,865
	972,043	14,332	-	986,375	11,966,496	-	3,497,838	15,464,334	16,450,709
Financial liabilities									
Long term financing	5,649,136	33,460,530	965,782	40,075,448	-	-	-	-	40,075,448
Term finance certificates	-	12,430,143	-	12,430,143	-	-	-	-	12,430,143
Liabilities against assets subject to finance lease	7,268,335	31,229,000	33,859,790	72,357,125	-	-	-	-	72,357,125
Deposits	-	-	-	-	-	301,902	-	301,902	301,902
Deferred liabilities	-	-	-	-	-	3,114,000	-	3,114,000	3,114,000
Trade and other payables	192,725	-	-	192,725	27,180,483	-	-	27,180,483	27,373,208
Accrued interest / markup / profit	1,475,456	-	-	1,475,456	-	-	-	-	1,475,456
Borrowings	30,500,062	-	-	30,500,062	-	-	-	-	30,500,062
	45,085,714	77,119,673	34,825,572	157,030,959	27,180,483	3,415,902	-	30,596,385	187,627,344
Net financial (liabilities) / assets	(44,113,671)	(77,105,341)	(34,825,572)	(156,044,584)	(15,213,987)	(3,415,902)	3,497,838	(15,132,051)	(171,176,635)

2007

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

	2008	2007
	Percentages	
Effective interest rates		
Investment	**5.20**	5.20
Advances	**2.78 - 11.00**	2.78 - 11.00
Deposits	**13.00 - 15.00**	10.00 - 13.00
Cash and bank balances	**3.00 - 13.00**	3.00 - 4.00
Long term financing	**4.34 - 14.00**	5.28 - 11.33
Term finance certificates	**10.50 - 14.00**	10.00 - 10.50
Murabaha	**8.02 - 6.20**	7.06 - 8.02
Liabilities against assets subject to finance lease	**5.32 - 13.32**	4.70 - 11.00
Mark-up / interest accrued on loans	**3.45 - 16.40**	4.70 - 11.33

42. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of directors, key management personnel and employees' benefits funds. 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, 2008, the Group has made provision for doubtful debts relating to amounts owed by related parties amounting to Rs.Nil (2007: Rs.Nil). An assessment is undertaken at each financial year through examining the financial position of the related party and the market in which the related party operates.

Other material transactions with related parties are given below:

	December31 2008	December31 2007
	Rupees in '000	
Retirement funds		
Contribution	**801,825**	533,190
Interest on advances	**-**	16,901
Profit oriented state - controlled entities – various		
Rent	**122,000**	112,000
Aeronautical expenses	**1,673,900**	1,507,000
Non Aero expenses	**113,000**	56,000
Insurance premium	**1,325,510**	1,040,000

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

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 (the 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.

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 Pakistan Airline Pilot Association (PALPA), Flight Engineering Association (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, in accordance with the provision of Income Tax Ordinance, 2001. It also includes any adjustment to tax payable in respect of prior years.

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 each reporting date, 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, if any.

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.

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 categorised under held to maturity are subject to annual review for impairment.

2.8 Stores and spare parts

These are valued at lower of cost and net realizable value except goods-in-transit, which are valued at cost incurred up to the balance sheet date. 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 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.

43. CORRESPONDING FIGURES

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

FROM	TO	Rupees in '000
Other provisions and adjustments - net	**Cost of services - others**	
Provision for slow moving stores and spare parts	Provision for slow moving stores and spare parts	334,519

44. AUTHORISATION OF FINANCIAL STATEMENTS

These consolidated financial statements were authorised for issue in the Board of Directors meeting held on March 26, 2009.

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 and US Dollar unless, otherwise stated.

Ch. Ahmed Mukhtar
Chairman

Hussain Lawai
Director

Form of Proxy

I / We ______________________________ of ______________ being Shareholder(s) of PAKISTAN INTERNATIONAL AIRLINES CORPORATION, and holder of ____________ Ordinary A Class Shares and _________ Ordinary B Class Shares as per Registered Folio No ____________ Participant ID No ________________ Account No. ______________ hereby appoint Mr / Mrs / Miss ____________________________ of ________________ or failing him / her ____________________ of ____________ who is / are also Shareholder(s) of PAKISTAN INTERNATIONAL AIRLINES CORPORATION vide Registered Folio No. ________________ 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 52nd Annual General Meeting of the Corporation to be held on Saturday, April 25, 2009 and at any adjournment thereof.

As witness my/our hand/seal this ____________ day of April 2009.

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 alongwith copy of CNIC at the office of PIA Share Registrar / Transfer Agent, Central Depository Company of Pakistan Limited, CDC House, 99-B, Block-B, S.M.C.H.S. Main Shahrah-e-Faisal, Karachi not less than 48 hours before the time fixed for holding the Meeting i.e. upto 10.00 A.M. Thursday, April 23, 2009.

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

(3) Proxies without CNIC photocopy / 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 photocopies 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.

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