

INTERIM REPORT



3rd Quarter
July-September 2006

PIA
Pakistan International
Come Fly With Us

C o n t e n t s

<u>Corporate Profile</u>	2
<u>Directors' Report</u>	3
<u>Financial Statements and Notes</u>	4
<u>Quarterly Summary</u>	16

Corporate Profile

Board of Directors

Mr. Tariq Kirmani
Chairman & CEO

Mr. Kamal Afsar

Mr. Mueen Afzal

Syed Mohammad Fazal Agha

Mr. Nawid Ahsan
Secretary General Finance

Maj. Gen. (Retd) Muhammad Ashraf Chaudhry
Additional Secretary-I, Ministry of Defence

Mr. Shahzad M. Husain

Mr. M. Hidayatulla Khan Khaishgi

Mr. Javed Saifullah Khan

Mr. S. Ali Raza

Mr. Farooq Rehmatullah
Director General -
Civil Aviation Authority

Mr. Ghazanfar Mashkooor - Secretary

Audit Committee

Mr. Kamal Afsar - Chairman
Mr. Mueen Afzal
Maj. Gen. (Retd) Muhammad Ashraf Chaudhry
Mr. Shahzad M. Husain
Mr. S. Ali Raza
Mr. Shehrzad Aminullah - Secretary

Human Resource &

Corporate Governance Committee

Mr. Tariq Kirmani - Chairman & CEO
Syed Mohammad Fazal Agha
Mr. M Hidayatullah Khan Khaishgi
Mr. Javed Saifullah Khan
Mr. Farooq Rehmatullah
Mr. Wasim Bari – Secretary

Registered Office

PIA Building
Jinnah International Airport
Karachi - Pakistan
Web site: www.piac.com.pk

Executive Management

Mr. Tariq Kirmani
Chairman & CEO

Syed Farooq H. Shah
Deputy Managing Director

Mr. Muhammad Abdul Aleem
Chief Financial Officer

Mr. Wasim Bari
SVP Human Resources & Administration

Mr. Umar Ghafoor
SVP Flight Services

Mr. Anwaar Rasul
SVP Coordination

Syed Kamran Hasan
SVP Sales

Mr. Nadeem Ikram
SVP Information Technology

Capt. Javed Khan
SVP Quality Assurance

Mr. Arif Majeed
SVP Finance

Col. (Retd) Mudassar Asghar
Chief Coordinator (Projects)

Mr. Shahnawaz Rehman
SVP Financial Monitoring & Appraisal

AVM (Retd) Iftikhar Ahmed Gul
SVP Engineering

Capt. Shahnawaz Dara
SVP Flight Safety & HSE

Capt. S. M. Ather
SVP Flight Operations

Mr. Jawaid Daud Shaikh
SVP Procurement & Logistics

AVM Muhammad Rafi
SVP Precision Engineering

Mr. Zafarul Islam Usmani
SVP Commercial



Directors' Report to the Shareholders

The Directors of Pakistan International Airlines are pleased to present their report along with interim condensed financial statements (un-audited) for the nine months period ended September 30, 2006 and for the third quarter July - September 2006.

Results for the quarter and the nine months period ended September 30, 2006 are summarized below:

	July to September			January to September		
	2006	2005	Change	2006	2005	Change
	(Rupees in million)					
Turnover - net	18,263	15,981	+14 %	51,789	45,915	+13 %
Operating Cost						
Aircraft Fuel	9,052	7,140	+27 %	25,494	18,333	+39 %
Operating Expenses	10,760	9,698	+11 %	32,024	29,029	+10 %
	19,812	16,838	+18 %	57,518	47,362	+21 %
Financing Cost	1,307	701	+86 %	3,396	2,006	+69 %
Loss before Tax	(2,951)	(1,605)		(8,929)	(3,286)	
Loss after Tax	(3,043)	(1,023)		(9,188)	(3,093)	

The airline industry in general but more so in this region continued to face a tough time throughout the period under review. Apart from fuel cost increases, the intense competition from regional and local players keen on taking a market share, even if at a loss, continued to provide a challenging environment for your company.

