
1. CORPORATE INFORMATION

- 1.1 Pakistan International Airlines Corporation (the Corporation) was incorporated on April 18, 1956 under the Pakistan International Airlines Corporation Act, 1956 (PIAC Act 1956) and its shares are quoted on all stock exchanges of Pakistan. The registered office of the Corporation is situated in Karachi. Principal activity of the Corporation is to provide air transport services. In addition, the Corporation is engaged in providing engineering and other allied services.
- 1.2 Government of Pakistan (GoP) financial assistance is available to the Corporation and the GoP has issued guarantees to secure certain long-term debts of the Corporation and Term Finance Certificates (TFCs). The GoP has agreed to provide equity contribution to the Corporation equivalent to the accumulated losses of the Corporation as at December 31, 2000 to cover interest payments on long-term loans and TFCs. As part of the package an amount of Rs. 5,533 million has been provided to the Corporation upto September 30, 2004 against which 253,020,805 ordinary shares of Rs. 10 each were issued to GoP upto December, 2003. The remaining 300,277,600 ordinary shares are expected to be issued during the current year.
- 1.3 During the period an interim dividend of Rs. 575 million on 'A' class ordinary shares and Rs. 0.38 million on 'B' class ordinary shares has been approved by the Board of Directors in their meeting held on May 27, 2004. The said interim dividend has been approved by the Board of Directors based on the profit of the first quarter ended March 31, 2004 and on the expectations and budgets, that the total profit for the year would be sufficient to cover the amount of interim dividend.

2. BASIS OF PREPARATION

These financial statements are unaudited and are being circulated to the shareholders as required under the directives of the Securities and Exchange Commission of Pakistan (SECP) and in accordance with International Accounting Standard (IAS) 34.

These financial statements are being presented in condensed form in accordance with the requirements of International Accounting Standard (IAS) 34 'Interim Financial Reporting' as applicable in Pakistan and shall be read in conjunction with the annual financial statements of the Corporation for the year ended December 31, 2003.

The accounting policies and methods of computations adopted in the preparation of these financial statements are the same as those applied in the preparation of financial statements of the Corporation for the year ended December 31, 2003.

3. CONSOLIDATION

The Corporation has been granted exemption by Securities and Exchange Commission of Pakistan (SECP) from the provisions of Section 237(1) of the Companies Ordinance 1984 relating to the preparation of consolidated annual financial statements for the year ended December 31, 2003. Accordingly these interim financial statements have also not been prepared on consolidated basis consistent with the requirement of IAS-34 'Interim Financial Reporting'.

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

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

5. OBLIGATIONS UNDER FINANCE LEASE

| | | SEP - 2004 | DEC - 2003 |
|-----|---|----------------------|------------------|
| | | (Rupees in thousand) | |
| | Present value of future rental obligations - vehicles & technical ground support equipment (note 5.1) | 243,621 | 179,002 |
| | Present value of future rental obligations - aircraft | - | 6,098,305 |
| | Present value of future rental obligations - A310 (note 5.2) | 7,545,184 | 1,261,241 |
| | Present value of future rental obligations - B777 (note 5.3) | 19,482,392 | - |
| | | <u>27,271,197</u> | <u>7,538,548</u> |
| | Less: current portion | 1,953,630 | 6,235,314 |
| | | <u>25,317,567</u> | <u>1,303,234</u> |
| 5.1 | The salient features of the leases are as follows: | | |
| | Discounting factor | 6.65% to 10.00% | 7.71% to 16.46% |
| | Lease term | 48 to 60 months | 48 to 60 months |
| | Security deposit (Rupees in thousand) | 1,040 | 1,924 |
| | Bargain purchase option can be exercised at the end of the lease term. | | |
| 5.2 | In 2003, the Corporation had entered into aircraft lease agreements with Leasing Inc. USA for six A310-300 aircraft. One of these was acquired in 2003 and five aircraft have been acquired during this period. The salient features of the aircraft lease are as follow: | | |
| | Discount rate | 1.21-2.96% | |
| | Lease period | 144 months | |
| | Security deposits (Rupees in thousand) | 188,244 | |
| | Bargain purchase option can be exercised at the end of the lease term. Fixed monthly maintenance payments are to be made by the Corporation to the lessor. | | |
| 5.3 | During the period the Corporation entered into an agreement for EXIM Bank supported financing for US\$ 345 million to acquire three Boeing 777-200 aircraft and General Electric (GE) spare engines, from Taxila Limited, a special purpose vehicle (SPV) incorporated in Cayman Islands. The guaranteed lender of the financing is Citi bank and Govco Inc. (an entity administered by Citi bank) The salient features of the arrangement are as follow: | | |
| | Discount rate | 3 months LIBOR | |
| | Lease period - aircraft | 144 months | |
| | Lease period - spare engine | 96 months | |
| | Security deposits (Rupees in thousand) | 516,856 | |
| | Title of the aircraft and engines will be transferred to PIA at the end of the respective lease term. | | |

