

Balance Sheet (Un-audited)

As at September 30, 2005

	SEP - 2005	DEC - 2004	SEP - 2005
Note	(Rupees in thousand)	(Rupees in thousand)	(US\$ in thousand)
NON CURRENT ASSETS			
Fixed assets			
Property, plant & equipment	4 51,193,884	49,530,139	855,370
Intangibles	58,994	74,254	986
Long-term investments	326,686	334,295	5,458
Long-term advances and other receivable	6,667,356	7,196,914	111,401
Long-term deposits and prepayments	1,772,113	1,824,686	29,609
	60,019,033	58,960,288	1,002,824
CURRENT ASSETS			
Stores and spares	2,534,268	2,416,290	42,344
Trade debts	4,652,816	3,997,758	77,741
Advances	650,573	679,771	10,870
Trade deposits and prepayments	490,744	479,622	8,200
Taxation - advance tax net of provision	166,784	214,990	2,787
Other receivables	554,712	648,510	9,268
Short-term investments	396,096	440,446	6,618
Cash and bank balances	5 3,567,892	10,838,898	59,614
	13,013,885	19,716,285	217,442
	73,032,918	78,676,573	1,220,266
SHARE CAPITAL AND RESERVES			
Share capital	16,529,926	16,529,926	276,189
Reserves	4,280,712	4,280,712	71,524
Unrealized gain on remeasurement of investments	13,429	18,863	224
Accumulated loss	(10,481,542)	(7,388,309)	(175,130)
	10,342,525	13,441,192	172,807
NON CURRENT LIABILITIES			
Advance against equity from GoP	6 1,065,931	-	17,810
Long term financing	2,151,098	2,431,659	35,942
Term finance certificates	14,003,940	14,760,910	233,984
Liabilities against assets subject to finance lease	21,665,124	23,724,678	361,990
Long term murabaha	977,550	1,600,608	16,333
Long term deposits	431,566	328,155	7,211
Deferred liabilities	7 2,612,005	3,399,282	43,643
	42,907,215	46,245,292	716,913
CURRENT LIABILITIES			
Trade and other payables	8 13,634,447	13,654,457	227,810
Accrued markup/ interest	329,151	540,570	5,500
Current portion of:			
- Long term financing	1,621,110	1,621,110	27,086
- Term finance certificates	756,970	378,635	12,648
- Liabilities against assets subject to finance lease	2,603,600	1,960,217	43,502
- Long term murabaha	837,900	835,100	14,000
	19,783,178	18,990,089	330,546
CONTINGENCIES AND COMMITMENTS			
	9 73,032,918	78,676,573	1,220,266

The annexed notes 1 to 17 form an integral part of these financial statements.

Tariq Kirmani
Chairman & Chief Executive

Asad Ali Khan
Director



Profit and Loss Account (Un-audited)

For the nine months period ended September 30, 2005

Note	Nine months period ended		Quarter ended		Nine months period ended	
	SEP - 2005	SEP - 2004	SEP - 2005	SEP - 2004	SEP - 2005	
	(Rupees in thousand)				(US\$ in thousand)	
TURNOVER - net	10	46,007,959	41,062,547	15,981,479	14,555,686	768,721
COST OF SERVICES	11	(42,452,765)	(34,751,844)	(15,406,140)	(12,689,388)	(709,319)
GROSS PROFIT		3,555,194	6,310,703	575,339	1,866,298	59,402
OTHER OPERATING INCOME		601,013	66,799	440,281	(287,547)	10,042
MARKETING AND DISTRIBUTION COSTS		(2,578,077)	(2,138,775)	(830,553)	(713,128)	(43,076)
ADMINISTRATIVE EXPENSES		(2,817,729)	(2,627,048)	(1,088,607)	(890,730)	(47,080)
PROFIT/(LOSS) FROM OPERATIONS		(1,239,599)	1,611,679	(903,539)	(25,107)	(20,712)
FINANCE COST	12	(2,006,123)	(1,532,238)	(700,503)	(516,225)	(33,519)
OTHER PROVISIONS AND ADJUSTMENTS		(40,000)	(168,078)	-	(153,383)	(668)
PROFIT/(LOSS) BEFORE TAX		(3,285,722)	(88,637)	(1,604,042)	(694,715)	(54,899)
TAXATION						
- Current		(230,040)	(205,313)	(79,907)	(72,779)	(3,844)
- Prior		-	698,465	-	-	-
- Deferred		422,528	608,972	660,625	381,118	7,060
PROFIT/(LOSS) FOR THE NINE MONTHS/QUARTER		192,488	1,102,124	580,718	308,339	3,216
EARNINGS PER SHARE						
'A' class ordinary shares of Rs.10 each (Rupees/US\$)		(1.87)	0.88	(0.62)	(0.34)	(0.03)
'B' class ordinary shares of Rs. 5 each (Rupees/US\$)		(0.94)	0.44	(0.31)	(0.17)	(0.02)

