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PAKISTAN INTERNATIONAL AIRLINES CORPORATION

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PAKISTAN INTERNATIONAL AIRLINES CORPORATION

CORPORATE PROFILE

Board of Directors:

Mr. Zaffar A. Khan - Chairman & CEO

[Lists all board members...]

Executive Management:

Mr. Zaffar A. Khan - Chairman & CEO

[Lists all executives...]

Audit Committee:

Mr. Kamal Afsar - Chairman

[Lists members...]

Human Resource & Corporate Governance Committee:

Mr. Javed Saifullah Khan - Chairman

[Lists members...]

Registered Office:

PIA Building, Jinnah International Airport, Karachi - Pakistan

Website: [www.piac.com.pk](http://www.piac.com.pk)

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#### DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors present their report with interim condensed financial statements (un-audited) for the nine months period ended September 30, 2007.

#### Financial Results Summary:

(Rupees in million)

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

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#### Key Highlights:

- Revenue for Q3 2007 was 6% lower than same period last year
- Closed non-profitable routes in Europe and Asia
- Passenger capacity down 12%, cargo capacity down 12%
- Operating loss Rs 1.5 billion same as last year
- Nine month revenue Rs 52.0bn vs Rs 51.8bn last year
- Cargo business declined 11%
- Domestic market down 10%, international modest growth
- Financing costs Rs 5.2bn vs Rs 3.4bn last year
- Total loss after tax Rs 10.9bn vs Rs 9.2bn
- Hotel subsidiaries showed improved performance

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INTERIM CONDENSED BALANCE SHEET (UN-AUDITED)

AS AT SEPTEMBER 30, 2007

(Rupees in thousand)

	Sep-2007	Dec-2006
ASSETS		
Non-Current Assets	99,508,168	88,538,334
Current Assets	15,210,738	18,353,435
TOTAL ASSETS	114,718,906	106,891,769

EQUITY AND LIABILITIES

Share Capital	19,473,631	19,473,631
Reserves	4,280,712	4,280,712
Accumulated Losses	(34,838,647)	(24,563,386)
Total Equity	(10,998,052)	(788,030)

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Non-Current Liabilities	76,453,000	69,483,000
Current Liabilities	44,733,000	39,633,000
TOTAL EQUITY & LIAB	114,718,906	106,891,769

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INTERIM CONDENSED PROFIT AND LOSS ACCOUNT

FOR NINE MONTHS ENDED SEP 30, 2007

(Rupees in thousand)

	Jan-Sept 2007	Jan-Sept 2006
Turnover	52,046,157	51,789,231
Cost of Services	(50,928,870)	(51,250,872)

Gross Profit	1,117,287	538,359
Operating Expenses	(6,986,241)	(6,267,540)
Operating Loss	(5,868,954)	(5,729,181)

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Finance Costs	(5,212,776)	(3,395,531)
Loss Before Tax	(10,643,371)	(8,928,688)
Taxation	(260,231)	(258,946)
Loss After Tax	(10,903,602)	(9,187,634)

Loss per share (Rs):

A Class Ordinary	(5.60)	(5.10)
B Class Ordinary	(2.80)	(2.55)

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#### INTERIM CONDENSED CASH FLOW STATEMENT

FOR NINE MONTHS ENDED SEP 30, 2007

(Rupees in thousand)

Jan-Sept 2007

Cash used in operations	(9,442,679)
Investing activities	(3,865,328)
Financing activities	10,769,318
Net decrease in cash	(1,544,943)

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#### NOTES TO FINANCIAL STATEMENTS

##### 1. CORPORATE INFORMATION

- Incorporated April 18, 1956 under PIAC Act
- Shares quoted on all Pakistan Stock Exchanges
- Principal activity: air transport services

- Accumulated losses Rs 34.8bn as of Sep 2007
- Current liabilities exceed current assets by Rs 29.5bn