6. DEFERRED LIABILITIES

| | | | |
|-----|--|------------------|------------------|
| | Deferred taxation (note 6.1) | 873,324 | 1,482,295 |
| | Deferred custom duties | 148,497 | 148,497 |
| | Obligations for compensated absences | 1,485,000 | 1,435,000 |
| | Post retirement medical benefits | 783,950 | 771,000 |
| | Deferred gain on sale and lease back transactions | - | 403,629 |
| | | <u>3,290,771</u> | <u>4,240,421</u> |
| 6.1 | Deferred taxation | | |
| | Deferred tax liability arising in respect of taxable temporary differences due to: | | |
| | Difference in written down value and tax base of fixed assets | 9,193,419 | 3,371,522 |
| | Deferred tax assets arising in respect of deductible temporary differences due to: | | |
| | Carry forward tax losses (assessed and unassessed) | (6,731,555) | - |
| | Provisions and others | (1,588,540) | (1,889,227) |
| | | <u>873,324</u> | <u>1,482,295</u> |

7. SHORT-TERM LOANS - secured

This loan has been fully repaid to the Employees' Pension and Provident Fund during the period. This was more fully explained in note 12.1 to the annual financial statements of the Corporation for the year ended 31 December 2003.

8. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES

| | SEP - 2004 | DEC - 2003 |
|---|----------------------|-------------------|
| | (Rupees in thousand) | |
| Creditors for goods, services and airport related charges | 3,340,570 | 2,594,735 |
| Custom and central excise duty | 1,160,536 | 379,037 |
| Income tax deducted | 48,043 | 16,868 |
| Stamp duties | 13,587 | 13,878 |
| Capital value tax | 14,060 | 25,197 |
| Collection on behalf of others | 204,977 | 883,556 |
| Employees' Provident Fund | 127,882 | 1,654,292 |
| Accrued expenses | 1,885,019 | 2,223,427 |
| Short term deposits | 91,637 | 76,840 |
| Advances received | 462,169 | 354,797 |
| Accrued mark-up on redeemable capital, loans, term finance, obligations under finance lease and hire purchase | 236,215 | 562,803 |
| Advance against transportation | | |
| Normal | 3,904,610 | 3,108,695 |
| Haj | - | 1,293,041 |
| Dividend | 3,904,610 | 4,401,736 |
| Others | 14,162 | 3,297 |
| | 107,660 | 6,607 |
| | 11,611,127 | 13,197,070 |

9. CONTINGENCIES AND COMMITMENTS

9.1 Contingencies

9.1.1 Civil Aviation Authority, Pakistan (CAA) has claimed additional amounts aggregating to Rs. 2,834 million (Dec-2003: Rs. 3,101 million) in respect of rent and allied charges, aviation security and bay charges, interest / surcharge etc. The matter had been referred to Ministry of Defence through which a reconciliation and settlement exercise is currently in progress. The management considers that no additional liability of material amount is likely to arise as a result of such exercise. Accordingly, no provision in this respect has been made in these financial statements.

9.1.2 There has been no change in the status of other contingencies as disclosed in the annual financial statements of the Corporation for the year ended December 31, 2003.

9.1.3 Outstanding guarantees amounting to Rs. 527.31 million (Dec 2003: Rs. 475 million).

9.2 Commitments

9.2.1 Capital commitments for the purchase of aircraft as at September 30, 2004 amounted to Rs. 52,882 million (Dec 2003: Rs. 72,314 million)

9.2.2 Capital commitments for assets other than aircraft as at September 30, 2004 amounted to Rs. 28.16 million (Dec-2003: Rs. 17.52 million).

