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## PAKISTAN INTERNATIONAL AIRLINES CORPORATION CORPORATE PROFILE

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### Board of Directors

**Mr. Zaffar A. Khan**  
Chairman & CEO

**Mr. Kamal Afsar**

**Mr. Mueen Afzal**

**Syed Mohammad Fazal Agha**

**Mr. Shahzad M. Husain**

**Mr. M. Hidayatullah Khan Khaishgi**

**Mr. Javed Saifullah Khan**

**Maj. Gen. Mir Haider Ali Khan**  
Additional Secretary - I, Ministry of Defence

**Mr. S. Ali Raza**

**Mr. Farooq Rahmatullah**  
Director General - Civil Aviation Authority

**Mr. Ahmad Waqar**  
Secretary Finance

**Mr. Ghazanfar Mashkooor**  
Secretary

### Audit Committee

Mr. Kamal Afsar - Chairman  
Mr. Mueen Afzal  
Maj. Gen. Mir Haider Ali Khan  
Mr. Shahzad M. Husain  
Mr. S. Ali Raza  
Mr. Shehrzad Aminullah - Secretary

### Human Resource & Corporate Governance Committee

Mr. Javed Saifullah Khan - Chairman  
Mr. Zaffar A. Khan  
Syed Mohammad Fazal Agha  
Mr. M. Hidayatullah Khan Khaishgi  
Mr. Farooq Rahmatullah  
Mr. Wasim Bari - Secretary

### Registered Office

PIA Building  
Jinnah International Airport  
Karachi - Pakistan  
Web site: [www.piac.com.pk](http://www.piac.com.pk)

### Executive Management

**Mr. Zaffar A. Khan**  
Chairman & CEO

**Mr. Umar Ghafoor**  
Deputy Managing Director

**Mr. Muhammad Abdul Aleem**  
Chief Financial Officer

**Mr. Wasim Bari**  
SVP Human Resources & Administration

**Mr. Anwaar Rasul**  
SVP Sales

**Mr. Arif Majeed**  
SVP Finance

**Capt. Shahnawaz Dara**  
SVP Flight Safety & HSE

**Capt. Mahboob-ul-haque**  
SVP Flight Operations

**Mr. Nadeem Ikram**  
SVP Information Technology

**Mr. Shahnawaz Rehman**  
SVP Financial Monitoring & Appraisal

**Mr. Salah Uddin**  
SVP Flight Services

**Mr. Sohail Mustafa**  
Acting. SVP Commercial

**Mr. Muhammad Tariq Farooq**  
Acting SVP Engineering

**AVM Muhammad Rafi**  
SVP Precision Engineering

**Mr. Amir Zafar**  
SVP Quality Assurance

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**DIRECTORS' REPORT TO THE SHAREHOLDERS**

- \* The Directors of Pakistan International Airlines present their report along with interim condensed financial statements (un-audited) for the nine months period ended September 30, 2007.
- \* The financial results for the period under review are summarized below:

	July - September		January - September	
	2007	2006	2007	2006
	(Rupees in million)			
Revenue	<b>17,165</b>	18,263	<b>52,046</b>	51,789
Operating Expenses	<b>18,716</b>	19,812	<b>57,915</b>	57,518
Operating Loss	<b>(1,551)</b>	(1,549)	<b>(5,869)</b>	(5,729)
Financing Cost	<b>1,817</b>	1,308	<b>5,213</b>	3,396
Loss after Taxation	<b>(3,155)</b>	(3,043)	<b>(10,904)</b>	(9,188)

- \* PIA's total revenue for the 3rd quarter 2007 was at the same level as 2nd quarter 2007. However, the 3rd quarter revenue was 6 % lower than the same period last year mainly due to drop in both passenger and cargo revenue. This was largely caused by management's decision to implement a revised operating plan from July 2007 whereby several non profitable routes were closed principally in Europe and Asia. The passenger seat capacity and cargo capacity, as a consequence, were lower by approximately 12%. The Engineering and other revenue streams were also less than last year mainly due to PIA's limited engineering capacity being utilized to refurbish its own aircraft versus entertaining third party business.
- \* During the third quarter the airline incurred an operating loss of Rs 1.5 billion which is at the same level as last year. However, the loss for the 3rd quarter 2007 is 14% less than the preceding 2nd quarter 2007, with the same level of sales revenue, reflecting partially the success of the new strategy to improve the business fundamentals of the airline. The improvement recorded though is well below Management's expectations. During the quarter the fuel prices remained at a very high level. The operating expenses, excluding fuel, were, overall, 8% higher than last year caused mainly by 2006 and 2007 salary increases, substantially increased maintenance and increased depreciation and lease rental of aircraft.
- \* Revenue for the nine months ending September 2007 was marginally ahead of last year. While there was nominal growth in passenger revenue segment, the cargo business recorded a decline of over 11%. Overall, the market showed a modest growth in the international segment but declined by about 10% in the domestic segment.
- \* The operating loss for the nine months to September 2007 at Rs. 5.9 billion is 2% more than last year. The impact of 2006 salary hike, the increase in depreciation and lease rentals of aircraft due to induction of three new Boeing-777 and seven ATR-42 aircraft since July 2006. The overall fuel cost is less than last year partially due to lower capacity utilization but it also reflects improved fuel efficiency in the airline due to increasing utilization of newer fuel efficient aircraft.
- \* The financing cost for the nine months to September 2007 at Rs. 5.2 billion was substantially higher (Rs. 3.4 billion in 2006) caused by increased requirements to finance fleet replacement and also to fund additional financing required to sustain operations. Overall the airline suffered a loss after tax of Rs. 10.9 billion against Rs. 9.2 billion for the same period last year, mainly due to increased financial cost.
- \* During the period under review, the two PIA Hotel subsidiaries have continued to deliver improved performance.
- \* PIA Management is concerned about the high level of losses and the unfavorable business environment. Higher oil prices, higher wage expectations of employees, growing competition are serious issues confronting the Airline. The Management, with the full support of the Board, is working on additional measures to contain the high loss situation in the near term, and to bring about sustainable improvements in the long term.

For and on behalf of the Board

**Zaffar A. Khan**  
 Chairman & CEO

October 31, 2007

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**INTERIM CONDENSED BALANCE SHEET (UN-AUDITED)**  
**AS AT SEPTEMBER 30, 2007**

	Note	SEP-2007 (Rupees in thousand)	DEC-2006	SEP-2007 (US\$ in thousand)
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
<b>Fixed assets</b>				
Property, plant and equipment	4	89,309,990	78,964,162	1,471,334
Intangibles		80,161	98,275	1,321
		<b>89,390,151</b>	<b>79,062,437</b>	<b>1,472,655</b>
Long term investments		4,537,743	4,528,198	74,757
Long term advances and other receivables		1,661,500	1,684,000	27,372
Long term deposits and prepayments		3,918,774	3,263,699	64,560
<b>Total non-current assets</b>		<b>99,508,168</b>	<b>88,538,334</b>	<b>1,639,344</b>
<b>CURRENT ASSETS</b>				
Stores and spares	5	3,170,400	3,371,040	52,231
Trade debts		6,462,063	6,129,673	106,459
Advances		1,621,546	592,068	26,714
Trade deposits and prepayments		1,273,945	1,229,333	20,988
Accrued interest		32,375	51,010	533
Other receivables		1,196,776	865,255	19,716
Short term investments		30,814	421,394	508
Taxation - net		232,969	233,738	3,838
Cash and bank balances		1,189,850	5,459,924	19,602
<b>Total current assets</b>		<b>15,210,738</b>	<b>18,353,435</b>	<b>250,589</b>
<b>TOTAL ASSETS</b>		<b>114,718,906</b>	<b>106,891,769</b>	<b>1,889,933</b>
<b>EQUITY AND LIABILITIES</b>				
<b>SHARE CAPITAL AND RESERVES</b>				
Share capital		19,473,631	19,473,631	320,818
Reserves		4,280,712	4,280,712	70,522
Unrealized gain / (loss) on remeasurement of investments - net		86,252	21,013	1,421
Accumulated losses		(34,838,647)	(24,563,386)	(573,948)
<b>Total equity</b>		<b>(10,998,052)</b>	<b>(788,030)</b>	<b>(181,187)</b>
Surplus on revaluation of fixed assets - net		517,900	926,318	8,532
		<b>(10,480,152)</b>	<b>138,288</b>	<b>(172,655)</b>
<b>NON-CURRENT LIABILITIES</b>				
Advance against equity from GoP	6	1,057,741	-	17,426
Long term financing	7	18,810,015	6,900,478	309,885
Term finance certificates		10,723,738	13,246,970	176,668
Liabilities against assets subject to finance lease	8	46,919,220	42,503,444	772,969
Long term deposits		308,482	261,711	5,082
Deferred liabilities		2,647,010	2,815,588	43,608
<b>Total non-current liabilities</b>		<b>80,466,206</b>	<b>65,728,191</b>	<b>1,325,638</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables		16,764,632	16,617,024	276,188
Accrued interest / mark-up / profit		699,626	812,278	11,526
Short term borrowings	9	12,818,315	15,543,446	211,175
Current portion of:				
Long term financing		6,929,296	2,599,916	114,157
Term finance certificates		2,523,232	756,970	41,569
Liabilities against assets subject to finance lease		4,856,119	3,914,491	80,002
Long term murabaha		141,632	781,165	2,333
<b>Total current liabilities</b>		<b>44,732,852</b>	<b>41,025,290</b>	<b>736,950</b>
<b>CONTINGENCIES AND COMMITMENTS</b>				
<b>TOTAL EQUITY AND LIABILITIES</b>	10	<b>114,718,906</b>	<b>106,891,769</b>	<b>1,889,933</b>

