

C o n t e n t s

<u>Corporate Profile □</u>	<u>2</u>
<u>Directors' Report □</u>	<u>3</u>
<u>Highlights & Important Events□</u>	<u>5</u>
<u>Financial Statements and Notes□</u>	<u>6</u>
<u>Quarterly Summary□</u>	<u>20</u>

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

Zakir Mahmood

Secretary
Ghazanfar Mashkoo

Audit Committee

Asad Ali Khan - Chairman
Air Marshal (Retd) Pervez Akhtar Nawaz
M. H. K. Khaishgi
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 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 Hassan
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

Nadeem Ikram
Director Information Technology

AVM Javed Iqbal
Director Precision Engineering

DIRECTORS' REPORT TO THE SHAREHOLDERS

■ The Directors are pleased to present January-March 2004 first quarter un-audited financial statements as required under the directives of the Securities and Exchange Commission of Pakistan (SECP).

■ The first quarter was truly a momentous occasion because of the addition of five aircraft in PIA's fleet-three new Boeing 777 aircraft and two half life A-310.

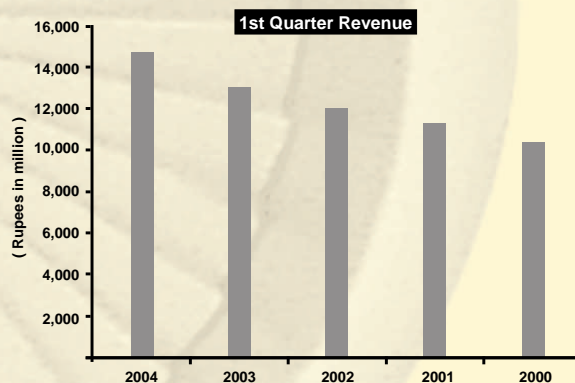
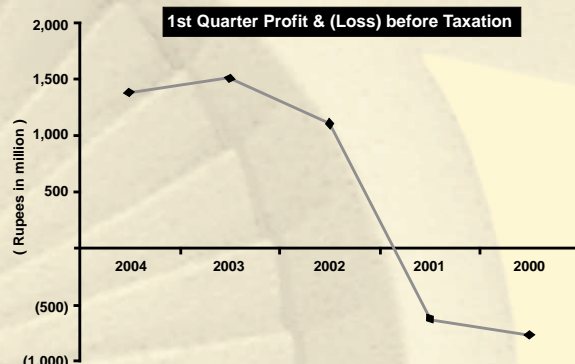
■ During the first quarter, the airline has earned a pre-tax profit of Rs. 1.4 billion despite initial induction costs of new fleet and higher fuel bill. Pre-tax profit in the same quarter of last year was Rs. 1.5 billion. Total revenue for the quarter amounts to Rs. 14.59 billion as against Rs. 13.05 billion in the corresponding quarter of last year. This represents an increase of 11.8% over the same period last year. Costs and Expenditure for the current quarter amount to Rs. 12.68 billion against Rs. 11.07 billion last year.

■ Higher fuel price continues to be a source of concern to the airline as this is adversely affecting the profitability. The management is focusing on measures to mitigate the impact of fuel cost increases.

Market Developments

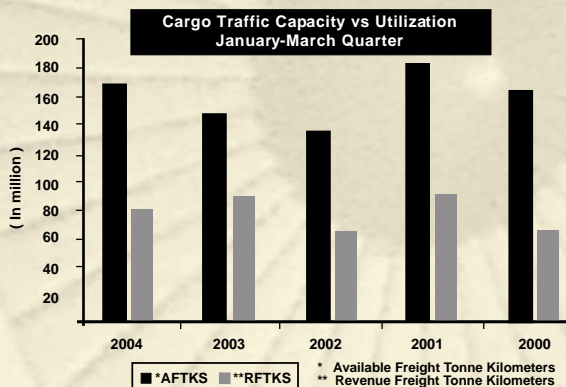
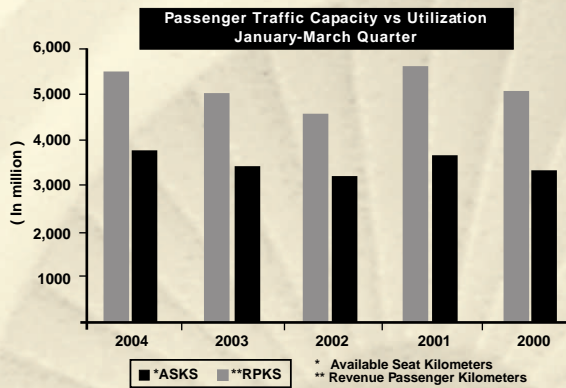
■ In the first quarter the airline achieved scheduled passenger traffic (RPKs) growth of 16.4% over the same period last year against an increase of 16.9% in capacity (ASKs).

