

A large, semi-transparent image of a PIA aircraft is positioned diagonally across the page, from the top left towards the bottom right. The aircraft is shown from a side-on perspective, flying against a blue sky with white clouds. The PIA logo and name are visible on the fuselage of the plane.

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Corporate Profile

Board of Directors

Ahmad Saeed
Chairman & Chief Executive

Nawid Ahsan
Secretary Finance

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

Air Marshal (Retd) Pervez Akhtar Nawaz
Director General - Civil Aviation Authority Pakistan

Asad Ali Khan

M. H. K. Khaishgi

Syed Mohammad Fazal Agha

Javed Saifullah Khan

Dr. Sughra Junejo

S. Ali Raza

Kamal Afsar

Secretary
Ghazanfar Mashkoor

Audit Committee

Asad Ali Khan - Chairman
Air Marshal (Retd) Pervez Akhtar Nawaz
Javed Saifullah Khan
Dr. Sughra Junejo
S. Ali Raza

Registered Office

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

Executive Management

Ahmad Saeed
Chairman & Chief Executive

Kaleem Malik
Dy. Managing Director Finance

S. Farooq H. Shah
Dy. Managing Director Administration

AVM (Retd) Niaz Husain
Dy. Managing Director Operations

M. Rasheed Hasan
Director Corporate Planning

Wasim Bari
Director Administration

Umar Ghafoor
Director Flight Services

Anwaar Rasul Khan
Director General Services

S. Kamran Hasan
Director Marketing

Capt. Javed Khan
Director Quality Assurance

Capt. S. Asif Abbas Reza
Director Flight Operations

Arif Majeed
Director Finance

Col. (Retd) Mudasar Asghar
Director Works

Col. (Retd) Ahsan Siddique
Director Airport Services

Shahnawaz Rehman
Director Co-ordination

Mukhtar A. Qazi
Director Engineering

Nadeem Ikram
Director Information Technology

AVM Javed Iqbal
Director Precision Engineering

External Auditors

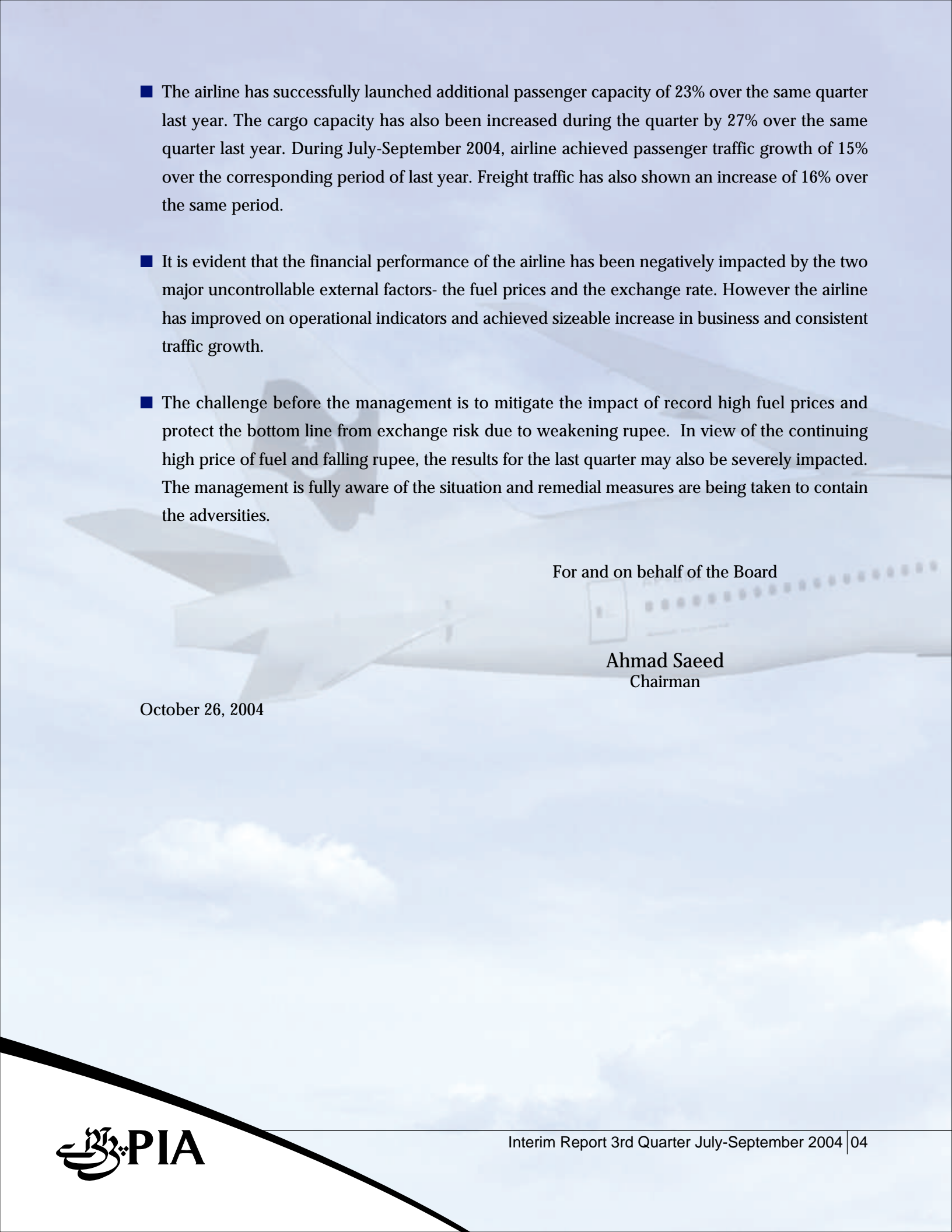
Taseer Hadi Khalid & Co.
Ford Rhodes Sidat Hyder & Co.

