Comprehensive Analysis of Pakistan International Airlines Corporation (PIA) – Half-Yearly Report 2012

1. Introduction

Pakistan International Airlines Corporation (PIA) is the national flag carrier of Pakistan, operating domestic and international flights. The Half-Yearly Report for 2012 provides a detailed financial and operational review of the airline's performance from January to June 2012. This report highlights significant financial losses, operational challenges, and strategic measures undertaken by the management to stabilize the airline.

The report is structured into the following sections:

Directors' Report – Overview of financial performance and key challenges.

Auditors' Report – Independent review and emphasis on going concern.

Financial Statements – Detailed analysis of balance sheets, profit & loss accounts, and cash flows.

Key Financial Metrics – Revenue breakdown, cost analysis, and profitability.

Subsidiaries & Investments – Performance of PIA's subsidiary companies.

Going Concern & Government Support – Dependence on government bailouts.

Future Outlook & Strategic Initiatives – Fleet modernization and restructuring plans.

2. Directors' Report: Financial Performance & Challenges

A. Financial Highlights (Six Months Ended June 30, 2012)

PIA reported a net loss of Rs. 18.02 billion for the first half of 2012, compared to a loss of Rs. 10.74 billion in the same period in 2011. The key financial figures are summarized below:

Financial Metric	2012 (Rs. Billion)	2011 (Rs. Billion)	Change (%)

Revenue (Net)	54.21	55.82	-2.9%
Fuel Costs	30.23	29.56	+2.3%
Other Operating Costs	24.90	24.53	+1.5%
Exchange Loss	4.35	0.10	+4,250%
Finance Costs	5.40	4.93	+9.5%
Loss Before Tax	(17.88)	(10.12)	+76.7%
Loss After Tax	(18.02)	(10.74)	+67.8%

B. Key Operational Challenges

Declining Passenger Traffic

Revenue Passenger Kilometers (RPK) fell by 10% due to reduced flight capacity and lower demand for charter flights.

Seat factor (load capacity) dropped by 4.3 percentage points, indicating underutilized aircraft.

Rising Fuel Costs

Aviation fuel prices averaged $115.65 per barrel (2012) compared to $107.18 per barrel (2011).

Fuel expenses accounted for 55.8% of total operating costs.

Currency Depreciation Impact

The Pakistani Rupee depreciated from PKR 85.95/USD (2011) to PKR 94.55/USD (2012).

Exchange losses surged to Rs. 4.35 billion (from Rs. 103 million in 2011).

High Finance Costs

Interest payments on loans and sukuk certificates increased to Rs. 5.40 billion.

Dependence on Government Support

PIA's accumulated losses reached Rs. 136.9 billion, with current liabilities exceeding assets by Rs. 123.4 billion.

The Government of Pakistan (GoP) provided Rs. 9.3 billion in equity injections (2008–2012) and Rs. 8.0 billion in long-term loans.

3. Auditors' Report: Emphasis on Going Concern

A. Independent Review Findings

The auditors, A.F. Ferguson & Co. and M. Yousuf Adil Saleem & Co., reviewed the interim financial statements and highlighted:

Compliance with International Accounting Standard 34 (IAS 34) for interim reporting.

Material uncertainty regarding PIA's ability to continue as a going concern due to:

Accumulated losses of Rs. 136.9 billion.

Negative working capital (Rs. 123.4 billion deficit).

B. Government Guarantees & Restructuring

The Economic Coordination Committee (ECC) approved:

Rescheduling of Rs. 12.79 billion in term finance certificates (TFCs).

Conversion of Rs. 20.7 billion short-term loans into long-term debt.

The GoP issued guarantees to secure additional financing.

4. Financial Statements Analysis

A. Unconsolidated Balance Sheet (June 30, 2012)

Item	June 30, 2012 (Rs. ’000)	Dec 31, 2011 (Rs. ’000)	Change (%)
Total Assets	131,419,757	126,828,577	+3.6%
Property, Plant & Equipment	97,512,414	96,632,229	+0.9%
Current Assets	20,521,316	16,562,565	+23.9%
Total Liabilities	226,154,674	204,928,100	+10.4%
Long-term Financing	17,401,624	31,264,901	-44.4%
Current Liabilities	208,753,050	173,663,199	+20.2%

B. Profit & Loss Account (Six Months Ended June 30, 2012)

Item	2012 (Rs. ’000)	2011 (Rs. ’000)	Change (%)
Revenue (Net)	54,211,215	55,825,234	-2.9%
Aircraft Fuel Costs	(30,232,514)	(29,557,250)	+2.3%
Other Operating Costs	(24,904,631)	(24,531,870)	+1.5%
Finance Costs	(5,400,499)	(4,933,748)	+9.5%
Loss Before Tax	(17,884,483)	(10,123,484)	+76.7%
Loss After Tax	(18,022,282)	(10,737,411)	+67.8%

C. Cash Flow Statement

Operating Activities: Negative cash flow of Rs. 8.06 billion due to high fuel and finance costs.

Investing Activities: Rs. 4.84 billion spent on aircraft maintenance and fleet upgrades.

Financing Activities: Rs. 1.38 billion received as equity from GoP.

5. Subsidiaries & Investments

A. PIA Investments Limited (PIAIL)

Profit: USD 5.2 million (from hotel operations, including the Roosevelt Hotel, New York).

Minhal France S.A. (90% owned): Operates the Scribe Hotel, Paris.

B. Skyrooms (Private) Limited

Profit: Rs. 11.2 million (from Airport Hotel, Karachi).

6. Going Concern & Future Outlook

A. Survival Measures

Fleet Modernization:

Early purchase of 6 Airbus A310-300 aircraft (USD 30.2 million).

Cost Reduction:

Fuel hedging to mitigate price volatility.

Staff restructuring to reduce payroll expenses.

Government Bailouts:

Continued reliance on GoP guarantees and equity injections.

B. Risks & Uncertainties

High Debt Burden: Total liabilities exceed Rs. 226 billion.

Operational Inefficiencies: Aging fleet and low seat occupancy.

Economic Instability: Currency depreciation and rising fuel costs.

7. Conclusion

PIA's 2012 Half-Yearly Report reflects a deepening financial crisis, with losses widening due to rising fuel costs, currency depreciation, and high debt servicing. The airline's survival hinges on government support, fleet modernization, and operational restructuring. Without significant reforms, PIA's long-term sustainability remains uncertain.

Recommendations:

Debt Restructuring: Convert short-term loans into long-term debt.

Privatization or Strategic Partnership: Attract private investment.

Route Optimization: Focus on profitable international routes.

This report underscores the urgent need for structural reforms to revive Pakistan's national carrier.