■ Pakistan entered into an agreement with China according to which airlines of both the countries will increase their flight frequency on Karachi-Islamabad, Beijing, Urumqi and Shanghai. Accordingly, PIA will be operating 14 flights to China. Both the airlines have also



agreed to start a bilateral code-sharing operations. This is for the first time that PIA has entered into a code-sharing agreement with any other foreign airline. Further, as a result of these agreements, PIA would also be able to operate to Los Angeles on the West Coast of United States through China.

■ As reported earlier, the airline has successfully inducted three new Boeing 777-200ER aircraft and two used Airbus A310-300 aircraft in its fleet during this quarter. Three more A310-300 aircraft will be inducted in the fleet shortly. The replacement of Fokker F-27 fleet is being actively pursued as well. Once the evaluation of available options is completed the replacement aircraft would be selected and induction is expected to take place before the end of the year.



- The EXIM Bank guaranteed financing of US\$ 332 million was made available to the airline on induction of three Boeing 777-200ER aircraft during this quarter. The financing was utilized for payment to Boeing and to settle outstanding bridge loan of US\$ 125 million obtained earlier for pre delivery payments.
- Under this financing EXIM Bank guaranteed Notes have been issued for the first time for a Pakistani issuer in the US 90 day paper market. From bridge financing, to the Pre-delivery payments to the Exim financing, the three Boeing 777-200ERs have been inducted into PIA's fleet due to total focus and commitment of PIA's dedicated management team and Government of Pakistan to do whatever has been necessary to reach a successful financial close including significant equity injection and signing of the Capetown Convention, a strong

commitment of EXIM Bank, the only export credit agency on cover for Pakistan, a number of national and regional banks who participated in the Islamic financing. All this was structured with the concerned financial institutions by PIA's dedicated team.

- In a tough global industry and even tougher regional political environment, PIA has done a complete turn around. PIA is a profitable airline declaring significant profits. The 777's have been inducted into the long haul routes, starting with London, Chicago and Toronto. PIA has set its eyes on expanding further and expects to start flying to 50 destinations. It gives me a great pleasure to report that PIA has Won the Top Finance Award 2003 Asian Deal of the Year on account of this EXIM Bank Funding.
- In the second and third quarter, the airline plans to expand its international route network by starting flights to Houston, Los Angeles, Moscow, Milan, Shanghai, Urumqi, Fujairah, Ras Alkhaimah, Glasgow, Damascus and Nairobi.
- With a new fleet and extra capacity available for deployment, the airline is well positioned to improve its market share in the coming months and can confidently look towards higher business growth and better service.

For and on behalf of the Board

Ahmad Saeed
Chairman □

April 28, 2004

HIGHLIGHTS

		MAR - 2004	MAR - 2003	Change
Shareholders' funds	(Rs. in million)	7,472	1,714	336.19%
Total assets	(Rs. in million)	72,200	46,245	56.12%
Total revenue	(Rs. in million)	14,593	13,054	11.79%
Profit before taxation	(Rs. in million)	1,399	1,503	(6.92)%
Revenue passenger kilometers	(million)	3,739	3,369	10.98%
Passenger seat factor	(%)	68.83	67.81	1.50%
Revenue freight tonne kilometers	(million)	81	90	(10.00)%
Freight load factor	(%)	48.44	55.03	(11.98)%

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

■ Aircraft phased out during the quarter:

February 29,	A300 (AP-BBA) declared total loss.
March 08,	A300 (AP-BAZ) permanently grounded.

■ Drawdown of US\$ 332 million obtained under US EXIM Bank guaranteed financing for three 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.