In this highly competitive environment, your management managed to increase its market share in the domestic passenger segment and fully protect its share in the international passenger segment. The overall Available Seat Kilometers increased by over 13% and Revenue Passenger Kilometers increased by a healthy 10%. The cargo business also showed an increase of over 7%. The passenger and freight yield showed a modest increase as well. As of end of September 2006, PIA market share in the domestic passenger segment had increased to 69% and in the international passenger segment to 48%. This growth was achieved at the back of improved customer service, additional and convenient flight scheduling and better facilities especially to Business class passengers. The addition of two new Boeing 777LR also greatly facilitated the quality and convenience to the passengers.

Overall, the revenue for the nine months to September 2006 has increased by 13%. This healthy revenue growth was fully offset by un-favorable 39% growth in fuel cost mainly due to 28% increase in fuel prices. The domestic and international tariffs were suitably adjusted during the year to partially recover the increased cost as the market forces did not allow the company to fully recover the fuel cost increases. The fuel cost for the nine months to September 2006 accounts for 49% of the revenue whereas it was only 40% of the revenue during the same period last year. Throughout the period under review, your management continued to explore cost cutting opportunities without compromising on the standard of safety and quality of service to the consumer, but the fuel cost and increases in the high employment and other operating cost forced the company to operate at a loss throughout this nine months period. The company has made an operating loss of Rs 5,128 million in the first nine months and together with financing cost of Rs 3,396 million, the loss before tax was Rs 8,929 million compared to Rs 3,286 million loss during the same period last year.

If the operating results for the current nine months period to September 2006 are re-stated at 2005 fuel price, then the operating result before financing cost would have been Rs 608 million negative.

Your management is very concerned with the current operating situation and its impact on the financial viability of the company. Accordingly a professionally developed financial re-structuring plan has been submitted to the GOP for assisting the company to re-juvenate itself for the challenges ahead. Looking ahead, in the short term, the management is committed to deliver improved service level to the customer but the financial position is expected to remain under constant pressure for the remainder of the year.

For and on behalf of the Board

Tariq Kirmani
Chairman & CEO

October 30, 2006



Interim Condensed Balance Sheet (Un-audited)

As at September 30, 2006

		SEP - 2006 (Rupees in thousand)	DEC - 2005	SEP - 2006 (US\$ in thousand)
NON CURRENT ASSETS				
Fixed assets				
Property, plant and equipment	4	68,405,163	51,263,914	1,128,240
Intangibles		99,924	112,421	1,648
		68,505,087	51,376,335	1,129,888
Long term investments	5	4,555,442	323,705	75,135
Long term advances and other receivable	6	6,112,133	6,635,933	100,810
Long term deposits and prepayments		2,761,573	1,804,977	45,548
		81,934,235	60,140,950	1,351,381
CURRENT ASSETS				
Stores and spares	7	3,221,758	2,790,137	53,138
Trade debts		7,317,808	5,222,534	120,696
Advances		570,653	513,917	9,412
Trade deposits and prepayments		715,627	581,175	11,803
Accrued interest		15,465	39,708	255
Other receivables		664,988	481,449	10,968
Short term investments		340,007	363,855	5,608
Taxation - advance tax net of provision		-	149,087	-
Cash and bank balances		1,316,930	2,614,691	21,721
		14,163,236	12,756,553	233,601
		96,097,471	72,897,503	1,584,982
SHARE CAPITAL AND RESERVES				
Share capital		17,980,659	17,980,659	296,564
Reserves		4,280,712	4,280,712	70,604
Unrealized loss on remeasurement of investments		(27,307)	(15,107)	(450)
Accumulated loss		(20,987,600)	(11,799,966)	(346,159)
		1,246,464	10,446,298	20,559
NON CURRENT LIABILITIES				
Advance against equity from GoP	8	1,144,755	-	18,881
Long term finance under mark-up arrangements		4,004,770	1,621,099	66,053
Term finance certificates		13,246,969	14,003,940	218,489
Liabilities against assets subject to finance lease	9	34,860,465	21,706,064	574,970
Long term murabaha finance		141,470	768,075	2,333
Long term deposits		258,189	290,236	4,258
Deferred liabilities		2,757,818	2,824,690	45,486
		56,414,436	41,214,104	930,470
CURRENT LIABILITIES				
Trade and other payables		14,973,732	14,983,921	246,969
Accrued mark-up / interest		504,207	607,769	8,316
Short term borrowings	10	13,933,893	362,075	229,818
Current portion of:				
Long term finance under mark-up arrangements		4,111,948	1,621,103	67,820
Term finance certificates		756,970	756,970	12,485
Liabilities against assets subject to finance lease		3,271,461	2,067,363	53,958
Long term murabaha finance		848,821	837,900	14,000
		8,989,200	5,283,336	148,263
Taxation - provision net of advance tax		35,539	-	586
		38,436,571	21,237,101	633,953
CONTINGENCIES AND COMMITMENTS				
	11	96,097,471	72,897,503	1,584,982