The annexed notes form an integral part of these interim condensed financial statements.

**Zaffar A. Khan**  
Chairman & CEO

**Kamal Afsar**  
Director

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**INTERIM CONDENSED PROFIT AND LOSS ACCOUNT (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

	Note	Nine months ended		Quarter ended		Nine months ended
		SEP-2007	SEP-2006	SEP-2007	SEP-2006	SEP-2007
		(Rupees in thousand)				(US\$ in thousand)
<b>Turnover - net</b>	11	<b>52,046,157</b>	51,789,231	<b>17,164,793</b>	18,263,059	<b>857,433</b>
Cost of services						
Aircraft fuel		(21,416,234)	(25,494,068)	(7,124,033)	(9,052,471)	(352,821)
Others	12	(29,512,636)	(25,756,804)	(9,192,562)	(8,598,268)	(486,205)
		<b>(50,928,870)</b>	(51,250,872)	<b>(16,316,595)</b>	(17,650,739)	<b>(839,026)</b>
<b>Gross Profit</b>		<b>1,117,287</b>	538,359	<b>848,198</b>	612,320	<b>18,407</b>
Distribution costs		(3,111,473)	(3,183,053)	(1,138,758)	(1,103,935)	(51,260)
Administrative expenses		(3,874,768)	(3,084,487)	(1,261,074)	(1,057,241)	(63,835)
		<b>(6,986,241)</b>	(6,267,540)	<b>(2,399,832)</b>	(2,161,176)	<b>(115,095)</b>
<b>Loss from operations</b>		<b>(5,868,954)</b>	(5,729,181)	<b>(1,551,634)</b>	(1,548,856)	<b>(96,688)</b>
Finance costs	13	(5,212,776)	(3,395,531)	(1,816,879)	(1,307,593)	(85,878)
Other provisions and adjustments - net		(414,303)	(405,372)	(333,019)	(273,155)	(6,825)
		<b>(5,627,079)</b>	(3,800,903)	<b>(2,149,898)</b>	(1,580,748)	<b>(92,703)</b>
Other operating income		852,662	601,396	632,686	177,768	14,047
<b>Loss before tax</b>		<b>(10,643,371)</b>	(8,928,688)	<b>(3,068,846)</b>	(2,951,836)	<b>(175,344)</b>
Taxation		(260,231)	(258,946)	(85,824)	(91,315)	(4,287)
<b>Loss after tax</b>		<b>(10,903,602)</b>	(9,187,634)	<b>(3,154,670)</b>	(3,043,151)	<b>(179,631)</b>
				(Rupees)		(US\$)
Loss per share						
'A' class ordinary shares		(5.60)	(5.10)	(1.62)	(1.69)	(0.09)
'B' class ordinary shares		(2.80)	(2.55)	(0.81)	(0.85)	(0.05)

The annexed notes form an integral part of these interim condensed financial statements.

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**INTERIM CONDENSED CASH FLOW STATEMENT (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

	Note	SEP-2007 (Rupees in thousand)	SEP-2006 (Rupees in thousand)	SEP-2007 (US\$ in thousand)
<b>Cash flows from operating activities</b>				
Cash used in operations	14	(3,078,426)	(5,809,914)	(50,715)
Profit on bank deposits received		177,674	130,812	2,927
Deferred custom duty paid		(176,941)	(71,102)	(2,915)
Finance costs paid		(5,325,428)	(3,499,093)	(87,734)
Taxes paid		(261,004)	(74,320)	(4,300)
Staff retirement benefits paid		(150,881)	(278,532)	(2,486)
Compensated absences paid		(19,367)	(74,078)	(319)
Long term deposits - net		(608,306)	(988,643)	(10,021)
Net cash used in operating activities		(9,442,679)	(10,664,870)	(155,563)
<b>Cash flows from investing activities</b>				
Fixed capital expenditure		(3,518,287)	(2,575,424)	(57,962)
Proceeds from sale of fixed assets		260,413	175,943	4,290
Investments - net		-	(4,220,089)	-
Dividend received		386,292	-	6,364
Long term advances and other receivables		-	502,510	-
Net cash used in investing activities		(2,871,582)	(6,117,060)	(47,308)
<b>Cash flows from financing activities</b>				
Advance against equity		1,057,741	1,144,755	17,426
Proceeds from long term financing		16,238,918	4,874,517	267,528
Redemption of term finance certificates		(756,970)	(756,970)	(12,471)
Repayment of obligations under finance lease		(5,130,839)	(2,734,266)	(84,528)
Repayment of long term murabaha		(639,532)	(615,685)	(10,536)
Net cash generated from financing activities		10,769,318	1,912,351	177,419
<b>Decrease in cash and cash equivalents</b>		<b>(1,544,943)</b>	<b>(14,869,579)</b>	<b>(25,452)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>(10,083,522)</b>	<b>2,252,616</b>	<b>(166,121)</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>(11,628,465)</b>	<b>(12,616,963)</b>	<b>(191,573)</b>
<b>CASH AND CASH EQUIVALENTS</b>				
Cash and bank balances		1,189,850	1,316,930	19,602
Short term borrowings		(12,818,315)	(13,933,893)	(211,175)
		<b>(11,628,465)</b>	<b>(12,616,963)</b>	<b>(191,573)</b>

The annexed notes form an integral part of these interim condensed financial statements.

**Zaffar A. Khan**  
Chairman & CEO

**Kamal Afsar**  
Director

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

	Share capital	Capital reserves	Revenue reserves	Unrealized gain / (loss) on re-measurement of investment	Accumulated losses	Total equity
(Rupees in thousands)						
<b>Balance as at January 01, 2006</b>	17,980,659	2,501,038	1,779,674	(15,107)	(11,799,966)	<b>10,446,298</b>
Unrealized loss on re-measurement of investments	-	-	-	(12,200)	-	<b>(12,200)</b>
Loss for the period	-	-	-	-	(9,187,634)	<b>(9,187,634)</b>
<b>Balance as at September 30, 2006</b>	<u>17,980,659</u>	<u>2,501,038</u>	<u>1,779,674</u>	<u>(27,307)</u>	<u>(20,987,600)</u>	<b>1,246,464</b>
<b>Balance as at January 01, 2007</b>	19,473,631	2,501,038	1,779,674	21,013	(24,563,386)	<b>(788,030)</b>
Unrealized gain on re-measurement of investments	-	-	-	65,239	-	<b>65,239</b>
Loss for the period	-	-	-	-	(10,903,602)	<b>(10,903,602)</b>
Less: Transfer from surplus on revaluation	-	-	-	-	628,341	<b>628,341</b>
					(10,275,261)	<b>(10,275,261)</b>
<b>Balance as at September 30, 2007</b>	<u>19,473,631</u>	<u>2,501,038</u>	<u>1,779,674</u>	<u>86,252</u>	<u>(34,838,647)</u>	<b>(10,998,052)</b>

The annexed notes form an integral part of these interim condensed financial statements.