9.2.3 Outstanding letters of credit amounted to Rs. 169.21 million (Dec 2003: Rs. 57.88 million).

10. OPERATING FIXED ASSETS - tangible**SEPTEMBER - 2004**

(Rupees in thousand)

Owned

| | |
|--|--|
| Land | |
| Buildings on leasehold land | |
| Workshop and hangars | |
| Renovation & improvements | |
| Aircraft fleet | |
| Operating ground equipment, catering, communication & meteorological equipment | |
| Engineering equipment & tools | |
| Vehicles | |
| Traffic equipment | |
| Furniture, fixtures & fittings | |
| Office equipment | |
| Computer & office automation | |
| PEC equipment | |
| Other equipment | |
| Capital spares (note 10.1) | |

Additions**(Deletions)**

| | |
|-------------------|-------------|
| 2,282 | (2) |
| 28,486 | - |
| 5,288 | - |
| 17,066 | - |
| 899,593 | (1,143,482) |
| 18,696 | (338) |
| 105,268 | - |
| 9,898 | (30,253) |
| 4,812 | (11,752) |
| 6,229 | - |
| 3,764 | - |
| 51,104 | - |
| 357 | - |
| 16,979 | - |
| 1,918,374 | (91,861) |
| 3,088,196 | (1,277,688) |
| 27,493,834 | - |
| 899,593 | - |
| 92,033 | - |
| 28,485,460 | - |
| 31,573,656 | (1,277,688) |

Leased

- Aircraft fleet (note 5.2 & 5.3)
- Engines
- Vehicles

10.1 This represents capital spares purchased for A310 and B777 aircraft.

10.2 During the period aircraft fleet and other assets costing Rs. 13,107 million and having written down value of Rs. 10,199 million have been transferred from "assets under hire purchase and lease" to "owned assets" on expiry of respective hire purchase/lease agreements and the transfer of title of such assets to the Corporation.

11. CAPITAL WORK-IN-PROGRESS**SEP - 2004****DEC - 2003**

(Rupees in thousand)

| | |
|---|--|
| Buildings - Civil works | |
| Other projects / equipment | |
| Renovation & improvements | |
| Non refundable deposit against purchase of aircraft | |
| Advance against revenue accounting package | |

Less: balances written off

| | |
|------------------|-------------------|
| 35,794 | 5,590 |
| 18,044 | 24,628 |
| - | 3,273 |
| 4,500,023 | 11,789,102 |
| 694 | 694 |
| 4,554,555 | 11,823,287 |
| - | (6,069) |
| 4,554,555 | 11,817,218 |

12. LONG-TERM INVESTMENTS

| | | SEP - 2004 | DEC - 2003 |
|------|---|----------------------|----------------|
| | | (Rupees in thousand) | |
| | Available for sale (note 12.1) | 23,443 | 18,963 |
| | Held to maturity - Promissory notes issued by Nigerian Government | 94,859 | 103,815 |
| | Subsidiary companies (note 12.2 and 12.3) | - | - |
| | Associated companies | 214,567 | 214,567 |
| | | <u>332,869</u> | <u>337,345</u> |
| 12.1 | Available for sale | | |
| | Quoted | | |
| | Ordinary shares of Pakistan Services Limited of Rs 10 each | 23,343 | 18,863 |
| | Unquoted | | |
| | Ordinary shares of Pakistan Tourism Development Corporation Limited of Rs. 10 each | 100 | 100 |
| | | <u>23,443</u> | <u>18,963</u> |
| 12.2 | Subsidiaries - unquoted | | |
| | Midway House (Private) Limited | | |
| | 2,960,000 shares of Rs 10 each | 28,520 | 28,520 |
| | Advance against equity | 73,074 | 73,074 |
| | | 101,594 | 101,594 |
| | Sky Rooms (Private) Limited | | |
| | 4,000,000 shares of Rs 10 each | 40,000 | 40,000 |
| | Advance against equity | 37,042 | 37,042 |
| | | 77,042 | 77,042 |
| | International Advertising (Private) Limited | | |
| | 250,000 shares of Rs 10 each | 850 | 850 |
| | PIA Holdings (Private) Limited (note 12.3) | | |
| | 750,000 shares of Rs 100 each | - | 75,000 |
| | Advance against equity | - | 376 |
| | | - | 75,376 |
| | PIA Shaver Poultry Breeding Farms (Private) Limited (note 12.3) | | |
| | 293,000 shares of Rs 10 each | - | 28,481 |
| | PIA Hotels Limited (note 12.3) | | |
| | 72,502 shares of Rs 10 each | - | - |
| | | 179,486 | 283,343 |
| | Less: provision for diminution in value of investments | 179,486 | 283,343 |
| | | <u>-</u> | <u>-</u> |
| 12.3 | During the period these subsidiaries have applied under the "Easy Exit Scheme" announced by the Securities and Exchange Commission of Pakistan (SECP) for voluntarily winding up. | | |