The annexed notes 1 to 17 form an integral part of these financial statements.

Tariq Kirmani
Chairman & Chief Executive

Asad Ali Khan
Director



Cash Flow Statement (Un-audited)

For the nine months period ended September 30, 2005

	SEP - 2005	SEP - 2004	SEP - 2005
Note	(Rupees in thousand)		(US\$ in thousand)
Cash flows from operating activities			
Cash generated from operations	13 654,678	3,021,199	10,939
Financial charges paid	(2,217,542)	(1,858,826)	(37,052)
Taxes paid	(181,834)	(202,063)	(3,038)
Dividend paid	(5,255)	(564,876)	(88)
Custom duties paid	(323,350)	-	(5,403)
Staff retirement benefits paid	(118,814)	(33,926)	(1,985)
Net cash from operating activities	(2,192,117)	361,508	(36,627)
Cash flows from investing activities			
Fixed capital expenditure	(5,014,628)	(24,310,993)	(83,787)
Advance against equity from GoP	1,065,931	3,002,776	17,810
Proceeds from investments	46,525	8,966	7778
Proceeds from sale of fixed assets	599,594	238,083	10,019
Proceeds from long-term advances - net	763,330	1,143,785	12,754
Proceeds from/(payments of) long-term deposits	52,573	(1,435,870)	878
Net cash used in investing activities	(2,486,675)	(21,353,253)	(41,548)
Cash flows from financing activities			
Repayment of issuance of Term finance certificates	(378,635)	(152)	(6,326)
Repayment of long-term / murahaba financing	(620,258)	-	(10,364)
Repayment of long-term financing	(280,561)	(656,483)	(4,688)
Repayment of long-term advance under markup arrangements	-	(810,555)	-
Payment of obligations under hire purchase (Payment of)/proceeds from obligations under finance lease	(1,416,171)	19,732,649	(23,662)
Proceeds from long-term deposits and other liability	103,411	14,669	1,728
Payment of short-term borrowings	-	(65,000)	-
Net cash from financing activities	(2,592,214)	17,525,626	(43,312)
(Decrease) in cash and cash equivalents	(7,271,006)	(3,466,119)	(121,487)
Cash and cash equivalents at beginning of the year	10,838,898	10,089,716	181,101
Cash and cash equivalents at end of the period	3,567,892	6,623,597	59,614

The annexed notes 1 to 17 form an integral part of these financial statements.