**Zaffar A. Khan**  
Chairman & CEO

**Kamal Afsar**  
Director

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**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

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**1. CORPORATE INFORMATION**

- 1.1 Pakistan International Airlines Corporation (the Corporation) was incorporated in Pakistan on April 18, 1956 under the Pakistan International Airlines Corporation Act, 1956 (PIAC Act) and its shares are quoted on all Stock Exchanges of Pakistan. The registered office is situated at Karachi Airport. Principal activity of the Corporation is to provide air transport services. Other activities of the Corporation include provision of engineering and other allied services.

During the period the Corporation has incurred a net loss of Rs. 10,904 (September 30, 2006: Rs. 9,188) million, resulting in accumulated losses of Rs. 34,839 (December 31, 2006: Rs. 24,563) million as of the balance sheet date. Further as of that date the current liabilities of the Corporation exceeded its current assets by Rs. 29,522 (December 31, 2006: Rs. 22,672) million. The management has initiated corrective measures to improve operating results of the Corporation. Further, the Ministry of Finance has extended its support by approving a financial restructuring package which is currently in the process of implementation.

- 1.2 The Government of Pakistan (GoP) as a majority shareholder has committed to ensure the going concern status of the Corporation at all times. Also, historically support of GoP is available to the Corporation as GoP has already issued guarantees to secure certain long term finance and Term Finance Certificates (TFCs) of the Corporation. GoP had agreed to provide equity contribution to the Corporation equivalent to accumulated loss of the Corporation as at December 31, 2000, to cover interest / profit payments on long term finances and TFCs. As part of the financial package, an amount of Rs.7,981 million (2006: Rs.6,923 million) has been provided to the Corporation up to September 30, 2007 against which 692,306,294 (2006: 692,306,294) 'A' class ordinary shares of Rs.10 each were issued to GoP up to December 31, 2006. The remaining 105,774,100 ordinary shares are expected to be issued during the current year. Hence, the Corporation expects continued financial support of GOP in future as well. In view of the above, the Corporation has prepared these financial statements on a going concern basis.

In addition GoP had approved a fleet replacement plan as a result of which the Corporation entered into an agreement for purchase of eight new Boeing 777 aircraft. GoP had provided funding of US\$ 150 million - Rs.8,816 million in the form of equity and guarantees for acquisition of the said aircraft up to December 31, 2006.

The Corporation has been advised earlier by the European Union (EU) that some of its aircraft were temporarily restrained from flying to various countries in Europe. The Corporation has taken steps to address the issues raised by the EU. Subsequently, the Air Safety Committee has proposed to the European Committee for the modification of the operational restrictions imposed on the Corporation so as to allow eleven aircraft (out of twenty aircraft subject to the aforesaid restriction) to operate in the region.

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**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

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**2. BASIS OF PREPARATION**

These interim condensed financial statements are unaudited and are being submitted to the shareholders as required under Section 245 of the Companies Ordinance, 1984 and the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges and have been prepared in accordance with the requirements of the International Accounting Standard (IAS) - 34 "Interim Financial Reporting" as applicable in Pakistan.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Corporation's annual financial statements as at December 31, 2006.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these interim condensed financial statements are the same as those applied in the preparation of the annual financial statements of the Corporation for the year ended December 31, 2006 except as follows:

During the period, the Corporation changed its method of computation of depreciation on assets other than aircraft fleet, whereby, with effect from the current period, depreciation on additions is charged for the full month in which an asset is put to use and on deletions up to the month immediately preceding the deletion, to better reflect the pattern of utilization of economic benefits derived from the assets, as against the previous method of charging full year's depreciation in the year of additions during first six months' where as six months' depreciation is charged on additions during the second half of the year, and no depreciation is charged in the year of disposal.

Had the Corporation not made the above change, loss before taxation for the current period would have been higher by Rs. 9 million whereas depreciation charge for the period would have been higher by the same amount

Further, during the period, the Corporation changed its method of computation of depreciation on aircraft fleet, whereby, with effect from the current period, depreciation on the aircraft whether owned or subject to finance lease is separately charged for the airframes and engines based on their respective estimated useful life, to better reflect the pattern of utilization of economic benefits derived from the assets, as against the previous method of charging depreciation on the aircraft as a whole.

Had the Corporation not made the above change, loss before taxation for the current period would have been higher by Rs. 284 million and the depreciation charge for the period would have been higher by the same amount.

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

**4. PROPERTY, PLANT AND EQUIPMENT**

	SEP-2007	DEC-2006
	(Rupees in thousand)	
Operating fixed assets (note 4.1)	83,597,272	72,326,396
Capital work-in-progress	5,712,718	6,637,766
	<b>89,309,990</b>	<b>78,964,162</b>

**4.1 Following are the major additions and deletions during the period:**

	SEP-2007	SEP-2006
<b>Additions / transfers</b>		
<b>Owned</b>		
Buildings on leasehold land	20,142	62,943
Workshops and hangars	2,336	-
Renovation and improvements	25,865	-
Aircraft fleet (note 4.1.1)	3,070,722	694,201
Operating ground equipment, Catering, Communication & meteorological equipment	26,007	16,328
Engineering equipment and tools	79,474	-
Motor transport	19,121	-
Traffic equipment	31,582	76,281
Furniture, fixture and fittings	18,225	25,242
Office equipment	532	-
Computer and office automation	72,027	107,614
Precision engineering equipment	184	-
Other equipment	39,547	63,727
Capital spares	1,032,083	1,218,539
	<b>4,437,847</b>	<b>2,264,875</b>
<b>Leased</b>		
Aircraft fleet (note 4.1.2)	10,488,244	18,611,465
	<b>14,926,091</b>	<b>20,876,340</b>
<b>Deletions</b>		
<b>Owned</b>		
Land	103	-
Traffic equipment	3,414	16,066
Renovation and improvements	1,525	-
Aircraft fleet	231,584	90,315
Operating ground equipment, Catering, Communication & meteorological equipment	3,274	-
Motor transport	480	-
Furniture, Fixture and fittings	1,300	-
Office equipment	435	-
Computer and office automation	520	-
Other equipment	287	-
Capital spares	79,536	40,593
	<b>322,458</b>	<b>146,974</b>
<b>Leased</b>		
Vehicles	2,415	-
	<b>324,873</b>	<b>146,974</b>

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

4.1.1 This includes four ATR 42 aircraft purchased by the Corporation during the current period.

4.1.2 This represents cost of a Boeing 777 ER aircraft acquired during the current period in accordance with the fleet replacement plan approved by GoP

**5. STORES AND SPARES**

	SEP-2007 (Rupees in thousand)	DEC-2006
Stores	701,687	828,560
Spares	3,875,133	3,387,842
	4,576,820	4,216,402
Less: provision for slow moving stores and spares	1,694,339	1,604,338
	2,882,481	2,612,064
Inventory held for disposal	2,198,380	2,266,825
Less: adjustment to write down surplus inventory to net realizable value	2,166,514	1,935,827
	31,866	330,998
Goods-in-transit	256,053	427,978
	<b>3,170,400</b>	<b>3,371,040</b>

**6. ADVANCE AGAINST EQUITY FROM GOP**

This represents the amount received from GoP towards equity contribution under the terms of Financial Package, as disclosed in note 1.2 to these interim condensed financial statements.