Percentage
of shareholding

13. LONG TERM ADVANCES - unsecured

| | SEP - 2004 | DEC - 2003 |
|--|--|-------------------|
| | (Rupees in thousand) | |
| Subsidiaries - considered doubtful | | |
| Non interest bearing | | |
| PIA Holdings (Private) Limited | - | 16,614 |
| PIA Shaver Poultry Breeding Farms (Private) Limited | - | 77,413 |
| Midway House (Private) Limited | 9,402 | 9,402 |
| | 9,402 | 103,429 |
| Less: | | |
| Provision for doubtful advances at the beginning of the year | 103,429 | 100,004 |
| Provision (written back) | (94,027) | 3,425 |
| | 9,402 | 103,429 |
| Associated company - considered good | - | - |
| PIA Investments Limited (PIAIL)(note 13.1) | | |
| Non interest bearing | 1,836,714 | 1,786,100 |
| Accumulated interest (note 13.2) | 2,052,198 | 1,900,424 |
| | 3,888,912 | 3,686,524 |
| Less: amount received during the period (note 13.3) | 1,263,005 | - |
| | 2,625,907 | 3,686,524 |
| 13.1 | The shareholders of PIAIL have agreed to cause PIAIL to pay the Corporation interest at the rate of 5 percent per annum from the date of original disbursement of these advances. The interest amounting to Rs. 2,589 million upto September 30, 2004 (Dec 2003: Rs. 2,358 million) will be recorded as and when realized. | |
| 13.2 | This represents accumulated interest on interest bearing advances to PIAIL at the rate of 10% per annum. The original advances to which this interest relates were paid back on October 13, 2000. Last year, the GoP constituted a committee comprising Managing Director of PIAIL and members of Roosevelt Task Force representing the Corporation to meet and discuss with the other shareholders of PIAIL and seek an amicable resolution to the Shareholder's request regarding interest on such advances. The said nominees of the two shareholders of PIAIL have recommended to reduce the rate of interest to 7.74% per annum and cease the accrual of further interest on repayment of such advances on October 13, 2000. This request has not yet been approved by the Board of Directors of the Corporation. | |
| 13.3 | This represents amount received by the Corporation from PIAIL which, as per letter ref. # FIN-3951/04 dated April 05, 2004, may be applied towards repayments of the interest bearing advances. | |

14. LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | | |
|---|---|-----------|
| Long-term deposits | 1,088,982 | 416,382 |
| Prepaid exposure fee on EXIM Bank supported financing | 763,270 | - |
| Pension fund (note 14.1) | 1,931,000 | 1,931,000 |
| | 3,783,252 | 2,347,382 |
| 14.1 | This has been reclassified from advances, deposits and prepayments during the period. | |

15. STORES AND SPARES

| | SEP - 2004 | DEC - 2003 |
|--|------------------|------------|
| (Rupees in thousand) | | |
| Stores (note 15.1, 15.3 and 15.4) | 804,308 | 711,660 |
| Inventory held for disposal (note 15.2) | | |
| Cost | 1,250,510 | 1,266,171 |
| Less: adjustment to write down surplus inventory to net realizable value | 1,012,936 | 1,012,936 |
| | 237,574 | 253,235 |
| Spares (note 15.1, 15.3 and 15.4) | 3,859,194 | 3,777,820 |
| Goods-in-transit | 542,544 | 829,528 |
| | 5,443,620 | 5,572,243 |
| Less: | | |
| Provision for slow moving stores and spares | | |
| Provision at beginning of the year | 876,909 | 1,799,712 |
| Add: provision made during the period/year | 495,272 | 90,133 |
| | 1,372,181 | 1,889,845 |
| Adjustment to write down surplus inventory to net realizable value | - | 1,012,936 |
| | 1,372,181 | 876,909 |
| | 4,071,439 | 4,695,334 |