■ Hajj 2004 operation completed successfully on March 06. 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 MARCH 31, 2004

		MAR - 2004	DEC - 2003	MAR - 2004
	Note	(Rupees in thousand)		(US\$ in thousand)
SHAREHOLDERS' EQUITY				
Share capital		11,514,826	11,514,826	200,049
Reserves		4,280,712	4,280,712	74,370
Un-realized loss on re-measurement of investments		(37,421)	(2,876)	(650)
Accumulated loss		(8,285,734)	(9,119,166)	(143,950)
		<u>7,472,383</u>	<u>6,673,496</u>	<u>129,819</u>
ADVANCE AGAINST EQUITY FROM GOP		366,577	-	6,369
REDEEMABLE CAPITAL	3	18,381,614	18,381,766	319,347
LONG-TERM LOANS	4	2,206,086	2,348,733	38,327
OBLIGATIONS UNDER FINANCE LEASE	5	21,703,426	1,303,234	377,058
OBLIGATIONS UNDER HIRE PURCHASE	6	-	-	-
DEFERRED LIABILITIES		4,364,485	4,240,421	75,825
LONG-TERM DEPOSITS AND OTHER LIABILITY		428,326	420,097	7,441
CURRENT LIABILITIES				
Current maturities		4,337,699	9,476,260	75,360
Short-term loans		-	65,000	-
Creditors, accrued expenses and other liabilities	7	12,426,082	13,197,070	215,880
Provision for taxation - net		513,396	459,555	8,919
		<u>17,277,177</u>	<u>23,197,885</u>	<u>300,159</u>
CONTINGENCIES AND COMMITMENTS	8	<u>72,200,074</u>	<u>56,565,632</u>	<u>1,254,345</u>
FIXED ASSETS				
Operating fixed assets	9	42,187,572	17,906,918	732,932
Capital work-in-progress		3,275,315	11,817,218	56,903
		<u>45,462,887</u>	<u>29,724,136</u>	<u>789,835</u>
LONG-TERM INVESTMENTS	10	334,819	337,345	5,817
LONG-TERM ADVANCES	11	2,474,325	3,686,524	42,987
LONG-TERM DEPOSITS AND PREPAYMENTS		1,600,788	416,382	27,811
CURRENT ASSETS				
Stores and spares	12	4,496,365	4,695,334	78,116
Short-term investments	13	337,569	372,962	5,865
Trade debts	14	4,238,094	3,414,167	73,629
Advances, deposits and prepayments	15	1,446,083	1,023,390	25,123
Other receivables		2,993,557	2,805,676	52,007
Cash and bank balances		8,815,587	10,089,716	153,155
		<u>22,327,255</u>	<u>22,401,245</u>	<u>387,895</u>
		<u>72,200,074</u>	<u>56,565,632</u>	<u>1,254,345</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

PROFIT AND LOSS ACCOUNT (UN-AUDITED) FOR THE FIRST QUARTER ENDED MARCH 31, 2004

		MAR - 2004	MAR - 2003	MAR - 2004
	Note	(Rupees in thousand)		(US\$ in thousand)
REVENUE	16	14,593,213	13,054,464	253,531
COSTS AND EXPENDITURE	17	(12,678,555)	(11,071,793)	(220,267)
OPERATING PROFIT		1,914,658	1,982,671	33,264
FINANCIAL CHARGES		(563,821)	(616,508)	(9,795)
OTHER PROVISIONS AND ADJUSTMENTS	18	(123,736)	(13,661)	(2,150)
		(687,557)	(630,169)	(11,945)
OTHER INCOME	19	171,990	150,834	2,988
PROFIT BEFORE TAX		1,399,091	1,503,336	24,307
TAXATION				
Current		(72,966)	(65,274)	(1,268)
Deferred		(492,693)	(325,302)	(8,560)
		(565,659)	(390,576)	(9,828)
PROFIT AFTER TAX		833,432	1,112,760	14,479
ACCUMULATED LOSS BROUGHT FORWARD		(9,119,166)	(10,267,818)	(158,429)
LOSS CARRIED FORWARD		(8,285,734)	(9,155,058)	(143,950)
EARNINGS PER SHARE				
A' class ordinary shares of Rs.10 each (Rupees/US\$)		0.72	1.67	0.01
B' class ordinary shares of Rs. 5 each (Rupees/US\$)		0.36	0.84	0.01