**7. LONG TERM FINANCING - secured**

Financier	Type of Facility	Limit (Rupees in million)	Repayment period	Number of installments / mode	SEP-2007 (Rupees in thousand)	DEC-2006
<b>From Banking Companies</b>						
Standard Chartered Bank	Syndicate Finance	3,000	2006-2007	1 Bullet	2,999,404	-
United Bank Limited	Syndicate Finance	1,650	2005-2009	Half-yearly	1,486,007	1,621,098
Citibank / DVB Bank	Syndicate Finance	6,603	2006-2008	Half-yearly	3,145,595	3,491,442
Habib Bank Limited	Demand Finance	530	2006-2009	36 Monthly	309,167	456,389
Citibank, N.A.	Demand Finance	4,985	2006-2016	20 Half-yearly	4,757,954	2,180,179
Habib Bank Limited	Demand Finance	200	2006-2009	36 Monthly	138,889	194,444
ABN Amro Bank	Demand Finance	3,099	2009-2013	19 Quarterly	3,089,129	1,556,842
NBP/HBL	Syndicate Finance	7,260	2007-2010	Bullet	7,284,000	-
Standard Chartered Bank DXB	Demand Finance	3,025	2007-2009	12 Quarterly	2,529,166	-
					25,739,311	9,500,394
Less: current portion					6,929,296	2,599,916
					<b>18,810,015</b>	<b>6,900,478</b>

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

**8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

	SEP-2007	DEC-2006
	(Rupees in thousand)	
<b>Present value of future rental obligations-aircraft fleet</b>		
A-310	5,240,598	5,665,539
B-777 ER	32,208,497	25,540,393
B-777 LR	14,260,229	15,118,103
	<b>51,709,324</b>	<b>46,324,035</b>
<b>Present value of future rental obligations - vehicles</b>	<b>66,015</b>	<b>93,900</b>
	<b>51,775,339</b>	<b>46,417,935</b>
Less: current portion	4,856,119	3,914,491
	<b>46,919,220</b>	<b>42,503,444</b>
<b>9. SHORT TERM BORROWINGS - secured</b>		
Short term loans (note 9.1)	10,054,018	14,580,244
Running finance under mark-up arrangements (note 9.2)	2,764,297	963,202
	<b>12,818,315</b>	<b>15,543,446</b>

**9.1 Short term loans - secured**

Financier	Security	Repayment period	SEP-2007	DEC-2006
			(Rupees in thousand)	
<b>From Banking Companies</b>				
Citibank - Karachi	GoP Guarantee	3 months	-	2,000,000
United Bank Limited - Dubai	UAE Receivables	1 Year	-	58,840
National Bank of Pakistan - Bahrain	GoP Guarantee	1 Year	-	4,260,900
Habib Bank Limited - Export Processing Zone				
Standard Chartered Bank - DXB/UBL/HAIB	GoP Guarantee	1 Year	7,204,018	3,043,500
Standard Chartered Bank - Dubai	GoP Guarantee	3 months	-	1,217,400
Habib Bank Limited - Karachi	Hypothecation charge over current assets	6 months	850,000	1,000,000
Standard Chartered Bank - Karachi	GoP Guarantee	6 months	-	2,999,604
Habib Bank Limited - Karachi	GoP Guarantee	1 Year	2,000,000	-
			<b>10,054,018</b>	<b>14,580,244</b>

The rate of mark-up ranges between 5.82% and 10.15%.

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

**9.2. Running finance under mark-up arrangements - secured**

Financier	Security	Repayment period	SEP-2007 (Rupees in thousand)	DEC-2006
<b>From Banking Companies</b>				
United Bank Limited - Karachi	First pari passu hypothecation charge over current assets	1 Year	2,189,297	365,372
National Bank of Pakistan - Karachi	First pari passu hypothecation charge over current assets	1 Year	575,000	50,000
Habib Allied International Bank Limited - London	Receivables in Europe	1 Year	-	547,830
			<b>2,764,297</b>	<b>963,202</b>

**10. CONTINGENCIES AND COMMITMENTS**

There has been no change in the status of contingencies and commitments as disclosed in the annual financial statements of the Corporation for the year ended December 31, 2006 and half year ended June 30, 2007.

	Nine months ended		Quarter ended	
	SEP-2007	SEP-2006	SEP-2007	SEP-2006
(Rupees in thousand)				

**11. TURNOVER - net**

Passenger	45,592,466	44,262,635	14,845,461	15,556,504
Cargo	3,767,056	4,223,782	1,482,716	1,610,154
Excess baggage	615,925	565,791	200,320	182,347
Charter	128,196	308,390	43,231	64,879
Engineering services	457,864	966,175	138,669	343,068
Handling and related services	625,422	691,217	188,954	258,587
Mail	236,143	212,301	79,719	75,253
Others	623,085	558,940	185,723	172,267
	<b>52,046,157</b>	<b>51,789,231</b>	<b>17,164,793</b>	<b>18,263,059</b>

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

	Nine months ended		Quarter ended	
	SEP-2007	SEP-2006	SEP-2007	SEP-2006
	(Rupees in thousand)			
<b>12. COST OF SERVICES - others</b>				
Salaries, wages and allowances	5,201,942	4,274,127	1,706,284	1,451,172
Welfare and social security costs	186,326	244,804	62,931	152,571
Retirement benefits	356,776	287,744	132,925	134,303
Compensated absences	9,018	10,613	3,006	4,690
Legal and professional charges	91,114	75,114	34,993	29,872
Stores and spares consumed	1,437,514	1,703,636	597,947	544,849
Maintenance and overhaul	4,963,585	4,077,825	1,589,548	1,364,069
Flight equipment rental	2,762,082	1,831,582	463,746	345,373
Landing and handling	5,874,467	5,997,941	1,752,457	2,085,206
Passenger services	2,103,706	1,978,636	676,505	591,168
Crew layover	1,569,423	1,438,812	504,548	487,153
Staff training	51,826	55,572	14,289	16,162
Utilities	10,967	8,028	4,808	4,430
Communication	47,456	48,249	14,376	11,382
Insurance	816,973	825,669	278,494	301,174
Rent, rates and taxes	198,014	223,063	58,067	74,314
Repair and maintenance	91,441	102,228	34,606	33,126
Printing and stationery	93,118	67,024	26,364	20,371
Amortization	1,859	1,293	621	431
Depreciation	3,466,522	2,349,344	1,163,027	886,207
Others	178,507	155,500	73,020	60,245
	<b>29,512,636</b>	<b>25,756,804</b>	<b>9,192,562</b>	<b>8,598,268</b>
<b>13. FINANCE COST</b>				
Mark-up on long term financing	664,641	205,557	395,287	64,519
Profit on term finance certificates	1,027,586	1,022,541	346,625	339,968
Interest on liabilities against assets subject to finance lease	2,193,476	1,448,989	734,097	574,129
Mark-up on long term murabaha	38,719	88,597	4,366	29,154
Mark-up on short-term borrowings	1,036,990	493,323	277,764	247,970
Arrangement, agency and commitment fee	219,394	107,785	50,704	43,808
Bank charges, guarantee commission and other related charges	31,970	28,739	8,036	8,045
	<b>5,212,776</b>	<b>3,395,531</b>	<b>1,816,879</b>	<b>1,307,593</b>

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

	Nine months ended	
	SEP-2007	SEP-2006
	(Rupees in thousand)	
<b>14. CASH USED IN OPERATIONS</b>		
Loss before tax	(10,643,371)	(8,928,688)
<b>Adjustments for:</b>		
Depreciation	3,632,554	2,513,458
Capital spares scrappage	21,254	-
Gain on disposal of fixed assets	(259,005)	(172,456)
Amortization	23,601	22,491
Provision for Stores & Spares	320,688	100,000
Provision for Compensated absences	6,500	431,443
Provision for staff retirement medical benefits	19,250	-
Provision for doubtful debts	223,319	-
Finance costs	5,212,776	3,395,531
Profit on bank deposits	(159,039)	(106,569)
Dividend income	(386,292)	-
	<b>(1,987,765)</b>	<b>(2,744,790)</b>
<b>Working capital changes</b>		
Increase in stores and spares	(120,047)	(531,621)
Increase in trade debts	(653,078)	(2,095,274)
Increase in advances	(1,029,479)	(56,736)
Increase in trade deposits and prepayments	(44,612)	(134,452)
Increase in other receivables	(331,521)	(183,539)
Increase/(decrease) in trade and other payables	1,088,076	(63,502)
	<b>(1,090,661)</b>	<b>(3,065,124)</b>
<b>Cash used in operations</b>	<b>(3,078,426)</b>	<b>(5,809,914)</b>

