

Directors' Report to the Shareholders

The Directors of Pakistan International Airlines are pleased to present their report along with financial statements (un-audited) for the nine months period ended September 30, 2005 and for the third quarter July-September of financial year 2005.

Results for the quarter and the nine months period ended September 30, 2005 are summarized below:

	July - September		January - September	
	2005	2004	2005	2004
	(Rupees in million)			
Revenue	15,981	14,556	46,008	41,063
Costs and Expenditure	17,585	15,250	49,294	41,151
(Loss) / profit before tax	(1,604)	(694)	(3,286)	(88)
(Loss) / profit after tax	(1,023)	(386)	(3,093)	1,013

Your Corporation's business continued to grow as overall revenue recorded an increase of around 10% in July-September 2005 over same period last year. Through uninterrupted growth in business, PIA is on course towards long term goal of revenue maximization.

Fuel expense, the prime cause for record decline in industry profitability, continues to neutralize all gains made in our operations.

The price of Fuel surged up to all-time high levels, increasing in this quarter by 49% over last year and our Fuel expense reached a total of Rs.7,140 million in Jul-Sep 2005 (2004: Rs. 4,704 million). Thus, increase in Fuel prices ate into our profitability for the quarter by an amount of Rs. 2.3 billion and by Rs. 6.0 billion in the nine month period.

All the operational indicators showed progressive improvement as the airline witnessed significant growth in its passenger traffic. RPKs increased by 11.4% during the quarter over 2004 while seat factor improved to 80.0% as against 71.2% last year.

With our reinvigorated marketing mix, we have been able to take on the competition both on domestic and international sectors. Our system seat factor of 80.0% compared favourably with the leading players in the region.

With a growth oriented marketing strategy, PIA's market share of international passengers, ex / to Pakistan increased from 43.3% in April 2005 to 47.4% in Jul-Sep 2005. Likewise, PIA's share of domestic passengers increased from 45.9% in April 2005 to 58.2% in Jul-Sep 2005.

Significantly, the enhancement in revenues and in traffic was achieved inspite of a reduction in capacity as ASKs were lower by 0.9% in this quarter over last year's. This also involved optimal matching of capacity deployed with customer demand. It is a matter of satisfaction, PIA's fleet utilization of all its aircraft outperformed the Industry Averages.

On the expense side, we were successful in containing Operating Expenses, Fuel Expense apart, to an increase of 1.1% only over last year. This quarter also absorbed the one time cost of mandatory retirement of certain categories of employees amounting to Rs. 487 million. Here, I would like to express my gratitude to the retiring employees for their individual and collective contribution and for their role in PIA's successful growth.

While the global prices of Fuel per se are not within our control, we shall be focusing on fuel conservation measures by re-engineering our operating procedures across all the functions impacting on fuel burn-off on the aircraft. As we do so, we will draw upon the industry standards achieved and being upgraded by the key players in the industry.

The thrust of the strategic marketing initiatives that have already yielded success will continue with unrelenting vigour. Proactive pricing policy, including both targeted competitive fares as well as mixing a certain proportion of high fare business, re-deploying capacity in high yield markets and concentrated selling to high yield corporate marketing segments initiated in May 2005 will be implemented across the net work into the next year.

On other fronts, the airline has embarked on a re-structuring program including increasing employee productivity and right sizing employee numbers, disinvestment from non-core activities, and curtailment of controllable costs and overheads.

As the airline industry struggles in the wake of continuously diminishing margins caused by runaway prices of fuel, we in PIA have braced ourselves to meet the challenge. We are confident that our multi pronged strategies on targeted fronts will put the airline on path of sustained profitability.

For and on behalf of the Board

Tariq Kirmani
Chairman & CEO

October 25, 2005