Tariq Kirmani
Chairman & Chief Executive

Asad Ali Khan
Director



Statement of Changes in Equity (Un-audited)

For the nine months period ended September 30, 2005

	Paid up capital	Capital reserves	Revenue reserves	Unrealized (loss)/gain on remeasur- ement of investments	Accumulated loss	Total
(Rupees in thousand)						
Balance as at January 01, 2004	11,514,826	2,501,038	1,779,674	(2,876)	(9,119,166)	6,673,496
Unrealized loss on re-measurement of investments- net	-	-	-	(35,005)	-	(35,005)
Profit for the period	-	-	-	-	1,013,487	1,013,487
Dividend						
' A ' class ordinary shares @ Re. 0.50 per share	-	-	-	-	(575,366)	(575,366)
' B ' class ordinary shares @ Re. 0.25 per share	-	-	-	-	(375)	(375)
Balance as at September 30, 2004	11,514,826	2,501,038	1,779,674	(37,881)	(8,681,420)	7,076,237
Balance as at January 01, 2005	16,529,926	2,501,038	1,779,674	18,863	(7,388,309)	13,441,192
Unrealized loss on re-measurement of investments	-	-	-	(5,434)	-	(5,434)
Loss for the period	-	-	-	-	(3,093,234)	(3,093,234)
Balance as at September 30, 2005	16,529,926	2,501,038	1,779,674	13,429	(10,481,542)	10,342,525

The annexed notes 1 to 17 form an integral part of these financial statements.

Tariq Kirmani
Chairman & Chief Executive

Asad Ali Khan
Director



Notes to the Financial Statements (Un-audited)

For the nine months period ended September 30, 2005

1. CORPORATE INFORMATION

- 1.1 Pakistan International Airlines Corporation (the Corporation) was incorporated on April 18, 1956 under the Pakistan International Airlines Corporation Act, 1956 (PIAC Act 1956) and its shares are quoted on all stock exchanges of Pakistan. The registered office of the Corporation is situated in Karachi. Principal activity of the Corporation is to provide air transport services. In addition, the Corporation is engaged in providing engineering and other allied services.
- 1.2 Government of Pakistan's (GoP) financial assistance is available to the Corporation and GoP has issued guarantees to secure certain long term debts of the Corporation and Term Finance Certificates (TFCs). The GoP has agreed to provide equity contribution to the Corporation equivalent to accumulated losses of the Corporation as at December 31, 2000 to cover interest payments on long term finances and TFCs. As part of the financial package, an amount of Rs. 5,045 million (Dec-2004: Rs. 3,612 million) has been provided to the Corporation up to September 30, 2005 against which 397,935,878 (Dec-2004: 397,935,878) number of ordinary shares of Rs. 10 each were issued to GoP up to September 30, 2005. The remaining 106,593,073 ordinary shares are expected to be issued during the current year.
- 1.3 GoP had approved a fleet replacement plan. Accordingly, the Corporation has entered into an agreement for purchase of eight new Boeing 777 aircraft. GoP has provided funding of US\$ 150 million (Rs. 8,816 million) in the form of equity, and guarantees for the finances raised for acquisition of the said aircraft.

2. BASIS OF PREPARATION

These financial statements are unaudited and are being circulated to the shareholders as required by Section 245 of the Companies Ordinance, 1984.

These financial statements are being presented in condensed form in accordance with the requirements of International Accounting Standard (IAS) 34 'Interim Financial Reporting' as applicable in Pakistan and shall be read in conjunction with the annual financial statements of the Corporation for the year ended December 31, 2004.

The accounting policies and methods of computations adopted in the preparation of these financial statements are the same as those applied in the preparation of financial statements of the Corporation for the year ended December 31, 2004.

3. CONSOLIDATION

The Corporation has been granted exemption by Securities and Exchange Commission of Pakistan (SECP) from the provisions of Section 237(1) of the Companies Ordinance 1984 relating to the preparation of consolidated annual financial statements for the year ended December 31, 2004. Accordingly these interim financial statements have also not been prepared on consolidated basis consistent with the requirement of IAS-34 'Interim Financial Reporting'.

4. PROPERTY, PLANT AND EQUIPMENT

	SEP - 2005	DEC - 2004
	(Rupees in thousand)	
Operating fixed assets (note 4.1)	41,207,748	43,676,363
Assets held for sale	22,170	-
Capital work-in-progress (note 4.2)	9,963,966	5,853,776
	51,193,884	49,530,139



- 4.1 This includes operating fixed assets that were added / disposed off / adjusted during the nine months period ended September 30, 2005.