**15. RELATED PARTY RELATIONSHIP**

The Corporation has related party relationships with the following undertakings:

	SEP-2007	SEP-2006
- Sky Rooms (Private) Limited	Subsidiary	Subsidiary
- Midway House (Private) Limited (under winding-up)	Subsidiary	Subsidiary
- PIA Investments Limited (PIAIL)	Subsidiary	Subsidiary
- Abacus Distribution Systems Pakistan (Private) Limited	Joint Venture	Joint Venture
- Minhal Incorporated - Sharjah	Associate	Associate

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**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

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**16. AUTHORIZATION OF FINANCIAL STATEMENTS**

These financial statements were authorized for issue in the Board of Director's meeting held on October 31, 2007.

**17. GENERAL**

**17.1** Figures have been rounded off to the nearest thousand rupee.

**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. 60.70 = US\$ 1 solely for convenience purposes.

**17.3** The information as to the available capacity and utilization thereof during the quarter is disclosed in the statistics annexed to the interim condensed financial statements.

**Zaffar A. Khan**  
Chairman & CEO

**Kamal Afsar**  
Director

# PAKISTAN INTERNATIONAL AIRLINES CORPORATION

## QUARTERLY SUMMARY

		2007			2006		
		1st Quarter	2nd Quarter	3rd Quarter	1st Quarter	2nd Quarter	3rd Quarter
<b>Traffic Operations</b>							
Available Seat Kilometers (million)	International	4,045	4,157	4,040	4,209	4,490	4,645
	Domestic	771	687	625	649	670	681
	Hajj	772	-	-	882	-	-
	<b>Total</b>	<b>5,588</b>	<b>4,844</b>	<b>4,665</b>	<b>5,740</b>	<b>5,160</b>	<b>5,326</b>
Revenue Passenger Kilometers (million)	International	2,942	2,857	3,074	2,953	3,101	3,614
	Domestic	464	465	457	465	493	532
	Hajj	393	-	-	451	-	-
	<b>Total</b>	<b>3,799</b>	<b>3,322</b>	<b>3,531</b>	<b>3,869</b>	<b>3,594</b>	<b>4,146</b>
Seat Factor (%)	International	72.73	68.73	76.09	70.16	69.06	77.80
	Domestic	60.18	67.69	73.12	71.65	73.58	78.12
	Hajj	50.91	0.00	-	51.13	0.00	-
	<b>Total</b>	<b>67.98</b>	<b>68.58</b>	<b>75.69</b>	<b>67.40</b>	<b>69.65</b>	<b>77.84</b>
Available Freight Tonne Kilometers (million)	International	128	148	141	126	163	160
	Domestic	31	28	22	20	24	25
	<b>Total</b>	<b>159</b>	<b>176</b>	<b>163</b>	<b>146</b>	<b>187</b>	<b>185</b>
Revenue Freight Tonne Kilometers (million)	International	74	80	102	83	104	116
	Domestic	8	9	11	9	9	9
	<b>Total</b>	<b>82</b>	<b>89</b>	<b>113</b>	<b>92</b>	<b>113</b>	<b>125</b>
Load Factor (%)	International	57.81	54.05	72.34	65.87	63.80	72.50
	Domestic	25.81	32.14	50.00	45.00	37.50	36.00
	<b>Total</b>	<b>51.57</b>	<b>50.57</b>	<b>69.33</b>	<b>63.01</b>	<b>60.43</b>	<b>67.57</b>
<b>Financial</b>							
(----- Rupees in million -----)							
Operating Revenue		17,674	17,207	17,165	16,840	16,686	18,263
Operating Expenses		20,180	19,018	18,716	18,951	18,755	19,812
Operating loss		(2,506)	(1,811)	(1,551)	(2,111)	(2,069)	(1,549)
Loss before taxation		(3,865)	(3,709)	(3,069)	(2,996)	(2,981)	(2,952)
Loss after taxation		(3,954)	(3,795)	(3,155)	(3,080)	(3,064)	(3,043)
Fixed Assets		87,095	89,285	89,390	67,219	67,802	68,505
Current Assets		15,222	15,219	15,211	12,865	14,566	14,163
Current Liabilities		43,211	39,633	44,733	30,497	34,891	38,437
Long-term Debts		69,483	78,391	76,453	51,938	52,310	52,254
Net Worth		(4,635)	(8,214)	(10,998)	7,345	4,262	1,246
Jet Fuel Prices (Rs. Per US Gallon)		114.28	125.03	134.49	113.88	128.26	135.31



**GROUP CONSOLIDATED  
FINANCIAL STATEMENTS  
SEPTEMBER 2007**

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (UN-AUDITED)**  
**AS AT SEPTEMBER 30, 2007**

	Note	SEP-2007 (Rupees in thousand)	DEC-2006 (Rupees in thousand)	SEP-2007 (US\$ in thousand)
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
<b>Fixed assets</b>				
Property, plant and equipment	4	112,498,219	102,579,997	1,853,348
Intangibles		2,056,964	2,075,078	33,887
		114,555,183	104,655,075	1,887,235
Long term investments		165,769	156,224	2,731
Long term advances and other receivables		2,706,884	2,153,902	44,594
Long term deposits and prepayments		3,920,735	3,406,397	64,592
<b>Total non-current assets</b>		<b>121,348,571</b>	<b>110,371,598</b>	<b>1,999,152</b>
<b>CURRENT ASSETS</b>				
Stores and spares	5	3,185,298	3,382,328	52,476
Trade debts		7,119,095	6,521,586	117,283
Advances		1,561,908	552,856	25,732
Trade deposits and prepayments		1,273,945	1,476,145	20,988
Accrued interest		32,374	51,010	533
Other receivables		1,227,651	1,100,676	20,225
Short term investments		263,389	606,868	4,339
Taxation - net		252,866	261,674	4,166
Cash and bank balances		2,998,280	7,079,105	49,395
<b>Total current assets</b>		<b>17,914,806</b>	<b>21,032,248</b>	<b>295,137</b>
<b>TOTAL ASSETS</b>		<b>139,263,377</b>	<b>131,403,846</b>	<b>2,294,289</b>
<b>EQUITY AND LIABILITIES</b>				
<b>SHARE CAPITAL AND RESERVES</b>				
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT</b>				
Share capital		19,473,631	19,473,631	320,818
Reserves		4,280,712	4,280,712	70,522
Unrealized gain on remeasurement of investments		86,252	21,013	1,421
Foreign exchange translation reserve		1,963,360	1,847,591	32,345
Accumulated losses		(33,845,460)	(23,717,778)	(557,586)
		(8,041,505)	1,905,169	(132,480)
<b>MINORITY INTEREST</b>		<b>548,572</b>	<b>520,692</b>	<b>9,037</b>
<b>TOTAL EQUITY</b>		<b>(7,492,933)</b>	<b>2,425,861</b>	<b>(123,443)</b>
Surplus on revaluation of fixed assets - net		3,133,248	3,601,840	51,619
		(4,359,685)	6,027,701	(71,824)
<b>NON-CURRENT LIABILITIES</b>				
Advance against equity from GoP	6	1,057,741	-	17,426
Long term financing	7	29,266,476	18,682,829	482,150
Term finance certificates		10,723,738	13,246,970	176,668
Liabilities against assets subject to finance lease	8	46,919,220	42,503,444	772,969
Long term deposits		308,614	261,843	5,084
Deferred liabilities		7,919,872	8,045,670	130,476
<b>Total non-current liabilities</b>		<b>96,195,661</b>	<b>82,740,756</b>	<b>1,584,773</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables		17,931,468	18,023,185	295,411
Accrued interest / mark-up / profit		699,627	812,278	11,526
Short term borrowings	9	12,818,315	15,543,446	211,175
Tax payable		17,511	89,299	288
Current portion of:				
Long term financing		8,439,499	2,714,555	139,036
Term finance certificates		2,523,232	756,970	41,569
Liabilities against assets subject to finance lease		4,856,119	3,914,491	80,002
Long term murabaha		141,630	781,165	2,333
<b>Total current liabilities</b>		<b>47,427,401</b>	<b>42,635,389</b>	<b>781,340</b>
<b>CONTINGENCIES AND COMMITMENTS</b>				
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>139,263,377</b>	<b>131,403,846</b>	<b>2,294,289</b>

The annexed notes form an integral part of these interim condensed financial statements.