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

Tariq Kirmani
Chairman & CEO

Kamal Afsar
Director



Interim Condensed Profit and Loss Account (Un-audited)

For the nine months period ended September 30, 2006

	Note	—Nine months ended—		—Quarter ended—		Nine months ended
		SEP - 2006	SEP - 2005	SEP - 2006	SEP - 2005	SEP - 2006
		(Rupees in thousand)				(US\$ in thousand)
Turnover - net	12	51,789,231	45,914,634	18,263,059	15,981,081	854,185
Cost of services						
Aircraft fuel		(25,494,068)	(18,332,933)	(9,052,471)	(7,140,106)	(420,486)
Others	13	(25,756,804)	(24,119,832)	(8,598,268)	(8,266,034)	(424,819)
		(51,250,872)	(42,452,765)	(17,650,739)	(15,406,140)	(845,305)
Gross profit		538,359	3,461,869	612,320	574,941	8,880
Other operating income		601,396	857,256	177,768	509,646	9,919
Marketing and distribution costs		(3,183,053)	(2,578,078)	(1,103,935)	(830,552)	(52,500)
Administrative expenses		(3,084,487)	(2,817,728)	(1,057,241)	(1,088,606)	(50,874)
		(5,666,144)	(4,538,550)	(1,983,408)	(1,409,512)	(93,455)
Loss from operations		(5,127,785)	(1,076,681)	(1,371,088)	(834,571)	(84,575)
Finance cost	14	(3,395,531)	(2,006,123)	(1,307,593)	(700,503)	(56,004)
Other provisions and adjustments - net		(405,372)	(202,918)	(273,155)	(68,968)	(6,686)
		(3,800,903)	(2,209,041)	(1,580,748)	(769,471)	(62,690)
Loss before tax		(8,928,688)	(3,285,722)	(2,951,836)	(1,604,042)	(147,265)
Taxation	15	(258,946)	192,488	(91,315)	580,718	(4,271)
Net loss for the period		(9,187,634)	(3,093,234)	(3,043,151)	(1,023,324)	(151,536)
Loss per share						
'A' class ordinary shares of Rs. 10 each (Rupees/US\$)		(5.10)	(1.87)	(1.69)	(0.62)	(0.08)
'B' class ordinary shares of Rs. 5 each (Rupees/US\$)		(2.55)	(0.94)	(0.85)	(0.31)	(0.04)

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

Tariq Kirmani
Chairman & CEO

Kamal Afsar
Director



Interim Condensed Cash Flow Statement (Un-audited)

For the nine months period ended September 30, 2006

Note	SEP - 2006 (Rupees in thousand)	SEP - 2005	SEP - 2006 (US\$ in thousand)
Cash flows from operating activities			
Cash (utilised in)/generated from operations	16 (5,809,914)	748,755	(95,826)
Profit on bank deposits received	130,812	127,164	2,158
Deferred custom duty paid	(71,102)	(323,350)	(1,173)
Finance cost paid	(3,499,093)	(2,217,542)	(57,712)
Taxes paid	(74,320)	(181,834)	(1,226)
Dividend paid	-	(5,255)	-
Staff retirement benefits paid	(278,532)	(38,814)	(4,594)
Compensated absences paid	(74,078)	(80,000)	(1,222)
Long term deposits - net	(988,643)	155,984	(16,306)
Net cash used in operating activities	(10,664,870)	(1,814,892)	(175,900)
Cash flows from investing activities			
Fixed capital expenditure	(19,668,188)	(5,014,628)	(324,397)
Proceeds from sale of fixed assets	175,943	599,594	2,902
Investments - net	(4,220,089)	46,525	(69,604)
Long term advances and other receivable - net	502,510	542,089	8,288
Net cash used in investing activities	(23,209,824)	(3,826,420)	(382,811)
Cash flows from financing activities			
Advance against equity from GoP	1,144,755	1,065,931	18,881
Long term finance under markup arrangements - net	4,874,517	(280,561)	80,398
Redemption of term finance certificates	(756,970)	(378,635)	(12,485)
Obligations under finance lease - net	14,358,498	(1,416,171)	236,822
Repayment of long term murahaba finance	(615,685)	(620,258)	(10,155)
Net cash inflow from/(used in) financing activities	19,005,115	(1,629,694)	313,461
Decrease in cash and cash equivalents	(14,869,579)	(7,271,006)	(245,251)
Cash and cash equivalents at the beginning of the period	2,252,616	10,838,898	37,153
Cash and cash equivalents at the end of the period	(12,616,963)	3,567,892	(208,098)
CASH AND CASH EQUIVALENTS			
Cash and bank balances	1,316,930	3,567,892	21,721
Short term borrowings	(13,933,893)	-	(229,819)
	(12,616,963)	3,567,892	(208,098)