The annexed notes 1 to 24 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

CASH FLOW STATEMENT (UN-AUDITED) FOR THE FIRST QUARTER ENDED MARCH 31, 2004

		MAR - 2004	MAR - 2003	MAR - 2004
	Note	(Rupees in thousand)		(US\$ in thousand)
Cash flows from operating activities				
Cash generated from/(used for) operations	20	757,213	(1,479,899)	13,155
Taxes paid		(19,125)	(75,948)	(332)
Financial charges paid		(774,864)	(346,136)	(13,462)
Net cash (used for) operating activities		(36,776)	(1,901,983)	(639)
Cash flows from investing activities				
Fixed capital expenditure		(16,917,160)	(1,136,628)	(293,905)
Proceeds from investments		3,375	296	59
Proceed from sale of fixed assets		172,260	-	2,993
Long-term advances - net		1,259,940	31,580	21,889
(Payments of) / proceeds from long-term deposits & prepayments		(1,184,406)	2,327	(20,577)
Net cash (used for) investing activities		(16,665,991)	(1,102,425)	(289,541)
Cash flows from financing activities				
Term finance certificates		(152)	15,140,000	(3)
Proceeds from issue of share capital		366,577	248,638	6,369
(Payments of) long-term loans - net		(206,450)	(244,457)	(3,587)
(Payments of) obligations under hire purchase		(211,533)	(218,760)	(3,675)
Proceeds from / (payments of) obligations under finance lease		15,536,967	(2,199)	269,926
Proceeds from long-term deposits and other liability		8,229	7,494	143
(Payments of) short-term loans		(65,000)	(8,651,071)	(1,129)
Net cash from financing activities		15,428,638	6,279,645	268,044
(Decrease)/increase in cash and bank balances		(1,274,129)	3,275,237	(22,136)
Cash and bank balances at beginning of the year		10,089,716	4,537,319	175,291
Cash and bank balances at end of the quarter		8,815,587	7,812,556	153,155

The annexed notes 1 to 24 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

STATEMENT OF CHANGES IN EQUITY (UN-AUDITED) FOR THE FIRST QUARTER ENDED MARCH 31, 2004

	Paid up capital	Capital reserves	Revenue reserves	Un-realized (loss)/gain on re-measurement of investments	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
Un-realized gain on re-measurement of investments	-	-	-	31,100	-	31,100
Profit after taxation	-	-	-	-	1,112,760	1,112,760
Balance as at March 31, 2003	6,820,631	2,351,038	1,779,674	(82,438)	(9,155,058)	1,713,847
Balance as at January 01, 2004	11,514,826	2,501,038	1,779,674	(2,876)	(9,119,166)	6,673,496
Un-realized gain on re-measurement of investments	-	-	-	(34,545)	-	(34,545)
Profit after taxation	-	-	-	-	833,432	833,432
Balance as at March 31, 2004	11,514,826	2,501,038	1,779,674	(37,421)	(8,285,734)	7,472,383

The annexed notes 1 to 24 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

NOTES TO THE FINANCIAL STATEMENTS (UN-AUDITED) FOR THE FIRST QUARTER ENDED MARCH 31, 2004

1. STATUS AND ACTIVITY

- 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. Principal activity of the Corporation is to provide air transport services. In addition, the Corporation is engaged in providing engineering and other allied services.

2. BASIS OF PREPARATION

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

The comparative balance sheet presented in these financial statements as at March 31, 2004 has been extracted from the audited financial statements of the Corporation for the year ended December 31, 2003, whereas, the comparative profit and loss account, statement of changes in equity and cash flow statements are for the quarter ended March 31, 2003.

The accounting policies 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. REDEEMABLE CAPITAL - secured (non-participatory)

	MAR - 2004	DEC - 2003
	(Rupees in thousand)	
Long-Term Finance under mark-up arrangements (note 3.1)	3,242,220	3,242,220
Term Finance Certificates (note 3.2)	15,139,394	15,139,546
	18,381,614	18,381,766

Above finances have been obtained / restructured as part of financial package of Rs. 20 billion approved by the GoP and are secured against guarantees issued by GoP. An amount equal to mark-up on these finances is provided by GoP as its equity contribution.