- 15.1 The Corporation had undertaken revamping of its aircraft spares and the exercise was completed during last year. Following completion of revamping exercise, a programmed cyclic count of the aircraft spares is being carried on. The cyclic count system has been designed in a manner whereby all the items shall be counted once in a year. Further, the Corporation has also taken up an exercise to complete documentation and count of floating capital spares of an aggregate cost of approximately Rs. 2,918 million and to replace its old inventory accounting system.
- 15.2 Following completion of the revamping of aircraft spares last year, items of an aggregate net book value of Rs. 1,266.17 million were considered as surplus and have been stated at their expected net realizable value of Rs. 253.24 million out of which Rs. 15.66 million has been realized upto September 30, 2004.
- 15.3 Provision against slow moving aircraft spares has been made following a systematic approach whereby the book value of aircraft spares at the end of each year shall be charged to the profit as provision for slow moving spares on a prospective basis over the remaining estimated average useful lives of the relevant category of aircraft and according to expected usage of spares relating to certain aircraft. The remaining useful lives of the aircraft have been ascertained to be the lower of the useful lives stated in the valuation report of Airclaims Limited and the useful lives according to the revised fleet replacement plan approved by the Board of Directors.
- 15.4 It includes inventory of Rs. 34.17 million (Dec-2003: Rs. 41.42 million) held with foreign third party for repairing and overhauling of aircraft engines.

16. CASH AND BANK BALANCES

| | | |
|--------------------------------|------------------|-------------|
| With banks | | |
| In current accounts | | |
| Collection | 4,421,190 | 5,950,962 |
| Overdrawn bank balances | (601,155) | (1,070,882) |
| | 3,820,035 | 4,880,080 |
| In short-term deposit accounts | 2,720,688 | 5,155,024 |
| In hand | 11,862 | 8,557 |
| In transit | 71,012 | 46,055 |
| | 6,623,597 | 10,089,716 |

17. REVENUE

| | Nine months period ended | | Quarter ended | |
|----------------------------------|--------------------------|------------|-------------------|------------|
| | SEP - 2004 | SEP - 2003 | SEP - 2004 | SEP - 2003 |
| (----- Rupees in thousand -----) | | | | |
| Passenger | 35,146,153 | 29,357,036 | 12,363,869 | 9,424,535 |
| Excess baggage | 681,933 | 694,382 | 154,288 | 209,820 |
| Freight | 3,269,948 | 2,945,361 | 1,304,058 | 1,164,685 |
| Mail | 193,637 | 158,211 | 91,486 | 60,161 |
| Charters | 288,318 | 600,680 | 137,923 | 320,129 |
| Others | 1,482,558 | 1,273,448 | 504,062 | 431,900 |
| | 41,062,547 | 35,029,118 | 14,555,686 | 11,611,230 |

18. COSTS AND EXPENDITURE

| | Nine months period ended | | Quarter ended | |
|--|----------------------------------|-------------------|-------------------|-------------------|
| | SEP - 2004 | SEP - 2003 | SEP - 2004 | SEP - 2003 |
| | (----- Rupees in thousand -----) | | | |
| Salaries, wages and allowances | 6,036,326 | 5,773,248 | 2,033,103 | 1,898,209 |
| Welfare & social security costs | 509,219 | 427,641 | 151,552 | 144,203 |
| Provident fund | 176,977 | 150,203 | 59,102 | 86,490 |
| Pension funds | 270,767 | 189,718 | 90,445 | 111,218 |
| Post retirement medical benefits | 46,876 | 126,721 | 8,377 | 7,721 |
| Provision for employees compensated absences | 50,000 | 113,000 | 25,000 | - |
| Legal and professional charges | 228,506 | 156,073 | 42,264 | 30,964 |
| Retirement under Mandatory/VGHS Scheme | - | 33,791 | - | - |
| Aircraft fuel and oil | 12,172,864 | 8,521,043 | 4,704,425 | 2,739,485 |
| Stores and spares consumed | 2,275,080 | 2,044,504 | 611,609 | 649,382 |
| Maintenance and overhaul | 2,451,409 | 1,593,197 | 1,016,496 | 598,518 |
| Flight equipment rental | 970,116 | 411,253 | 204,211 | 162,776 |
| Landing and handling | 4,793,544 | 3,607,673 | 1,788,980 | 1,306,114 |
| Passenger services | 1,401,246 | 1,109,496 | 490,312 | 384,295 |
| Insurance | 1,006,469 | 964,689 | 336,298 | 325,604 |
| Advertising and selling | 498,606 | 395,464 | 142,601 | 147,177 |
| Rent, rates and taxes | 299,168 | 305,832 | 153,212 | 87,361 |
| Auditors' remuneration | 2,197 | 6,824 | - | 1,845 |
| General administration and others | 3,108,820 | 2,731,515 | 1,110,776 | 954,155 |
| | 36,298,190 | 28,661,885 | 12,968,763 | 9,635,517 |
| Depreciation | 3,219,477 | 2,100,129 | 1,324,483 | 529,270 |
| | 39,517,667 | 30,762,014 | 14,293,246 | 10,164,787 |