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

Tariq Kirmani
Chairman & CEO

Kamal Afsar
Director



Interim Condensed Statement of Changes in Equity (Un-audited)

For the nine months period ended September 30, 2006

	Paid up capital	Capital reserves	Revenue reserves	Unrealized (loss)/gain on re-measurement of investments	Accumulated loss	Total
	(Rupees in thousand)					
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)
Net loss for the period	-	-	-	-	(3,093,234)	(3,093,234)
Balance as at September 30, 2005	<u>16,529,926</u>	<u>2,501,038</u>	<u>1,779,674</u>	<u>13,429</u>	<u>(10,481,543)</u>	<u>10,342,524</u>
Balance as at January 01, 2006	17,980,659	2,501,038	1,779,674	(15,107)	(11,799,966)	10,446,298
Unrealized (loss) on re-measurement of investments	-	-	-	(12,200)	-	(12,200)
Net loss for the period	-	-	-	-	(9,187,634)	(9,187,634)
Balance as at September 30, 2006	<u>17,980,659</u>	<u>2,501,038</u>	<u>1,779,674</u>	<u>(27,307)</u>	<u>(20,987,600)</u>	<u>1,246,464</u>

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

Tariq Kirmani
Chairman & CEO

Kamal Afsar
Director



Notes to the Interim Condensed Financial Statements (Un-audited)

For the nine months period ended September 30, 2006

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. Its shares are quoted on all stock exchanges of Pakistan. The registered office of the Corporation is situated in Karachi. The 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 During the period, the Corporation has incurred a net loss of Rs. 9,188 million, which is primarily due to increase in international fuel prices, resulting in an accumulated loss of Rs.20,988 million as of September 30, 2006. The fuel cost for the nine months ended September 30, 2006 amounted to Rs. 25,494 million. Further, as of that date the current liabilities of the Corporation exceeded its current assets by Rs. 24,273 million. The management has initiated corrective measures to improve operating results of the Corporation and in this respect various operational restructuring measures have already been undertaken. Also, historically support of the Government of Pakistan (GoP) is available to the Corporation as GoP has already issued guarantees to secure certain long term finances and term finance certificates of the Corporation. In the past, 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 term finance certificates. As part of the financial package, an amount of Rs. 6,575 million has been provided to the Corporation upto September 30, 2006 against which 543,009,081 'A' class ordinary shares of Rs. 10 each were issued to GoP up to that date. The remaining 114,475,500 'A' class ordinary shares are expected to be issued during the current year. Further due to current adverse financial position, the Corporation has approached GoP for its financial restructuring and the Ministry of Finance is examining the proposal submitted by the Corporation for this purpose. Hence, the Corporation expects continued financial support of GoP in future as well. In view of the above, the Corporation has prepared these interim condensed financial statements on a going concern basis.
- 1.3 During the year 2002, GoP had approved a fleet replacement plan. Accordingly, the Corporation had entered into an agreement for purchase of eight new Boeing 777 aircraft, out of which five aircraft have already been acquired to date. GoP has 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 September 30, 2006

2. BASIS OF PREPARATION

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

These interim condensed 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, 2005.

The accounting policies and methods of computations adopted in the preparation of these interim condensed financial statements are the same as those applied in the preparation of financial statements of the Corporation for the year ended December 31, 2005.