- 3.1 Long-Term Finance under mark-up arrangements:

Financier	Type of Facility	Limit (Rupees in million)	Repayment Period	Half Yearly Instalments	Mark-up %		
United Bank Limited 3.1.1, Syndicate & 3.1.2		1,045	2004-2006	6	6 months T-Bills + 2.5%	1,045,000	1,045,000
Habib Bank Limited 3.1.3	Demand Finance	2,135	2004-2006	6	6 months T-Bills + 2.5%	2,135,000	2,135,000
National Bank of 3.1.4 Pakistan	Demand Finance	1,683	2004-2006	6	6 months T-Bills + 2.5%	1,683,330	1,683,330
						4,863,330	4,863,330
Less: current portion						1,621,110	1,621,110
						3,242,220	3,242,220

- 3.1.1 Following are the participating banks in United Bank Limited Syndicate facility:

United Bank Limited
Muslim Commercial Bank Limited
Askari Commercial Bank Limited
Bank Al-Falah Limited
Saudi Pak Industrial and Agricultural Investment Company (Pvt.) Limited
Pak Kuwait Investment Company (Pvt.) Limited

- 3.1.2 The finance is also secured by way of hypothecation of current assets including stores and spares and book debts, and lien on sale proceeds of Karachi and Lahore Booking Offices.

- 3.1.3 The finance is also secured by first ranking pari passu charge by way of hypothecation on stores and spares of aircraft, and lien on sale proceeds of Peshawar, Islamabad and Rawalpindi Booking Offices.
- 3.1.4 The finance is also secured by way of hypothecation of present and future current assets including stores and spares and book debts.
- 3.1.5 All the aforementioned charges are unregistered.
- 3.1.6 It carries mark-up rate, which is higher of prevailing interest rate on Treasury Bills plus 2.50% or floor rate of 5.00%.
- 3.1.7 Average rate prevailed during the year is 7.25 %.

	MAR - 2004	DEC - 2003
	(Rupees in thousand)	
3.2 Term Finance Certificates (note 3.2.1)	15,139,697	15,139,849
Less: current portion	303	303
	<u>15,139,394</u>	<u>15,139,546</u>

- 3.2.1 During the year the Corporation, through private placement, issued 151,400 fully paid scrips of TFCs having a denomination of Rs. 100,000 each. The principal amount of TFCs is to be repaid in twelve semi-annual instalments in arrears.

Instalment payable Semi - annually

Repayment period 2003-2011

Rate of Profit 50 basis point above the base rate* with a floor of 8% and a cap of 12.50% per annum. Average rate prevailed during the year is 8.5%.

Principle redemption 5% each in years 2003-05, 28.33% in years 2006-08.

*Base rate is the State Bank of Pakistan (SBP) discount rate prevailing at two working days before the commencement of the period for which the profit rate is being computed.

The issue of TFCs is secured by a guarantee given by the GoP.

The TFCs have an embedded call option for early redemption exercisable by the Corporation at 24, 48 and 72 months from the date of issue with a 60 days notice period. The TFCs will be redeemed at a premium, which will be calculated at a flat rate of 0.25% of the outstanding amount at the time of the exercise of call option.

4. LONG-TERM LOANS - secured

Aircraft Loans

Financier	Type and purpose of facility	Facility amount in million US Dollars	Repayment period	Instalment period	Mark-up %	MAR - 2004	DEC - 2003
						(Rupees in thousand)	
National Westminster Bank Limited, London	Term loan for purchase of one B737-300	26.87	1993-2004	Half yearly	5.42%	128,748	128,815
Syndicate facility 4.2 & 4.3	Syndicated Murabaha financing for fuel and other charges	70.00	2002-2007	Monthly	1-month LIBOR plus 2.70%	2,947,630	3,154,013
						<u>3,076,378</u>	<u>3,282,828</u>
Less: current portion						<u>870,292</u>	<u>934,095</u>
						<u>2,206,086</u>	<u>2,348,733</u>

- 4.1 The GoP has guaranteed the repayment of this loan. Aircraft loan is secured by charge on the aircraft and other related assets.

- 4.2 Following are the participating banks:
National Bank of Pakistan
Habib Bank Limited, Bahrain
United Bank Limited, UAE (facility agent)
- 4.3 The facility is secured by way of first ranking charge over present and future receivables of the Corporation from passenger and cargo sales agents in UAE and lien over UBL collection account which is specified for the related receipts. The facility is also secured by first ranking pari passu charge by way of hypothecation of stores.