19. FINANCIAL CHARGES

| | | | | |
|---|------------------|------------------|----------------|----------------|
| Arrangement, agency and commitment fee | 59,616 | 210,879 | 15,929 | - |
| Interest on long-term loans | 88,335 | 134,943 | 28,706 | 40,005 |
| Interest on short-term loans | 790 | 162,868 | - | 8,693 |
| Profit on term finance certificates | 909,216 | 739,992 | 305,282 | 305,287 |
| Mark-up on redeemable capital | 162,675 | 290,602 | 51,076 | 61,291 |
| Interest on obligation under hire purchase | 11,595 | 70,472 | 1,274 | 19,496 |
| Interest on obligation under finance leases | 255,997 | 66,598 | 105,195 | 58,996 |
| Interest to Pension/Provident Funds | 18,144 | 199,339 | - | 41,300 |
| Dividend on preference shares | - | 8,250 | - | - |
| Bank charges, guarantee commission, and other related charges | 25,870 | 21,148 | 8,763 | 6,586 |
| | 1,532,238 | 1,905,091 | 516,225 | 541,654 |

20. OTHER PROVISIONS AND ADJUSTMENTS

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Scrappage | - | 22,891 | (4,997) | 5,954 |
| Reversal of liability no longer payable | (274,679) | - | (6,620) | - |
| Provision for doubtful advances | - | (572) | - | 950 |
| Provision against stores and spares | 495,272 | 300,000 | 165,000 | 100,000 |
| Re-instatement of certain assets | (52,515) | - | - | - |
| | 168,078 | 322,319 | 153,383 | 106,904 |

21. OTHER INCOME

| | | | | |
|--|---------------|----------------|------------------|----------------|
| Dividend on investments | - | 59,354 | - | - |
| Interest income on advance to an associated company | 83,168 | 135,773 | 18,356 | 46,829 |
| Exchange gain/(loss)-net | (674,645) | 62,902 | (362,977) | 35,424 |
| Mark-up on short-term deposits | 71,134 | 123,478 | 11,474 | 23,939 |
| Gain on disposal of fixed assets | 175,716 | 9,808 | 37,803 | 9,808 |
| Profit on takeover of Subsidiaries' assets and liabilities | 7,797 | - | 7,797 | - |
| Recognition of deferred gain on early settlement of sale and lease back arrangements | 403,629 | - | - | (9,992) |
| | 66,799 | 391,315 | (287,547) | 106,008 |

22. PRIOR YEARS TAXATION

22.1 During the period, an exercise was undertaken to organize the records relating to pending income tax assessments of the Corporation and a detailed tax position of the Corporation's open assessments was prepared. This has resulted in revision to provision for taxation made for the year ended December 2003 and adjustment to deferred tax liability as explained in the proforma information given below.