**Zaffar A. Khan**  
Chairman & CEO

**Kamal Afsar**  
Director

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**INTERIM CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

Note	Nine months ended		Quarter ended		Nine months ended	
	SEP-2007	SEP-2006	SEP-2007	SEP-2006	SEP-2007	
					(US\$ in thousand)	
(Rupees in thousand)						
Turnover - net	11	58,188,119	57,643,214	19,777,388	21,145,130	958,618
Cost of services						
Aircraft fuel		(21,416,234)	(25,494,068)	(7,124,034)	(9,052,471)	(352,821)
Others	12	(34,292,921)	(30,292,722)	(11,791,929)	(11,048,094)	(564,957)
		(55,709,155)	(55,786,790)	(18,915,963)	(20,100,565)	(917,778)
<b>Gross Profit</b>		<b>2,478,964</b>	<b>1,856,424</b>	<b>861,425</b>	<b>1,044,565</b>	<b>40,840</b>
Distribution costs		(3,340,436)	(3,386,003)	(1,211,907)	(1,165,324)	(55,032)
Administrative expenses		(3,916,969)	(3,576,156)	(880,073)	(1,227,511)	(64,530)
		(7,257,405)	(6,962,159)	(2,091,980)	(2,392,835)	(119,562)
<b>Loss from operations</b>		<b>(4,778,441)</b>	<b>(5,105,735)</b>	<b>(1,230,555)</b>	<b>(1,348,270)</b>	<b>(78,722)</b>
Finance costs	13	(5,825,669)	(3,962,585)	(2,027,758)	(1,489,162)	(95,975)
Other provisions and adjustments - net		(414,303)	(405,372)	(333,019)	(273,155)	(6,825)
		(6,239,972)	(4,367,957)	(2,360,777)	(1,762,317)	(102,800)
Other operating income		887,909	622,762	650,571	186,827	14,628
<b>Loss before tax</b>		<b>(10,130,504)</b>	<b>(8,850,930)</b>	<b>(2,940,761)</b>	<b>(2,923,760)</b>	<b>(166,894)</b>
Taxation		(410,610)	(155,466)	(107,763)	(71,249)	(6,765)
<b>Loss after tax</b>		<b>(10,541,114)</b>	<b>(9,006,396)</b>	<b>(3,048,524)</b>	<b>(2,995,009)</b>	<b>(173,659)</b>
Attributable to:						
Shareholders of the holding company		(10,553,722)	(9,028,541)	(3,055,247)	(2,995,296)	(173,867)
Minority interest		12,608	22,145	6,723	287	208
		(10,541,114)	(9,006,396)	(3,048,524)	(2,995,009)	(173,659)
			(Rupees)			(US\$)
Loss per share						
'A' class Ordinary shares		5.42	5.02	1.57	1.67	0.09
'B' class Ordinary shares		2.71	2.51	0.79	0.84	0.05

The annexed notes form an integral part of these interim condensed consolidated financial statements.

**Zaffar A. Khan**  
Chairman & CEO

**Kamal Afsar**  
Director

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

	Note	SEP-2007 (Rupees in thousand)	SEP-2007 (US\$ in thousand)
<b>Cash flows from operating activities</b>			
Cash used in operations	14	(1,226,607)	(20,208)
Profit on bank deposits received		177,674	2,927
Deferred custom duty paid		(176,941)	(2,915)
Finance costs paid		(5,888,421)	(97,008)
Taxes paid		(366,238)	(6,034)
Staff retirement benefits paid		(151,478)	(2,496)
Compensated absences paid		(19,367)	(319)
Long term deposits - net		(608,306)	(10,021)
Net cash used in operating activities		(8,259,684)	(136,074)
<b>Cash flows from investing activities</b>			
Fixed capital expenditure		(3,722,309)	(61,323)
Proceeds from sale of fixed assets		298,765	4,922
Long term deposits		(441,784)	(7,278)
Net cash used in investing activities		(3,865,328)	(63,679)
<b>Cash flows from financing activities</b>			
Advance against equity		1,057,741	17,426
Proceeds from long term financing		16,238,918	267,527
Redemption of term finance certificates		(756,970)	(12,471)
Repayment of obligations under finance lease		(5,130,839)	(84,528)
Repayment of long term murabaha		(639,532)	(10,536)
Net cash generated from financing activities		10,769,318	177,418
<b>Decrease in cash and cash equivalents</b>		<b>(1,355,694)</b>	<b>(22,335)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>(8,464,341)</b>	<b>(139,445)</b>
<b>Cash and cash equivalents at the end of period</b>		<b>(9,820,035)</b>	<b>(161,780)</b>
<b>CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		2,998,280	49,395
Short term borrowings		(12,818,315)	(211,175)
		<b>(9,820,035)</b>	<b>(161,780)</b>

The annexed notes form an integral part of these interim condensed consolidated financial statements.

**Zaffar A. Khan**  
Chairman & CEO

**Kamal Afsar**  
Director

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

**Attributable to shareholders of the Holding Company**

	Share capital	Capital Reserves			Revenue reserves		Minority interest	Total equity
		capital reserves	Unrealized gain / (loss) on re-measurement of investments	Foreign exchange translation reserves	Revenue reserves	Accumulated losses		
(Rupees in thousand)								
<b>Balance as at January 01, 2006</b>	17,980,659	2,501,038	(15,107)	1,562,720	1,779,674	(11,291,593)	-	<b>12,517,391</b>
Unrealized loss on re-measurement of investments	-	-	(12,200)	-	-	-	-	<b>(12,200)</b>
Profit/(loss) for the Period	-	-	-	-	-	(9,028,541)	1,531	<b>(9,027,010)</b>
Currency translation difference	-	-	-	345,138	-	-	2,481	<b>347,619</b>
Minority interest arising on acquisition	-	-	-	-	-	-	516,595	<b>516,595</b>
<b>Balance as at September 30, 2006</b>	<b>17,980,659</b>	<b>2,501,038</b>	<b>(27,307)</b>	<b>1,907,858</b>	<b>1,779,674</b>	<b>(20,320,134)</b>	<b>520,607</b>	<b>4,342,395</b>
<b>Balance as at January 01, 2007</b>	19,473,631	2,501,038	21,013	1,847,591	1,779,674	(23,717,778)	520,692	<b>2,425,861</b>
Unrealized gain on re-measurement of investments	-	-	65,239	-	-	-	-	<b>65,239</b>
Profit/(loss) for the period	-	-	-	-	-	(10,553,722)	12,608	<b>(10,541,114)</b>
Currency translation difference	-	-	-	115,769	-	-	15,272	<b>131,041</b>
Transfer from surplus on revaluation of fixed assets - net	-	-	-	-	-	426,040	-	<b>426,040</b>
<b>Balance as at September 30, 2007</b>	<b>19,473,631</b>	<b>2,501,038</b>	<b>86,252</b>	<b>1,963,360</b>	<b>1,779,674</b>	<b>(33,845,460)</b>	<b>548,572</b>	<b>(7,492,933)</b>

The annexed notes form an integral part of these interim condensed consolidated financial statements.