Directors' Report to the Shareholders

- The Directors are pleased to present their report along with financial statements (un-audited) for the nine months period ended September 30, 2004 and for the 3rd quarter- Jul-Sep 2004 as required under the directives of the Securities and Exchange Commission of Pakistan (SECP).
- Results for the quarter and the period ended September 30, 2004 are summarized below:

	JULY-SEPTEMBER 2004		JANUARY-SEPTEMBER 2004	
	2004	2003	2004	2003
(-----Rupees in million-----)				
Revenue	14,556	11,611	41,063	35,029
Costs & Expenditure	15,250	10,707	41,151	32,598
(Loss)/Profit before taxation	(694)	904	(88)	2,431
Taxation	308	(178)	1,102	(1,097)
(Loss)/Profit after taxation	(386)	726	1,014	1,334

- July – September 2004 quarter turned out to be a very difficult quarter for the airline industry as well as for the Corporation emanating from the extra ordinary increase in the fuel prices. The aircraft fuel bill has gone up from Rs. 2.7 billion in July-September 2003 to Rs. 4.7 billion in July-September 2004 showing an increase of approximately Rs. 2 billion or 74%. Likewise fuel cost for the period Jan-Sep 2004 was Rs. 12.2 billion as compared to Rs 8.6 billion over same period last year, showing an increase of 42%.
- The other factor that has negatively impacted the profitability of the Corporation has been the depreciation of Pak Rupee versus US Dollar. The devaluation of Pak Rupee has resulted in exchange loss of Rs 708 million for the Jan- Sept period and Rs 463 million for the July –Sept quarter on the foreign currency loans availed for the acquisition of three Boeing 777 and six Airbus A-310. It is also important to state that the Corporation changed its policy of treatment of exchange losses effective January 2003 in accordance with IAS-21. As a result, exchange losses are now charged to profit. Since Pak Rupee appreciated in 2003, this is the first year that exchange losses on loan bearing assets are being reported through profit and loss account.
- Airline's revenue for the period at Rs. 41 billion (2003: Rs. 35 billion) has registered a growth of 17% over the same period last year. However, the costs and expenditure have also gone up by 26% during the period under review.