	SEPTEMBER - 2005	
	(Rupees in thousand)	
	Additions	(Deletions)
Owned		
Land	-	(4)
Buildings on leasehold land	64,551	-
Renovation and improvements	13,629	-
Aircraft fleet	71,220	(3,656,313)
Operating ground equipment, catering communication and meteorological equipment	97,776	(623)
Engineering equipment and tools	13,872	(86)
Vehicles	14,835	(15,130)
Traffic equipment	170,593	(5,846)
Furniture, fixtures and fittings	10,994	(58)
Office equipment	2,862	(130)
Computer and office automation	42,385	(293)
Other equipment	2,782	(56)
Capital spares	392,453	(46,120)
	897,952	(3,724,659)
Leased		
Vehicles	5,992	(89,950)
	903,944	(3,814,609)

- 4.2 Capital work-in-progress

	SEP - 2005	DEC - 2004
	(Rupees in thousand)	
Buildings - civil works	15,749	6,730
Other projects / equipment	32,502	19,134
Renovation and improvements	19,675	11,235
Non refundable deposit against purchase of aircraft and engine	9,895,346	5,815,983
Advance against revenue accounting package	694	694
	9,963,966	5,853,776

5. CASH AND BANK BALANCES

This includes Rs. 2.472 million (Dec-2004: Rs. 10.295 million) held in Corporation's bank account with a Libyan bank which is not currently repatriable due to certain Foreign Government restrictions.

6. ADVANCE AGAINST EQUITY FROM GOVERNMENT OF PAKISTAN (GoP)

This represents the amount received from GoP towards equity contribution under the terms of Financial Package as stated in note. 1.2.

7. DEFERRED LIABILITIES

	SEP - 2005	DEC - 2004
	(Rupees in thousand)	
Deferred taxation (note 7.1)	17,879	440,242
Deferred custom duties	249,690	573,040
Obligations for compensated absences	1,400,500	1,461,000
Post retirement medical benefits	943,936	925,000
	2,612,005	3,399,282
7.1 Deferred taxation		
Deferred tax credits arising in respect of accelerated tax depreciation	9,347,314	9,069,346
Deferred tax credits arising in respect of un-realized gain on remeasurement of investments	17,879	17,716
Deferred tax debits arising in respect of temporary deductible differences due to:		
Unused tax losses	(6,984,200)	(6,250,080)
Provisions for liabilities and to write down other assets	(2,404,310)	(2,396,740)
Deferred tax asset not recognized	41,196	-
	17,879	440,242

8. TRADE AND OTHER PAYABLES

Trade creditors		
Goods	1,865,543	1,673,024
Services	1,333,874	1,146,691
Airport related charges	551,584	685,697
	3,751,001	3,505,412
Accrued liabilities	2,650,363	1,825,995
Advances received		
Advance against transportation		
-Normal	4,830,331	4,168,174
-Haj	-	2,087,728
	4,830,331	6,255,902
Others	279,784	378,912
Payable to employee provident fund	91,721	114,095
Unclaimed dividend		
Ordinary shares	-	5,255
Preference shares	3,297	3,297
	3,297	8,552
Collection on behalf of others	952,551	582,148
Short term deposits	123,365	111,735
Custom and central excise duty	800,636	741,009
Income tax deducted	56,337	49,482
Stamp duties	13,485	13,310
Capital value tax	51,069	33,505
Liabilities acquired from subsidiaries	18,690	19,594
Others	11,816	14,806
	13,634,447	13,654,457

9. CONTINGENCIES AND COMMITMENTS

9.1 Contingencies

9.1.1 Civil Aviation Authority, Pakistan (CAA) has claimed additional amounts aggregating to Rs. 3,110 million (Dec-2004: Rs. 3,110 million) in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest/surcharge etc. The matter has been referred to Ministry of Defence through which a reconciliation and settlement exercise is currently in progress. The management considers that no additional liability of material amount is likely to arise as a result of such exercise. Accordingly, no provision in this respect has been made in these financial statements.