| | As reported | | Proforma | |
|--|---|---------------------------------|---|---------------------------------|
| | Nine months period ended SEP - 2004 | Year ended DEC - 2003 | Nine months period ended SEP - 2004 | Year ended DEC - 2003 |
| | (----- Rupees in thousand -----) | | | |
| Profit before tax | (88,637) | 3,700,100 | (88,637) | 3,700,100 |
| Taxation | | | | |
| -Current | (205,313) | (938,224) | (205,313) | (239,759) |
| -Prior | 698,465 | - | - | - |
| -Deferred | 608,972 | (1,463,224) | 155,593 | (1,009,844) |
| | 1,102,124 | (2,401,448) | (49,720) | (1,249,603) |
| Profit after tax | 1,013,487 | 1,298,652 | (138,357) | 2,450,497 |
| Accumulated losses brought forward | (9,119,166) | (10,267,818) | (7,967,322) | (10,267,818) |
| | (8,105,679) | (8,969,166) | (8,105,679) | (7,817,321) |
| APPROPRIATIONS: | | | | |
| Transferred to capital redemption reserve fund | - | (150,000) | - | (150,000) |
| Dividend | (575,741) | - | (575,741) | - |
| | (575,741) | (150,000) | (575,741) | (150,000) |
| Accumulated loss carried forward | (8,681,420) | (9,119,166) | (8,681,420) | (7,967,321) |

23. CASH GENERATED FROM OPERATIONS

| | SEP - 2004 | SEP - 2003 |
|--|----------------------|-------------------|
| | (Rupees in thousand) | |
| Profit/(loss) before taxation | (88,637) | 2,431,009 |
| Adjustments for: | | |
| Depreciation | 3,219,477 | 2,100,129 |
| Amortization of deferred cost | - | 31,770 |
| Capital spares scrappage | - | 22,891 |
| Reversal for doubtful advances | - | (572) |
| Provision against stores and spares | 495,272 | 300,000 |
| Financial charges | 1,532,238 | 1,905,091 |
| Interest income on advances to an associated company | (83,168) | (135,773) |
| Gain on disposal of fixed assets | (175,716) | (9,808) |
| Recognition of deferred gain on early settlement of sale and lease back arrangements | (403,629) | - |
| Reversal of certain liabilities | (274,679) | - |
| Reinstatement of certain assets | (52,515) | - |
| Provision for staff retirement benefits | 46,876 | - |
| Provision for employees compensated absences | 50,000 | - |
| Operating profit before working capital changes | 4,265,519 | 6,644,737 |
| Changes in operating assets and liabilities | | |
| Increase in stores and spares | 128,623 | (288,601) |
| Decrease in trade debts | (525,085) | 128,264 |
| (Increase)/decrease in advances, deposits and prepayments | (58,690) | (680,511) |
| Increase in deferred liabilities | - | 171,884 |
| (Increase)/decrease in other receivables | 206,373 | 208,563 |
| (Decrease) in creditors, accrued expenses and other liabilities | (995,541) | (5,016,656) |
| Cash generated from operations | 3,021,199 | 1,167,680 |

24. GEOGRAPHICAL SEGMENTS

| | Nine months period ended | | Quarter ended | |
|---|--------------------------|-------------------|-------------------|-------------------|
| | SEP - 2004 | SEP - 2003 | SEP - 2004 | SEP - 2003 |
| Revenue Analysis | | | | |
| The analysis of material accounts of traffic revenue is as follows: | | | | |
| USA/Canada | 4,656,879 | 4,031,342 | 1,939,378 | 1,457,215 |
| Europe | 11,696,523 | 11,109,519 | 4,656,283 | 4,015,775 |
| Middle East/Africa | 7,735,621 | 7,196,585 | 3,191,448 | 2,601,360 |
| Asia (excluding Pakistan) | 1,441,850 | 905,560 | 542,069 | 327,334 |
| Pakistan | 15,531,674 | 11,786,112 | 4,226,508 | 3,209,546 |
| | <u>41,062,547</u> | <u>35,029,118</u> | <u>14,555,686</u> | <u>11,611,230</u> |

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

24.2 Geographical analysis of net assets

The major revenue earning assets comprise the aircraft fleet, all of which are registered in Pakistan. Since the fleet of the Corporation is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

25. 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 the directors and executives remuneration are as follows:

| | | | | |
|---|---------|---------|---------|---------|
| Catering services from Sky Rooms (Private) Limited | 87,856 | 26,529 | 32,802 | 8,423 |
| Advertising services from International Advertising (Private) Limited | 45,373 | 23,582 | 12,912 | 7,400 |
| Interest on advances to PIA Investments Limited | 83,345 | 135,773 | 18,533 | 46,829 |
| Interest on advance to pension fund | 9,641 | 46,613 | 31 | 36,426 |
| Interest on advance to provident fund | 3,214 | 35,926 | (4,846) | 27,360 |
| Charge / contribution to pension fund | 270,824 | 350,321 | 139,319 | 166,309 |
| Charge / contribution to provident fund | 176,721 | 150,276 | 58,846 | 86,563 |

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

26. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorized for issue in the Board of Directors meeting held on October 26, 2004.