3. CONSOLIDATION

The Corporation has been granted exemption by Securities and Exchange Commission of Pakistan under Section 237(8) of the Companies Ordinance, 1984 relating to the preparation of consolidated financial statements for interim financial statements.



Notes to the Interim Condensed Financial Statements (Un-audited)

For the nine months period ended September 30, 2006

4. PROPERTY, PLANT AND EQUIPMENT

	SEP - 2006	DEC - 2005
	(Rupees in thousand)	
Operating fixed assets (note 4.1)	59,427,692	41,024,467
Capital work-in-progress	8,977,471	10,239,447
	<u>68,405,163</u>	<u>51,263,914</u>

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

	SEP - 2006	SEP - 2005
	(Rupees in thousand)	
Additions (at cost)		
<u>Owned</u>		
Buildings on leasehold land	62,943	64,551
Aircraft fleet (note 4.1.1)	694,201	71,220
Operating ground equipment, catering communication and meteorological equipment	16,328	97,776
Traffic equipment	76,281	170,593
Furniture, fixtures and fitting	25,242	10,994
Computers and office automation	107,614	42,385
Other equipment	63,727	2,782
Capital spares	1,218,539	392,453
	<u>2,264,875</u>	<u>852,754</u>
<u>Leased</u>		
Aircraft fleet (note 4.1.2)	18,611,465	-
	<u>20,876,340</u>	<u>852,754</u>
Deletions (at cost)		
<u>Owned</u>		
Aircraft fleet	90,315	3,656,313
Traffic equipment	16,066	5,846
Capital spares	40,593	46,120
	<u>146,974</u>	<u>3,708,279</u>

4.1.1 Represents purchase of one ATR 42 aircraft.

4.1.2 Represents purchase of two Boeing 777 aircraft and a General Electric spare engine as per fleet replacement plan approved by GoP.

4.1.3 On July 10, 2006 one Fokker aircraft crashed. As a result the Corporation has grounded its Fokker aircraft fleet.

5. LONG TERM INVESTMENTS

	SEP - 2006	DEC - 2005
	(Rupees in thousand)	
Investment in subsidiaries/ associated companies (note 5.1)	4,416,379	214,567
Other investments	139,063	109,138
	<u>4,555,442</u>	<u>323,705</u>

5.1 During the period the Corporation has acquired shares of the other shareholder in PIAL as a consideration of US \$ 70.171 million (Rs. 4,202 million), thereby increasing its shareholding in PIAL to 99% (refer note 6.1.1).



Notes to the Interim Condensed Financial Statements (Un-audited)

For the nine months period ended September 30, 2006

6. LONG TERM ADVANCES AND OTHER RECEIVABLE

	SEP - 2006	DEC - 2005
	(Rupees in thousand)	
Long term advances (note 6.1)	4,172,423	4,674,933
Other receivable	1,939,710	1,961,000
	<u>6,112,133</u>	<u>6,635,933</u>
6.1 Long term advances		
Subsidiaries/ Associated company		
Considered good		
PIAIL		
Advance for working capital requirements (6.1.1)	1,090,003	936,760
Accumulated interest on advance for working capital requirements (6.1.1)	3,082,420	2,890,637
Accumulated interest on loan for renovation of a Hotel (6.1.2)	-	847,536
	4,172,423	4,674,933
Considered doubtful		
Sky Rooms (Private) Limited	37,042	37,042
Midway House (Private) Limited	82,476	82,476
	119,518	119,518
	4,291,941	4,794,451
Less: provision for doubtful advances	(119,518)	(119,518)
	4,172,423	4,674,933

6.1.1 The amounts due from PIAIL are considered good and subsequent to the quarter ended September 30, 2006, entire outstanding amount of Rs. 4,172 million (US\$ 68.8 million) has been recovered from PIAIL.

6.1.2 During the period, the Corporation has received an amount of US\$ 9.746 million (Rs. 585 million) from PIAIL and also adjusted US\$ 4.8 million (Rs. 287.42 million), which has resulted in full settlement of accumulated interest on long term loan for hotel renovation due from PIAIL.