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- Government of Pakistan providing financial support package
- EU restrictions on some aircraft operations in Europe
- Going concern basis due to GoP support
- GoP approved fleet replacement plan (8 new Boeing 777)

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## 2. BASIS OF PREPARATION

- Prepared in accordance with IAS 34
- Unaudited interim financial statements
- Should be read with annual financial statements

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## 3. SIGNIFICANT ACCOUNTING POLICIES

- Changed depreciation methods:
  - For non-aircraft: full month in use month
  - For aircraft: separate depreciation for airframes/engines
- Changes increased loss by Rs 9m and Rs 284m respectively

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## 4. PROPERTY, PLANT AND EQUIPMENT

- Net book value Rs 89.3bn (Sep 2007)
- Additions:
  - 4 ATR 42 aircraft
  - 1 Boeing 777 ER aircraft
- Total additions Rs 14.9bn

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5. STORES AND SPARES

- Gross value Rs 4.6bn
- Provision for slow moving Rs 1.7bn
- Net value Rs 3.2bn

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6. ADVANCE AGAINST EQUITY FROM GOP

- Rs 1.06bn received as equity contribution
- Against accumulated losses as at Dec 31, 2000

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7. LONG TERM FINANCING

- Total Rs 25.7bn (net of current portion)
- From banks: Standard Chartered, Citibank, HBL etc.
- Primarily for aircraft purchases

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8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

- Present value Rs 51.8bn
- Mainly for A310 and B777 aircraft

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9. SHORT TERM BORROWINGS

- Total Rs 12.8bn
- Mostly secured by GoP guarantees

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## 10. CONTINGENCIES AND COMMITMENTS

- No material changes from previous periods

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## 11. TURNOVER ANALYSIS (Jan-Sept 2007)

- Passenger: Rs 45.6bn (87.6%)
- Cargo: Rs 3.8bn (7.2%)
- Engineering services: Rs 458m
- Handling services: Rs 625m

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## 12. COST ANALYSIS (Jan-Sept 2007)

- Salaries: Rs 5.2bn
- Aircraft fuel: Rs 21.4bn
- Maintenance: Rs 5.0bn
- Depreciation: Rs 3.5bn

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## 13. FINANCE COSTS

- Total: Rs 5.2bn
- Includes:
  - Lease interest: Rs 2.2bn
  - Short-term borrowing: Rs 1.0bn

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## 14. CASH FLOW DETAILS

- Operating outflow Rs 9.4bn
- Investing outflow Rs 3.9bn (aircraft)
- Financing inflow Rs 10.8bn (borrowings)

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#### 15. RELATED PARTY TRANSACTIONS

- Subsidiaries:

- Sky Rooms

- PIA Investments Ltd

- Joint Venture: Abacus Distribution

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#### 16. AUTHORIZATION

- Approved by Board on October 31, 2007

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#### 17. GENERAL

- Figures rounded to nearest thousand

- USD conversion at Rs 60.70 = US\$1

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#### GROUP CONSOLIDATED FINANCIAL STATEMENTS

(Key figures in Rs thousand)

	Sep-2007	Dec-2006
TOTAL ASSETS	139,263,377	131,403,846
TOTAL EQUITY	(4,359,685)	6,027,701

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TURNOVER (9 months) 58,188,119 57,643,214

LOSS AFTER TAX (10,541,114) (9,006,396)

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## QUARTERLY SUMMARY STATISTICS

2007 vs 2006:

- Available Seat Kilometers down 12%
- Passenger Load Factor 76.09% vs 77.80%
- Cargo Load Factor 72.34% vs 72.50%

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## FINANCIAL QUARTERLY COMPARISON

(Rupees in million)

	Q3 2007	Q3 2006
Operating Revenue	17,165	18,263
Operating Expenses	18,716	19,812
Operating Loss	(1,551)	(1,549)
Loss After Tax	(3,155)	(3,043)

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Jet Fuel Prices:

Q3 2007: Rs 134.49 per US gallon

Q3 2006: Rs 135.31 per US gallon