5. OBLIGATIONS UNDER FINANCE LEASE

	MAR - 2004	DEC - 2003
	(Rupees in thousand)	
Present value of future rental obligations - vehicles & technical ground support equipment (note 5.1 & 5.2)	181,124	179,002
Present value of future rental obligations - aircraft	-	6,098,305
Present value of future rental obligations - A310 (note 5.3)	3,764,180	1,261,241
Present value of future rental obligations - B777 (note 5.4)	19,130,211	-
	23,075,515	7,538,548
Less: current portion	1,372,089	6,235,314
	21,703,426	1,303,234
5.1 Salient features of the lease are as follows:		
Discounting factor	7.71% to 16.46%	7.71% to 16.46%
Lease term	48 to 60 months	48 to 60 months
Security deposit (Rupees in thousand)	1,924	1,924
Bargain purchase option can be exercised at the end of the lease term.		
5.2 This includes obligation against certain vehicles amounting to Rs. 9.778 million not received by the Corporation upto the year end.		
5.3 In 2003, the Corporation entered into an aircraft lease agreement with Airbus Industrie for six A310-300 aircraft. One of these was acquired in 2003 and two aircraft acquired during this quarter. Salient features of the aircraft lease are as follow:		
Discount factor	2.11%	
Lease period	144 months	
Security deposits (Rupees in thousand)	31,492	
Bargain purchase option can be exercised at the end of the lease term.		
5.4 During this quarter the Corporation entered into an agreement for EXIM Bank supported financing for US\$ 332 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 group. Salient features of the arrangement are as follow:		
Discount factor	Three months LIBOR	
Lease period-aircraft	120 months	
-spare engine	96 months	
Security deposit (Rupees in thousand)	516,856	
Title of the aircraft and engines will be transferred to PIA at the end of the respective lease term.		
Taxila limited has raised funds by issuing three month notes in US capital markets. Taxila limited will issue new three month notes at the expiry of previous three month notes		

6. OBLIGATIONS UNDER HIRE PURCHASE-secured

Present value of future rental obligations	473,905	685,438
US\$ 8.23 million (2003: US\$ 11.92 million)		
Less: current portion	473,905	685,438
	-	-
6.1 Six A310-300 aircraft were acquired under the hire purchase agreements. These aircraft were acquired during the period from June 1991 to May 1994. Hire purchase pertaining to 4 aircraft has already expired and related aircraft have been retained by the Corporation.		
6.2 Individual discount rates as required under the Companies Ordinance, 1984 have not been indicated in view of multiplicity of rental payment tranches. However, the rate of discount ranges from 2.58% to 6.55% per annum (2003: 2.58% to 6.55% per annum).		

- 6.3 Under the hire purchase financing structure, all or part of the down-payments amounting to 15.00% of the initial aircraft price, have been financed by the owners through a non-recourse commercial loan secured by charge on Corporation's owned aircraft.
- 6.4 For the fourth A310-300 aircraft 9% and for the sixth A310-300 aircraft 15% each of the down payment has been secured through a mortgage on one A300-B4 aircraft.
- 6.5 At the expiry of the hire purchase term, the Corporation has an option to purchase each of the A310-300 aircraft at nil price.

7. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES

	MAR - 2004	DEC - 2003
	(Rupees in thousand)	
Creditors for		
Goods	1,411,841	1,080,893
Services	613,309	755,027
Airport related charges	744,216	758,815
	<u>2,769,366</u>	<u>2,594,735</u>
Custom and central excise duty	1,195,379	379,037
Income tax deducted	63,379	16,868
Stamp duties	14,026	13,878
Capital value tax	19,899	25,197
Collection on behalf of others	974,095	883,556
Employees' Provident Fund	1,553,101	1,654,292
Accrued expenses	1,900,899	2,223,427
Short-term deposits	92,555	76,840
Advances received	189,054	354,797
Accrued mark-up / interest on		
Redeemable capital -secured	117,473	57,713
Long-term loans-secured	20,076	8,854
Obligations under finance lease	37,026	12,430
Obligations under hire purchase-secured	6,624	5,294
Short-term loans-secured	34,511	33,857
Term finance certificates	136,050	444,655
	<u>351,760</u>	<u>562,803</u>
Advance against transportation		
Normal	3,135,326	3,108,695
Hajj	155	1,293,041
	<u>3,135,481</u>	<u>4,401,736</u>
Dividend-preference shares	3,297	3,297
Others	163,791	6,607
	<u>12,426,082</u>	<u>13,197,070</u>