**Zaffar A. Khan**  
Chairman & CEO

**Kamal Afsar**  
Director

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**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**


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**1. STATUS AND ACTIVITY**

- 1.1** Pakistan International Airlines Corporation (the Corporation) was incorporated in Pakistan on April 18, 1956 under the Pakistan International Airlines Corporation Act, 1956 (PIAC Act) and its shares are quoted on all Stock Exchanges of Pakistan. The registered office is situated at Karachi Airport. Principal activity of the Corporation is to provide air transport services. Other activities of the Corporation include provision of engineering and other allied services.
- 1.2** The following subsidiary companies have been consolidated in the financial statements of Pakistan International Airlines (PIA; the Holding Company).

<b>Subsidiary Companies</b>	<b>Nature of Business</b>	<b>Holding</b>
PIA Investments Ltd. (PIA-IL)	Promoters of and investors in projects related to construction, development and operations of hotels, motels and restaurants throughout the world.	99%
Skyrooms (Private) Limited (SRL)	To manage Airport Hotel at Karachi.	100%

- 1.3** During the current period, the Group has incurred a net loss of Rs.10,554 (September 30, 2006: Rs. 9,029) million resulting in accumulated losses of Rs.33,845 (Dec. 31,2006: Rs. 23,718) million as of the balance sheet date. Further, as of that date the current liabilities of the Group exceeded its current assets by Rs. 29,513 (Dec. 31, 2006: Rs. 21,603) million. In case of PIAC, the holding company, the management has initiated corrective measures to improve the operating results. Further the Ministry of Finance has extended its support by approving a financial restructuring package which is currently in the process of implementation.

The Government of Pakistan (GoP) as a majority shareholder has committed to ensure the going concern status of the holding company at all times. Also, historically support of GoP is available to the holding company as GoP has already issued guarantees to secure certain long term finance and Term Finance Certificates (TFCs) of the holding company. GoP had agreed to provide equity contribution to the holding company equivalent to accumulated loss of the holding company as at December 31, 2000, to cover interest/profit payments on long term finances and TFCs. As part of the financial package, an amount of Rs.7,981 (2006: Rs.6,923) million has been provided to the holding company up to September 30, 2007 against which 692,306,294 (2006: 692,306,294) 'A' class Ordinary Shares of Rs.10 each were issued to GoP up to that date. The remaining 105,774,100 Ordinary Shares are expected to be issued during the current year. Hence, the holding company expects continued financial support of GoP in future as well. In view of the above, the holding company has prepared its financial statements on a going concern basis.

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

In addition GoP had approved a fleet replacement plan as a result of which the holding company entered into an agreement for purchase of eight new Boeing 777 aircraft. GoP had provided funding of US\$ 150 million - Rs.8,816 million in the form of equity and guarantees for acquisition of the said aircraft up to December 31, 2006.

The holding Company has been advised earlier by the European Union (EU) that some of its aircraft were temporarily restrained from flying to various countries in Europe. The holding company took necessary steps to address the issues raised by the EU. Subsequently, the Air Safety Committee has proposed to the European Committee for the modification of the operational restrictions imposed on the holding Company to allow eleven aircraft (out of twenty aircraft subject to the aforesaid restrictions) to operate in the region.

**2. BASIS OF PREPARATION**

These interim condensed consolidated financial statements are unaudited and are being submitted to its shareholders as required under Section 245 of the Companies Ordinance, 1984.

**3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

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 should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2006.

The accounting policies and estimates adopted in the preparation of these interim condensed consolidated financial statements are the same as those applied in the preparation of the annual consolidated financial statements of the Group for the year ended December 31, 2006, except as mentioned in the holding company's financial statements.

**4. PROPERTY, PLANT AND EQUIPMENT**

	SEP-2007	DEC-2006
	(Rupees in thousand)	
Operating fixed assets (note 4.1)	<b>106,785,501</b>	95,942,231
Capital work-in-progress	<b>5,712,718</b>	6,637,766
	<b><u>112,498,219</u></b>	<u>102,579,997</u>

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

4.1 Following are the major additions and deletions during the period:

	SEP-2007	SEP-2006
	(Rupees in thousand)	
<b><u>Additions /transfers</u></b>		
<b>Owned</b>		
Buildings on leasehold land	20,142	62,943
Workshops and hangars	2,336	-
Renovation and improvements	115,599	169,995
Aircraft fleet (note 4.1.1)	3,070,722	694,201
Operating ground equipment, catering, communication & meteorological equipment	26,007	16,328
Engineering equipment and tools	79,474	-
Motor transport	20,721	1,336
Traffic equipment	31,582	76,281
Furniture, fixture and fittings	130,829	810,734
Office equipment	532	170
Computer and office automation	72,113	108,016
Other equipment	39,547	63,727
Capital spares	1,032,083	1,218,539
	<b>4,641,687</b>	<b>3,222,270</b>
<b>Leased</b>		
Aircraft fleet (note 4.1.2)	10,488,244	18,611,465
	<b>15,129,931</b>	<b>21,833,735</b>
<b><u>Deletions</u></b>		
<b>Owned</b>		
Land	103	-
Traffic equipment	3,414	16,066
Renovation and improvements	1,525	-
Aircraft fleet	231,584	90,315
Operating ground equipment, catering, communication & meteorological equipment	3,274	-
Motor transport	480	274
Furniture, fixture and fittings	39,210	12,522
Office equipment	435	-
Computer and office automation	520	-
Other equipment	287	-
Capital spares	79,536	40,593
	<b>360,368</b>	<b>159,770</b>
<b>Leased</b>		
Vehicles	2,415	-
	<b>362,783</b>	<b>159,770</b>

4.1.1 This includes four ATR 42 aircraft purchased by the holding company during the current period.

4.1.2 This represents cost of a Boeing 777 ER aircraft acquired during the current period in accordance with the fleet replacement plan approved by GoP for the holding company.

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

**5. STORES AND SPARES**

	SEP-2007 (Rupees in thousand)	DEC-2006 (Rupees in thousand)
Stores	716,585	839,848
Spares	3,875,133	3,387,842
	<b>4,591,718</b>	<b>4,227,690</b>
Less: provision for slow moving stores and spares	1,694,339	1,604,338
	<b>2,897,379</b>	<b>2,623,352</b>
Inventory held for disposal	2,198,380	2,266,825
Less: adjustment to write down surplus inventory to net realizable value	2,166,514	1,935,827
	<b>31,866</b>	<b>330,998</b>
Goods-in-transit	256,053	427,978
	<b>3,185,298</b>	<b>3,382,328</b>

**6. ADVANCE AGAINST EQUITY FROM GoP**

This represents the amount received from GoP towards equity contribution under the terms of Financial Package, as disclosed in note 1.3 to these interim consolidated financial statements.

**7. LONG TERM FINANCING - secured**

Financier	Limit (Rupees in million)	Repayment period	Number of installments / mode	SEP-2007	DEC-2006
				(Rupees in thousand)	
<b>From Banking Companies</b>					
Standard Chartered Bank	3,000	2006 - 2007	1 Bullet	2,999,404	-
United Bank Limited	1,650	2005 - 2009	Half -yearly	1,486,007	1,621,098
Citibank / DVB Bank	6,603	2006 - 2008	Half-yearly	3,145,595	3,491,443
Habib Bank Limited	530	2006 - 2009	36 Monthly	309,167	456,389
Citibank, N.A.	4,985	2006 - 2016	20 Half-yearly	4,757,953	2,180,178
Habib Bank Limited	200	2006 - 2009	36 Monthly	138,889	194,444
ABN Amro Bank	3,099	2009 - 2013	19 Quarterly	3,089,129	1,556,842
NBP/HBL	7,260	2007 - 2010	1 Bullet	7,284,000	-
Standard Chartered Bank DXB	3,025	2007-2009	12 Quarterly	2,529,166	-
J. P. Morgan Chase	6,087	2006-2009	Variable	5,875,751	5,882,516
J. P. Morgan Chase	3,652	2006-2009	Variable	3,648,000	3,652,200
Honk Kong Shangai Banking Company CCF	2,431	2004-2012	Variable	2,442,914	2,362,274
				<b>37,705,975</b>	<b>21,397,384</b>
Less : current portion				8,439,499	2,714,555
				<b>29,266,476</b>	<b>18,682,829</b>