Notes to the Interim Condensed Financial Statements (Un-audited)

For the nine months period ended September 30, 2006

7. STORES AND SPARES

	SEP - 2006	DEC - 2005
	(Rupees in thousand)	
Stores	723,852	659,612
Spares	4,377,656	3,924,807
	5,101,508	4,584,419
Less: provision for slow moving stores and spares	<u>(2,527,229)</u>	<u>(2,427,229)</u>
	2,574,280	2,157,190
Inventory held for disposal		
Cost	1,246,849	1,253,852
Less: adjustment to write down surplus inventory to net realisable value	<u>(1,012,935)</u>	<u>(1,012,936)</u>
	233,914	240,916
Goods-in-transit	413,564	392,031
	<u>3,221,758</u>	<u>2,790,137</u>

8. ADVANCE AGAINST EQUITY FROM GoP

Represents the amount received from GoP towards equity contribution under the terms of financial package as stated in note 1.2 to these interim condensed financial statements.

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Present value of future rental obligations - aircraft fleet		
A310	5,490,618	5,782,248
B777 ER	16,923,201	17,852,601
B777LR (note 9.1)	15,320,973	-
	37,734,792	23,634,849
Present value of future rental obligations - vehicles (MT, TGS)	397,134	138,578
	38,131,926	23,773,427
Less: current portion	<u>(3,271,461)</u>	<u>(2,067,363)</u>
	<u>34,860,465</u>	<u>21,706,064</u>

- 9.1 In 2005, the Corporation entered into an agreement for Ex-Im Bank supported financing for US\$ 266 million to acquire two Boeing 777-LR aircraft and a General Electric spare engine, from Taxila-II Limited, a special purpose entity incorporated in Cayman Islands. These aircraft and a spare engine have been delivered to the Corporation during the nine months period. The guaranteed lender of the financing is Citibank. The salient features of the lease are as follows:

Discount rate - aircraft and spare engine	3 months LIBOR - 2 basis points	-
Lease period - aircraft	144 months	-
Lease period - spare engine	96 months	-
Security deposits (Rupees in thousand)	459,000	-



Notes to the Interim Condensed Financial Statements (Un-audited)

For the nine months period ended September 30, 2006

10. SHORT TERM BORROWINGS - secured

Represents running finance facilities acquired from the following banks:

Financier	Security	Repayment period	Mark up	SEP-2006 (Rupees in thousand)	DEC-2005
National Bank of Pakistan - Karachi	First pari passu hypothecation charge over stocks and trade debts	1 year	KIBOR + 1.25%	565,000	-
National Bank of Pakistan - Karachi	Foreign currency deposit	6 months	KIBOR + 0.75%	310,321	-
National Bank of Pakistan - Bahrain	GoP guarantee	6 months	LIBOR + 0.6%	4,225,200	-
Standard Chartered Bank - Karachi	GoP guarantee	6 months	KIBOR + 0.75%	2,999,604	-
Syndicate financing by United Bank Limited - Bahrain, Habib Bank Limited - London, Standard Chartered Bank - Dubai and National Bank of Pakistan - Bahrain	First pari passu hypothecation charge over current assets and GoP guarantee	3-12 months	LIBOR + 0.6% to 2.25%	4,861,788	-
United Bank Limited - Karachi	First pari passu hypothecation charge over stocks and trade debts	1 year	KIBOR + 1.50%	971,980	-
United Bank Limited - Dubai	First pari passu charge over present and future current assets	1 year	LIBOR + 2%	-	362,075
				13,933,893	362,075

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingency

Civil Aviation Authority, Pakistan has claimed additional amounts aggregating to Rs. 3,623 million (Dec 2005: Rs. 3,819 million) in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest/surcharge etc. The matter has been referred to the Ministry of Defence through which a reconciliation and settlement exercise is currently in progress. The management considers that no additional liability of material amount is likely to arise as a result of such exercise. Accordingly, no provision in this respect has been made in these interim condensed financial statements.

11.2 Commitment

Outstanding commitments for the purchase of aircraft as at September 30, 2006 amount to Rs. 47,248 million (Dec 2005: Rs. 60,613 million).

There has been no significant change in the status of other contingencies and commitments as disclosed in the annual financial statements of the Corporation for the year ended December 31, 2005.