9.1.2 There has been no change in the status of other contingencies (including para 9.1 above) as disclosed in the annual financial statements of the Corporation for the year ended December 31, 2004.

9.1.3 Outstanding guarantees amount to Rs. 141 million (Dec-2004: Rs. 184 million). The Corporation has given bank guarantees amounting to Rs. 27.5 million (Dec-2004: Rs. 21 million) in respect of cases pending in respective courts.

9.2 Commitments

9.2.1 Outstanding commitments for the purchase of aircraft as at September 30, 2005 amount to Rs. 56,249 million (Dec-2004: Rs. 59,945 million).

9.2.2 Capital commitments for assets other than aircraft as at September 30, 2005 amount to Rs. 11.687 million (Dec-2004: Rs. 13.340 million).

9.2.3 Outstanding letters of credit amount to Rs. 213 million (Dec-2004: Rs. 309 million).

10. TURNOVER - net

	Nine months period ended		Quarter ended	
	SEP - 2005	SEP - 2004	SEP - 2005	SEP - 2004
	(Rupees in thousand)			
Passenger	39,696,015	35,146,153	13,690,823	12,363,869
Excess baggage	601,154	681,933	183,163	154,288
Freight	3,594,982	3,269,948	1,364,519	1,304,058
Mail	233,414	193,637	83,588	91,486
Charters	370,750	288,318	150,775	137,923
Others	1,511,644	1,482,558	508,611	504,062
	<u>46,007,959</u>	<u>41,062,547</u>	<u>15,981,479</u>	<u>14,555,686</u>

11. COST OF SERVICES

	Nine months period ended		Quarter ended	
	SEP - 2005	SEP - 2004	SEP - 2005	SEP - 2004
	(Rupees in thousand)			
Salaries, wages and allowances	4,043,771	4,009,207	1,360,484	1,351,824
Welfare and social security costs	253,818	245,634	82,754	81,072
Provident fund	111,612	114,517	36,726	38,200
Pension funds	140,123	155,129	46,099	47,571
Post retirement medical benefits - net	35,361	27,014	12,451	4,816
Provision for employees' compensated absences - net	11,416	28,814	3,980	14,407
Mandatory retirement expenses (note 11.1)	245,559	-	245,559	-
Legal and professional charges	5,355	3,371	1,415	1,336
Aircraft fuel and oil	18,332,933	12,172,864	7,140,106	4,704,425
Stores and spares consumed	1,732,229	2,275,080	597,469	611,609
Maintenance and overhaul	3,253,254	2,451,409	935,639	1,016,496
Flight equipment rental	1,192,428	970,116	374,368	204,211
Landing and handling	5,222,747	4,793,544	1,861,634	1,788,980
Passenger services	1,649,836	1,401,246	569,983	490,312
Insurance	945,168	963,649	318,798	321,067
Advertising and selling	29,908	29,507	12,039	8,163
Rent, rates and taxes	149,889	147,384	47,398	74,532
Depreciation	3,061,003	3,036,414	1,025,139	1,255,513
Others	2,036,355	1,926,945	734,099	674,854
	<u>42,452,765</u>	<u>34,751,844</u>	<u>15,406,140</u>	<u>12,689,388</u>

11.1 Mandatory retirement expenses

Operating expenses include an amount of Rs. 487 million incurred on account of mandatory retirement scheme, which was effective from October 01, 2005. The amount is allocated as under:

(Rupees in million)

Cost of Services	246
Marketing and Distribution Costs	57
Administrative Expenses	184
	<u>487</u>