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- The airline has successfully launched additional passenger capacity of 23% over the same quarter last year. The cargo capacity has also been increased during the quarter by 27% over the same quarter last year. During July-September 2004, airline achieved passenger traffic growth of 15% over the corresponding period of last year. Freight traffic has also shown an increase of 16% over the same period.
 - It is evident that the financial performance of the airline has been negatively impacted by the two major uncontrollable external factors- the fuel prices and the exchange rate. However the airline has improved on operational indicators and achieved sizeable increase in business and consistent traffic growth.
 - The challenge before the management is to mitigate the impact of record high fuel prices and protect the bottom line from exchange risk due to weakening rupee. In view of the continuing high price of fuel and falling rupee, the results for the last quarter may also be severely impacted. The management is fully aware of the situation and remedial measures are being taken to contain the adversities.

For and on behalf of the Board

Ahmad Saeed
Chairman

October 26, 2004

HIGHLIGHTS

		SEP - 2004	SEP - 2003	Change
Shareholders' funds	(Rs. in million)	7,076	1,981	257.2 %
Total assets	(Rs. in million)	74,502	53,064	40.4 %
Total revenue	(Rs. in million)	41,063	35,029	17.2 %
Profit after taxation	(Rs. in million)	1,013	1,334	(24.1) %
Revenue passenger kilometers	(million)	10,274	8,997	14.2 %
Passenger load factor	(%)	68.82	70.77	(2.8) %
Revenue freight tonne kilometers	(million)	299	273	9.5 %
Freight load factor	(%)	51.56	58.42	(11.8) %

IMPORTANT EVENTS

■ Induction of aircraft in the fleet as per fleet renewal plan:

January 29	1st Boeing 777-200ER
February 13	2nd Boeing 777-200ER
March 09	2nd A310-300
March 22	3rd Boeing 777-200ER
March 25	3rd A310-300
May 26	4th A310-300
June 30	5th A310-300
July 17	6th A310-300

■ Aircraft phased out during the period:

February 29	A300 (AP-BBA) declared total loss.
March 08	A300 (AP-BAZ) permanently grounded.
June 16	F27 (AP-AUR) declared total loss.

- Drawdown of US\$ 345 million obtained under US EXIM Bank guaranteed financing for 3 Boeing 777-200ER aircraft.
- Financing arranged for PIA's three B777-200ER won Air Finance Journal 2003 award.
- Liquidation of US\$ 125 million bridge financing out of EXIM Bank financing proceeds.
- New cabin crew uniform and aircraft livery launched in February.
- March 06 Hajj 2004 operation completed successfully. In all 108,000 Hajjis carried to and from the Holy Land.
- PIA Engineering granted JAR 145 International Certification.