Notes to the Interim Condensed Financial Statements (Un-audited)

For the nine months period ended September 30, 2006

12. TURNOVER - net

	Nine months ended		Quarter ended	
	SEP - 2006	SEP - 2005	SEP - 2006	SEP-2005
	(Rupees in thousand)			
Passenger	44,262,635	39,696,015	15,556,504	13,690,823
Cargo	4,223,782	3,594,982	1,610,154	1,364,519
Excess baggage	565,791	601,154	182,347	183,163
Charters	308,390	370,750	64,879	150,775
Engineering services	966,175	582,296	343,068	250,860
Handling and related services	691,217	322,467	258,587	53,224
Mail	212,301	233,414	75,253	83,588
Others	558,940	513,556	172,267	204,129
	<u>51,789,231</u>	<u>45,914,634</u>	<u>18,263,059</u>	<u>15,981,081</u>

13. COST OF SERVICES - others

Salaries, wages and allowances	4,274,127	4,043,771	1,451,172	1,360,484
Welfare and social security costs	244,804	253,818	152,571	82,754
Retirement benefits	287,744	287,096	134,303	95,276
Compensated absences	10,613	11,416	4,690	3,980
Mandatory retirement expenses	-	245,559	-	245,559
Legal and professional charges	75,114	5,355	29,872	1,415
Stores and spares consumed	1,703,636	1,732,229	544,849	597,469
Maintenance and overhaul	4,077,825	3,253,254	1,364,069	935,639
Flight equipment rental	1,831,582	1,192,428	345,373	374,368
Landing and handling	5,997,941	5,222,747	2,085,206	1,861,634
Passenger services	1,978,636	1,649,836	591,168	569,983
Crew layover	1,438,812	1,273,874	487,153	496,242
Staff training	55,572	57,193	16,162	19,064
Utilities	8,028	1,786	4,430	595
Communication	48,249	30,542	11,382	13,093
Insurance	825,669	945,168	301,174	318,798
Rent, rates and taxes	223,063	149,889	74,314	47,398
Repair and maintenance	102,228	88,292	33,126	-
Printing and stationery	67,024	47,581	20,371	25,148
Amortization	1,293	-	431	-
Depreciation	2,349,344	3,061,003	886,207	1,025,139
Others	155,500	566,995	60,245	191,996
	<u>25,756,804</u>	<u>24,119,832</u>	<u>8,598,268</u>	<u>8,266,034</u>

14. FINANCE COST

Mark-up on long term finance under mark-up arrangements	205,557	233,267	64,519	94,058
Profit on term finance certificates	1,022,541	931,418	339,968	330,799
Interest on obligation under finance leases	1,448,989	658,697	574,129	216,785
Mark-up on long term murabaha finance	88,597	83,290	29,154	20,751
Mark-up on short-term borrowings	493,323	100	247,970	30
Arrangement, agency and commitment fee	107,785	59,214	43,808	17,602
Interest to pension / provident funds	-	659	-	-
Bank charges, guarantee commission and other related charges	28,739	39,478	8,045	20,478
	<u>3,395,531</u>	<u>2,006,123</u>	<u>1,307,593</u>	<u>700,503</u>



Notes to the Interim Condensed Financial Statements (Un-audited)

For the nine months period ended September 30, 2006

15. TAXATION

	Nine months ended		Quarter ended	
	SEP - 2006	SEP - 2005	SEP - 2006	SEP - 2005
	(Rupees in thousand)			
Current (note 15.1)	258,946	(230,040)	91,315	(79,907)
Deferred (note 15.2)	-	422,528	-	660,625
	<u>258,946</u>	<u>192,488</u>	<u>91,315</u>	<u>580,718</u>

15.1 In view of taxable loss for the period, the provision for minimum taxation has been made at 0.5% of turnover under section 113 of the Income Tax Ordinance, 2001.

15.2 Deferred tax asset has not been recognised in these interim condensed financial statements in accordance with the Corporation's accounting policy.