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

**SEP-2007**      **DEC-2006**  
(Rupees in thousand)

**8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

**Present value of future rental obligations - aircraft fleet**

A-310	5,240,598	5,665,539
B-777 ER	32,208,497	25,540,393
B-777 LR	14,260,229	15,118,103
	<b>51,709,324</b>	<b>46,324,035</b>

**Present value of future rental obligations - vehicles**

	66,015	93,900
	<b>51,775,339</b>	<b>46,417,935</b>
Less: current portion	4,856,119	3,914,491
	<b>46,919,220</b>	<b>42,503,444</b>

**9. SHORT TERM BORROWINGS - Secured**

Short term loans (note 9.1)	10,054,018	14,580,244
Running finance under mark-up arrangements (note 9.2)	2,764,297	963,202
	<b>12,818,315</b>	<b>15,543,446</b>

**9.1 Short term loans - secured**

Financier	Security	Repay-ment period	SEP-2007 (Rupees in thousand)	DEC-2006 (Rupees in thousand)
<b>From Banking Companies</b>				
Citibank - Karachi	GoP Guarantee	3 months	-	2,000,000
United Bank Limited - Dubai	UAE Receivables	1 Year	-	58,840
National Bank of Pakistan - Bahrain	GoP Guarantee	1 Year	-	4,260,900
Habib Bank Limited - Export Processing Zone				
Standard Chartered Bank - Dubai	GoP Guarantee	1 Year	7,204,018	3,043,500
Standard Chartered Bank - Dubai	GoP Guarantee	3 months	-	1,217,400
Habib Bank Limited - Karachi	Hypothecation charge over current assets	6 months	850,000	1,000,000
Standard Chartered Bank - Karachi	GoP Guarantee	6 months	-	2,999,604
Habib Bank Limited - Karachi	GoP Guarantee	1 Year	2,000,000	-
			<b>10,054,018</b>	<b>14,580,244</b>

The rate of mark-up ranges between 5.82% and 10.15%.

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

**9.2. Running finance under mark-up arrangements - secured**

Financier	Security	Repayment period	SEP-2007	DEC-2006
			(Rupees in thousand)	
<b>From Banking Companies</b>				
United Bank Limited - Karachi	First pari passu hypothecation charge over current assets	1 Year	2,189,297	365,372
National Bank of Pakistan - Karachi	First pari passu hypothecation charge over current assets	1 Year	575,000	50,000
Habib Allied International Bank Limited - London	Receivables in Europe	1 Year	-	547,830
			<b>2,764,297</b>	<b>963,202</b>

**10. CONTINGENCIES AND COMMITMENTS**

There has been no change in the status of contingencies and commitments as disclosed in the annual financial statements of the Corporation for the year ended December 31, 2006 and half year ended June 30, 2007.

**11. TURNOVER - net**

	Nine months ended		Quarter ended	
	SEP-2007	SEP-2006	SEP-2007	SEP-2006
(Rupees in thousand)				
Passenger	45,592,466	44,262,635	14,845,461	15,556,504
Cargo	3,767,056	4,223,782	1,482,716	1,610,154
Excess baggage	615,925	565,791	200,320	182,347
Charter	128,196	308,390	43,231	64,879
Engineering services	457,864	966,175	138,669	343,068
Handling and related services	625,422	691,217	188,954	258,587
Mail & telephone	255,060	227,928	84,817	79,358
Rooms sales	4,804,644	4,869,549	2,187,834	2,666,143
Food & beverages	1,043,122	725,483	360,770	150,156
Shop and other rentals	233,308	192,879	79,356	63,351
Others	665,056	609,385	165,260	170,583
	<b>58,188,119</b>	<b>57,643,214</b>	<b>19,777,388</b>	<b>21,145,130</b>

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

	Nine months ended		Quarter ended	
	SEP-2007	SEP-2006	SEP-2007	SEP-2006

(Rupees in thousand)

**12. COST OF SERVICES - others**

Salaries, wages and allowances	6,518,106	5,520,206	2,999,389	2,674,356
Welfare and social security costs	196,456	244,804	66,362	146,189
Retirement benefits	356,776	287,744	132,925	134,303
Compensated absences	9,018	10,613	3,006	4,690
Legal and professional charges	91,114	75,114	34,993	29,872
Stores and spares consumed	1,437,514	1,703,636	596,073	543,395
Maintenance and overhaul	4,963,585	4,077,825	1,589,548	1,364,069
Flight equipment rental	2,762,082	1,831,582	463,746	345,373
Landing and handling	5,874,467	5,997,941	1,752,457	2,085,206
Passenger services	2,103,706	1,978,636	676,505	591,168
Crew layover	1,569,423	1,438,812	504,548	487,153
Hotel running expenses	1,960,086	1,955,223	616,944	651,741
Staff training	51,826	55,572	14,289	16,162
Food cost	1,198,893	1,180,074	412,177	460,671
Utilities	24,620	19,227	9,514	6,409
Communication	47,675	48,249	14,410	11,287
Insurance	817,033	825,669	278,514	301,134
Rent, rates and taxes	202,753	223,063	59,723	71,486
Repair and maintenance	102,869	102,228	40,280	14,151
Printing and stationery	93,542	67,024	26,509	20,085
Amortization	1,859	1,293	621	431
Depreciation	3,468,232	2,349,344	1,163,597	885,175
Others	441,286	298,843	335,799	203,588
	<b>34,292,921</b>	<b>30,292,722</b>	<b>11,791,929</b>	<b>11,048,094</b>

**13. FINANCE COSTS**

Mark-up on long term financing	1,277,534	772,603	526,866	181,351
Profit on term finance certificates	1,027,586	1,022,541	346,624	339,967
Interest on liabilities against assets subject to finance lease	2,193,476	1,448,989	813,398	638,859
Mark-up on long term murabaha	38,719	88,597	4,366	29,154
Mark-up on short-term borrowings	1,036,990	493,323	277,765	247,970
Arrangement, agency and commitment fee	219,394	107,785	50,703	43,808
Bank charges, guarantee commission and other related charges	31,970	28,747	8,036	8,053
	<b>5,825,669</b>	<b>3,962,585</b>	<b>2,027,758</b>	<b>1,489,162</b>

**PAKISTAN INTERNATIONAL AIRLINES CORPORATION**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2007**

	SEP-2007 (Rupees in thousand)	SEP-2007 (US\$ in thousand)
<b>14. CASH USED IN OPERATIONS</b>		
Loss before tax	(10,130,504)	(166,894)
<b>Adjustments for:</b>		
Depreciation	4,049,732	66,717
Capital spares scrappage	21,254	350
Gain on disposal of fixed assets	(259,005)	(4,267)
Amortization	23,601	389
Provision for stores and spares	320,688	5,283
Provision for employees' benefits	21,850	360
Provision for doubtful debts	223,319	3,679
Finance costs	5,825,669	95,975
Profit on bank deposits	(159,039)	(2,620)
	(62,435)	(1,028)
<b>Working capital changes</b>		
Increase in stores and spares	(127,652)	(2,103)
Increase in trade debts	(704,170)	(11,601)
Increase in advances	(1,088,910)	(17,939)
Increase in trade deposits and prepayments	(78,768)	(1,298)
Increase in other receivables	(353,503)	(5,824)
Increase in trade and other payables	1,188,831	19,585
	(1,164,172)	(19,180)
<b>Cash used in operations</b>	<b>(1,226,607)</b>	<b>(20,208)</b>

**15. AUTHORIZATION OF FINANCIAL STATEMENTS**

These financial statements were authorized for issue in the Board of Director's meeting held on October 31, 2007.

**16. GENERAL**

**16.1** Figures have been rounded off to the nearest thousand rupee.

**16.2** 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. 60.70 = US\$ 1 solely for convenience purposes.

**Zaffar A. Khan**  
Chairman & CEO

**Kamal Afsar**  
Director