Balance Sheet (un-audited) as at September 30, 2004

	Note	SEP - 2004 (Rupees in thousand)	DEC - 2003 (Rupees in thousand)	SEP - 2004 (US\$ in thousand)
SHAREHOLDERS' EQUITY				
Share capital		11,514,826	11,514,826	194,672
Reserves		4,280,712	4,280,712	72,370
Unrealized loss on remeasurement of investments-net		(37,881)	(2,876)	(640)
Accumulated loss		(8,681,420)	(9,119,166)	(146,770)
		<u>7,076,237</u>	<u>6,673,496</u>	<u>119,632</u>
ADVANCE AGAINST EQUITY FROM GoP	4	3,002,776	-	50,766
REDEEMABLE CAPITAL		17,571,060	18,381,766	297,059
LONG-TERM LOANS		1,747,888	2,348,733	29,550
OBLIGATIONS UNDER FINANCE LEASE	5	25,317,567	1,303,234	428,023
DEFERRED LIABILITIES	6	3,290,771	4,240,421	55,634
LONG-TERM DEPOSITS AND OTHER LIABILITY		434,766	420,097	7,350
CURRENT LIABILITIES				
Current maturities		4,449,436	9,476,260	75,223
Short-term loans	7	-	65,000	-
Creditors, accrued expenses and other liabilities	8	11,611,127	13,197,070	196,300
Provision for taxation - net		-	459,555	-
		<u>16,060,563</u>	<u>23,197,885</u>	<u>271,523</u>
CONTINGENCIES AND COMMITMENTS				
	9	<u>74,501,628</u>	<u>56,565,632</u>	<u>1,259,537</u>
FIXED ASSETS				
Operating fixed assets	10	46,251,237	17,906,918	781,931
Capital work-in-progress	11	4,554,555	11,817,218	77,000
		<u>50,805,792</u>	<u>29,724,136</u>	<u>858,931</u>
LONG-TERM INVESTMENTS	12	332,869	337,345	5,628
LONG-TERM ADVANCES	13	2,625,907	3,686,524	44,394
LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	14	3,783,252	2,347,382	63,960
CURRENT ASSETS				
Stores and spares	15	4,071,439	4,695,334	68,832
Short-term investments		333,477	372,962	5,638
Trade debts - net		3,939,252	3,414,167	66,598
Advances, deposits and prepayments		1,082,080	1,023,390	18,294
Advance tax - net		235,660	-	3,984
Other receivables		668,303	874,676	11,298
Cash and bank balances	16	6,623,597	10,089,716	111,980
		<u>16,953,808</u>	<u>20,470,245</u>	<u>286,624</u>
		<u>74,501,628</u>	<u>56,565,632</u>	<u>1,259,537</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

Profit and Loss Account (un-audited) for the nine months period ended September 30, 2004

	Note	Nine months period ended		Quarter ended		Nine months period ended
		SEP - 2004	SEP - 2003	SEP - 2004	SEP - 2003	SEP - 2004
		(Rupees in thousand)				(US\$ in thousand)
REVENUE	17	41,062,547	35,029,118	14,555,686	11,611,230	694,210
COSTS AND EXPENDITURE	18	(39,517,667)	(30,762,014)	(14,293,246)	(10,164,787)	(668,092)
OPERATING PROFIT/(LOSS)		1,544,880	4,267,104	262,440	1,446,443	26,118
FINANCIAL CHARGES	19	(1,532,238)	(1,905,091)	(516,225)	(541,654)	(25,904)
OTHER PROVISIONS AND ADJUSTMENTS	20	(168,078)	(322,319)	(153,383)	(106,904)	(2,842)
		(1,700,316)	(2,227,410)	(669,608)	(648,558)	(28,746)
OTHER INCOME	21	66,799	391,315	(287,547)	106,008	1,129
PROFIT/(LOSS) BEFORE TAX		(88,637)	2,431,009	(694,715)	903,893	(1,499)
TAXATION						
- Current		(205,313)	(175,146)	(72,779)	(58,057)	(3,471)
- Prior	22	698,465	-	-	-	11,808
- Deferred		608,972	(922,000)	381,118	(120,000)	10,296
		1,102,124	(1,097,146)	308,339	(178,057)	18,633
PROFIT/(LOSS) AFTER TAX		1,013,487	1,333,863	(386,376)	725,836	17,134
APPROPRIATIONS:						
Dividend 'A' Class ordinary shares @ Re. 0.50 per share	1.3	(575,366)	-	-	-	(9,727)
Dividend 'B' Class ordinary shares @ Re. 0.25 per share	1.3	(375)	-	-	-	(6)
		(575,741)	-	-	-	(9,733)
		437,746	1,333,863	(386,376)	725,836	7,401
LOSS BROUGHT FORWARD		(9,119,166)	(10,267,818)	(8,295,044)	(9,659,791)	(154,171)
LOSS CARRIED FORWARD		(8,681,420)	(8,933,955)	(8,681,420)	(8,933,955)	(146,770)
EARNINGS PER SHARE						
A' class ordinary shares of Rs.10 each (Rupees/US\$)		0.88	2.00	(0.34)	1.09	0.01
B' class ordinary shares of Rs. 5 each (Rupees/US\$)		0.44	1.00	(0.17)	0.54	0.01