16. CASH (UTILISED IN) / GENERATED FROM OPERATIONS

	Nine months ended	
	SEP - 2006	SEP - 2005
	(Rupees in thousand)	
Loss before tax	(8,928,688)	(3,285,722)
Adjustments for:		
Depreciation	2,513,458	3,186,695
Amortization	22,491	15,756
Finance cost	3,395,531	2,006,123
Provision for employees' benefits	431,443	77,250
Reversal against provision for doubtful trade debts		(9,214)
Provision against stores and spares	100,000	40,000
Gain on disposal of fixed assets	(172,456)	(435,902)
Profit on bank deposit	(106,569)	(106,788)
Operating profit before working capital changes	<u>(2,744,790)</u>	<u>1,488,198</u>
Working capital changes		
Increase in stores and spares	(531,621)	(157,978)
(Increase) / decrease in trade debts	(2,095,274)	(645,844)
(Increase) / decrease in advances	(56,736)	29,199
Increase in trade deposits and prepayments	(134,452)	(11,122)
(Increase) / decrease in other receivables	(183,539)	61,057
Increase / (decrease) in trade and other payables	(63,502)	(14,755)
Cash (utilised in) / generated from operations	<u>(5,809,914)</u>	<u>748,755</u>

17. RELATED PARTY TRANSACTIONS

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 interim condensed financial statements are as follows:

Recovery of advances from PIAIL	588,553	535,320
Interest on advances to PIAIL	152,898	221,241
Catering services from Sky Rooms (Private) Limited	61,325	27,109
Contribution to retirement funds	274,297	413,554

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



Notes to the Interim Condensed Financial Statements (Un-audited)

For the nine months period ended September 30, 2006

18. AUTHORISATION OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were authorized for issue in the Board of Directors Meeting held on October 30, 2006.

19 GENERAL

- 19.1 The figures have been rounded off to the nearest thousand rupees.
- 19.2 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. 60.63 = US\$ 1 solely for convenience purposes.
- 19.3 The information as to the available capacity and utilisation thereof during the period has been disclosed in the statistics annexed to the interim condensed financial statements.

Tariq Kirmani
Chairman & CEO

Kamal Afsar
Director



Quarterly Summary

		3rd Quarter	2006 2nd Quarter	1st Quarter	1st Quarter	2005 2nd Quarter	3rd Quarter
Traffic Operations							
Available Seat Kilometers (million)	International	4,645	4,490	4,209	3,694	3,631	4,378
	Domestic	681	670	649	627	598	629
	Hajj	0	-	882	1,271	-	-
	Total	5,326	5,160	5,740	5,592	4,229	5,007
Revenue Passenger Kilometers (million)	International	3,614	3,101	2,953	2,731	2,636	3,474
	Domestic	532	493	465	390	427	530
	Hajj	0	-	451	639	-	-
	Total	4,146	3,594	3,869	3,760	3,063	4,004
Seat Factor (%)	International	77.80	69.06	70.16	73.93	72.60	79.35
	Domestic	78.12	73.58	71.65	62.20	71.40	84.26
	Hajj	0.00	-	51.13	50.26	-	-
	Total	77.84	69.65	67.40	67.24	72.43	79.97
Available Freight Tonne Kilometers (million)	International	160	163	126	138	140	152
	Domestic	25	24	20	22	22	24
	Total	185	187	146	160	162	176
Revenue Freight Tonne Kilometers (million)	International	116	104	83	83	88	107
	Domestic	9	9	9	9	9	11
	Total	125	113	92	92	97	118
Load Factor (%)	International	72.50	63.80	65.87	60.14	62.86	70.39
	Domestic	36.00	37.50	45.00	40.91	40.91	45.83
	Total	67.57	60.43	63.01	57.50	59.88	67.05

Financial

(Rupees in million)

Operating Revenue	18,263	16,686	16,840	16,186	13,840	15,981
Operating Expenses	19,812	18,755	18,951	15,494	15,029	17,325
Operating profit/(loss)	(1,549)	(2,069)	(2,111)	692	(1,189)	(1,344)
Profit/(loss) before taxation	(2,952)	(2,981)	(2,996)	188	(1,870)	(1,604)
Profit/(loss) after taxation	(3,043)	(3,064)	(3,080)	19	(2,089)	(1,023)
Fixed Assets	68,505	67,802	67,219	50,150	50,582	51,253
Current Assets	14,163	14,566	12,865	14,956	15,065	13,014
Current Liabilities	38,437	34,891	30,497	15,805	17,979	19,783
Long term Debts	52,254	52,310	51,938	40,994	40,409	38,798
Net Worth	1,246	4,262	7,345	13,445	11,372	10,343
Jet Fuel Prices (Rs. Per US Gallon)	135.31	128.26	113.88	82.48	102.67	111.39



Come Fly With Us