12. FINANCE COST

	Nine months period ended		Quarter ended	
	SEP - 2005	SEP - 2004	SEP - 2005	SEP - 2004
	(Rupees in thousand)			
Arrangement, agency and commitment fee	59,214	59,616	17,602	15,929
Interest on long-term finance	83,290	88,335	20,751	28,706
Interest on short-term finance	100	790	30	-
Profit on term finance certificates	931,418	909,216	330,799	305,282
Mark-up on redeemable capital	233,267	162,675	94,058	51,076
Interest on obligation under hire purchase	-	11,595	-	1,274
Interest on obligation under finance leases	658,697	255,997	216,785	105,195
Interest to Pension / Provident Funds	659	18,144	-	-
Bank charges, guarantee commission, and other related charges	39,478	25,870	20,478	8,763
	2,006,123	1,532,238	700,503	516,225

13. CASH GENERATED FROM OPERATIONS

	Nine months period ended	
	SEP - 2005	SEP - 2004
	(Rupees in thousand)	
Profit before tax	(3,285,722)	(88,637)
Adjustments for:		
Depreciation	3,186,695	3,219,477
Amortization of intangible assets	15,756	-
Reversal against provision for doubtful trade debts	(9,214)	-
Provision for staff retirement medical benefits	57,750	46,876
Provision for staff compensated absences - net	19,500	50,000
Provision against stores and spares	40,000	495,272
Finance cost	2,006,123	1,532,238
Unrealized exchange gain	(12,365)	-
Interest income on advances to an associated company	(221,241)	(83,168)
(Gain)/loss on disposal of fixed assets	(435,902)	(175,716)
Realization of deferred gain on sale and lease back	-	(403,629)
Re-instatement of certain liabilities	-	(274,679)
Re-instatement of certain assets	-	(52,515)
Operating profit before working capital changes	1,361,380	4,265,519
Changes in operating assets and liabilities		
(Increase)/decrease in stores and spares	(157,978)	128,623
Decrease in trade debts	(645,844)	(525,085)
Decrease/(increase) in advances deposits and prepayments	18,077	(58,690)
Decrease/(increase) in other receivables	93,798	206,373
(Decrease) in trade and other payables	(14,755)	(995,541)
Cash generated from operations	654,678	3,021,199

14. GEOGRAPHICAL SEGMENTS

SEP -2005	Nine months period ended		Quarter ended	
	SEP -2004	SEP -2005	SEP -2004	SEP -2004

(Rupees in thousand)

14.1 Revenue analysis

The analysis of material accounts of traffic revenue is as follows:

USA/Canada	5,971,080	4,656,879	1,928,015	1,939,378
Europe	10,882,132	11,696,523	3,183,009	4,656,283
Middle East/Africa	7,888,475	7,735,621	3,584,406	3,191,448
Asia (excluding Pakistan)	2,197,749	1,441,850	742,726	542,069
Pakistan	19,068,523	15,531,674	6,543,323	4,226,508
	46,007,959	41,062,547	15,981,479	14,555,686

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

Geographical 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.

15. RELATED PARTY TRANSACTIONS

SEP - 2005	Nine months period ended	
	SEP - 2004	SEP - 2004

(Rupees in thousand)

The transactions with related parties, other than those relating to issuance of tickets at concessional rates to employees and directors according to terms of employment/regulations and those not mentioned elsewhere in these financial statements are as follows:

Catering services from Sky Rooms (Private) Limited	27,109	55,054
Interest on advances to PIA Investments Limited	221,241	64,812
Charge/contribution to pension fund	241,892	131,505
Charge/contribution to provident fund	171,662	117,875

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

16. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorized for issue in the Board of Directors Meeting held on October 25, 2005.

17. GENERAL

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

17.2 The US Dollars amounts in Balance Sheet, Profit and Loss Account and Cash Flow Statement have been translated into US Dollars at the rate of Rs. 59.85 = US\$ 1 solely for convenience purposes.

Tariq Kirmani
Chairman & Chief Executive

Asad Ali Khan
Director