The annexed notes 1 to 27 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

Cash Flow Statement (un-audited) for the nine months period ended September 30, 2004

Note	SEP - 2004 (Rupees in thousand)	SEP - 2003 (US\$ in thousand)	SEP - 2004 (US\$ in thousand)
Cash flows from operating activities			
Cash generated from operations	23 3,021,199	1,167,680	51,077
Taxes paid	(202,063)	(254,740)	(3,416)
Dividend paid	(564,876)	-	(9,550)
Financial charges paid	(1,858,826)	(1,762,044)	(31,425)
Staff retirement benefits paid	(33,926)	-	(574)
Cash flow from operating activities	361,508	(849,104)	6,112
Cash flows from investing activities			
Fixed capital expenditure	(24,310,993)	(5,704,516)	(411,006)
Advance against equity from GoP	3,002,776	4,477,614	50,765
Proceeds from investments	8,966	10,880	152
Proceeds from sale of fixed assets	238,083	10,404	4,025
Proceeds from long-term advances - net	1,143,785	25,188	19,337
(Payments of) / proceeds from long-term deposits	(1,435,870)	(61,164)	(24,275)
Cash flow from investing activities	(21,353,253)	(1,241,594)	(361,002)
Cash flows from financing activities			
(Redemption of)/proceeds from Term Finance Certificates	(152)	15,139,849	(3)
Repayment of long-term loans-net	(656,483)	(969,195)	(11,099)
Repayment of long-term advance under markup arrangements	(810,555)	-	(13,703)
Repayment of obligations under hire purchase	(689,502)	(935,583)	(11,657)
Financing obtained under sale and lease back transaction	-	6,805,029	-
Proceeds from obligations under finance lease	19,732,649	-	333,604
Proceeds from/(payment of) long-term deposits and other liability-net	14,669	(22,121)	248
Payment of short-term loans	(65,000)	(12,280,333)	(1,099)
Cash flow from financing activities	17,525,626	7,737,646	296,291
(Decrease)/increase in cash and bank balances	(3,466,119)	5,646,948	(58,599)
Cash and bank balances at beginning of the period	10,089,716	4,537,319	170,579
Cash and bank balances at end of the period	6,623,597	10,184,267	111,980

The annexed notes 1 to 27 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

Statement of Changes in Equity (un-audited) for the nine months period ended September 30, 2004

	Paid up capital	Capital reserves	Revenue reserves	Unrealized (loss) on re- measurement of investments-net	Accumulated loss	Total
	(----- Rupees in thousand -----)					
Balance as at January 01, 2003	6,820,631	2,351,038	1,779,674	(113,538)	(10,267,818)	569,987
Unrealized gain on remeasurement of investments-net	-	-	-	77,565	-	77,565
Profit after taxation	-	-	-	-	1,333,863	1,333,863
Balance as at September 30, 2003	<u>6,820,631</u>	<u>2,351,038</u>	<u>1,779,674</u>	<u>(35,973)</u>	<u>(8,933,955)</u>	<u>1,981,415</u>
Balance as at January 01, 2004	11,514,826	2,501,038	1,779,674	(2,876)	(9,119,166)	6,673,496
Unrealized loss on remeasurement of investments-net	-	-	-	(35,005)	-	(35,005)
Profit/(loss) for the period	-	-	-	-	1,013,487	1,013,487
Dividend						
'A' Class ordinary shares @ Re. 0.50 per share	-	-	-	-	(575,366)	(575,366)
'B' Class ordinary shares @ Re. 0.25 per share	-	-	-	-	(375)	(375)
Balance as at September 30, 2004	<u>11,514,826</u>	<u>2,501,038</u>	<u>1,779,674</u>	<u>(37,881)</u>	<u>(8,681,420)</u>	<u>7,076,237</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director