27. GENERAL

27.1 The US Dollars amounts in Balance Sheet, Profit and Loss Account and Cash Flow Statement have been determined using the rate of Rs. 59.15 = US\$ 1 solely for convenience purposes and have not been subject to limited scope review by the auditors.

27.2 The figures have been rounded off to the nearest thousand rupees.

27.3 Certain corresponding figures have been reclassified for the purposes of comparison. The significant reclassifications have been disclosed in respective notes.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

Quarterly Summary

| | | 2004 | | | 2003 | | |
|--|---------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | 3rd Quarter | 2nd Quarter | 1st Quarter | 3rd Quarter | 2nd Quarter | 1st Quarter |
| Traffic Operations | | | | | | | |
| Available Seat Kilometers (million) | International | 4,362 | 3,790 | 3,460 | 3,453 | 3,026 | 2,911 |
| | Domestic | 689 | 656 | 678 | 647 | 598 | 650 |
| | Hajj | - | - | 1,294 | - | - | 1,428 |
| | Total | 5,051 | 4,446 | 5,432 | 4,100 | 3,624 | 4,989 |
| Revenue Passenger Kilometers (million) | International | 3,131 | 2,521 | 2,635 | 2,644 | 2,105 | 2,218 |
| | Domestic | 464 | 419 | 441 | 472 | 407 | 424 |
| | Hajj | - | - | 663 | - | - | 727 |
| | Total | 3,595 | 2,940 | 3,739 | 3,116 | 2,512 | 3,369 |
| Seat Factor (%) | International | 71.78 | 66.52 | 76.16 | 76.57 | 69.56 | 76.19 |
| | Domestic | 67.34 | 63.87 | 65.02 | 72.95 | 68.06 | 65.23 |
| | Hajj | - | - | 51.24 | - | - | 50.91 |
| | Total | 71.17 | 66.13 | 68.83 | 76.00 | 69.32 | 67.53 |
| Available Freight Tonne Kilometers (million) | International | 200 | 155 | 147 | 156 | 129 | 127 |
| | Domestic | 23 | 22 | 20 | 20 | 17 | 19 |
| | Total | 223 | 177 | 167 | 176 | 146 | 146 |
| Revenue Freight Tonne Kilometers (million) | International | 111 | 87 | 72 | 94 | 69 | 81 |
| | Domestic | 11 | 9 | 9 | 10 | 10 | 9 |
| | Total | 122 | 96 | 81 | 104 | 79 | 90 |
| Load Factor (%) | International | 55.50 | 56.13 | 48.98 | 60.26 | 53.49 | 63.78 |
| | Domestic | 47.83 | 40.91 | 45.00 | 50.00 | 58.82 | 47.37 |
| | Total | 54.71 | 54.24 | 48.50 | 59.09 | 54.11 | 61.64 |

(----- Rupees in million -----)

Financial

| | | | | | | |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| Operating Revenue | 14,556 | 11,914 | 14,593 | 11,611 | 10,363 | 13,055 |
| Operating Expenses | 14,293 | 12,542 | 12,678 | 10,165 | 9,525 | 11,072 |
| Operating profit/(loss) | 262 | (629) | 1,915 | 1,446 | 838 | 1,983 |
| Profit/(loss) before taxation | (695) | (789) | 1,399 | 904 | 24 | 1,503 |
| Profit/(loss) after taxation | (386) | 566 | 833 | 726 | (505) | 1,113 |
| Fixed Assets | 50,806 | 49,173 | 45,463 | 27,855 | 26,432 | 24,182 |
| Current Assets | 16,954 | 18,308 | 22,327 | 20,825 | 18,159 | 17,839 |
| Current Liabilities | 16,061 | 17,841 | 17,277 | 16,571 | 16,903 | 18,024 |
| Long-term Debts | 44,637 | 43,618 | 42,291 | 26,141 | 26,112 | 23,597 |
| Net Worth | 7,076 | 7,476 | 7,472 | 1,981 | 1,278 | 1,714 |