8. CONTINGENCIES AND COMMITMENTS

- 8.1 Contingencies
- 8.1.1 Contingent liabilities in respect of claim lodged but not acknowledged by the Corporation amounted to Rs. 914 million (2003: Rs. 914 million). The Corporation does not expect these contingencies to materialize.
- 8.1.2 Civil Aviation Authority, Pakistan (CAA) has claimed additional amounts aggregating to Rs. 3,101 million (2003: Rs. 3,101 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 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.
- 8.1.3 Various ex-employees of the Corporation have lodged claims against the Corporation for their dues specifically relating to their reinstatements. However, the liability that may arise in these cases can not be determined and consequently, no provision has been made in these financial statements.

8.1.4 The Collector Central Excise had raised demand of Rs. 568 million (2003: Rs. 568 million) for the period from July 1996 to June 1998 in respect of duty levied on the tickets provided by the Corporation to its staff either free of charge or at concessional rates. The Corporation has filed an appeal with the Customs, Central Excise & Sales Tax Tribunal which is pending adjudication. The management of the Corporation is confident that the decision would be made in Corporation's favour. Consequently no provision has been made in these financial statements.

8.1.5 Outstanding guarantees amounted to Rs. 491.07 million (2003: Rs. 475 million).

8.2 Commitments

8.2.1 Outstanding commitments for the purchase of aircraft as at March 31, 2004 amount to Rs. 66,093 million (2003: Rs. 72,314 million).

8.2.2 Capital commitments for assets other than aircraft as at March 31, 2004 amounted to Rs. 18.618 million (2003: Rs. 17.52 million).

8.2.3 Outstanding letters of credit amounted to Rs. 4.64 million (2003: Rs. 57.88 million).

8.2.4 Commitments for rentals under operating lease agreements are as follows:

	MAR - 2004	DEC - 2003
	(Rupees in million)	
Years		
2004	29	29
	29	29

9. Operating fixed assets - tangible

The following operating assets have been added/(disposed) during the quarter.

	MARCH - 2004 (Rupees in thousand)	
	Additions	(disposals)/ adjustment
Owned		
Buildings on leasehold land	12,004	-
Workshop and hangars	4,389	-
Renovation & improvements	4,747	-
Aircraft fleet	-	(1,010,843)
Operating ground equipment catering communication & meteorological equipment	7,265	-
Engineering equipment & tools	5,122	-
Vehicles	223	-
Traffic equipment	66	-
Furniture, fixtures & fittings	1,942	-
Office equipment	910	-
Computer & office automation	3,962	-
PEC equipment	357	175,000
Other equipment	464	-
Capital spares	1,059,707	(35,365)
	1,101,158	(871,208)
Leased - aircraft fleet	24,351,069	-
- vehicles	6,836	-
	24,357,905	-
Deferred liability written back	-	403,629
	25,459,063	(467,579)

10. LONG-TERM INVESTMENTS

	MAR - 2004	DEC - 2003
	(Rupees in thousand)	
Available for sale (note 10.1)	19,812	18,963
Held to maturity (note 10.2)	100,440	103,815
Subsidiary companies (note 10.3)	-	-
Associated companies (note 10.4)	214,567	214,567
	334,819	337,345

10.1 AVAILABLE-FOR-SALE

		MAR - 2004	DEC - 2003
		(Rupees in thousand)	
QUOTED			
Pakistan Services Limited (shares of Rs. 10 each)		19,712	18,863
UNQUOTED			
Pakistan Tourism Development Corporation Limited (shares of Rs. 10 each)		100	100
		19,812	18,963
10.2 HELD TO MATURITY			
Promissory notes issued by the Nigerian Government		100,440	103,815

This represents two promissory notes issued by Nigerian Government on May 8, 1988 amounting to US\$ 1.317 million and US\$ 2.935 million. These were issued in consideration of bank balance of the Corporation in Central Bank of Nigeria which was ceased by the Government at the time of coup and civil war in Nigeria. These notes are redeemable in fixed quarterly instalments during the period starting from April 5, 1990 to January 5, 2010. These notes carry fixed interest instalments of US\$ 26,325 each. The discount rate used to calculate the carrying value of the promissory notes is 5.2% per annum.

	Percentage of shareholding	MAR - 2004	DEC - 2003
		(Rupees in thousand)	
10.3 SUBSIDIARIES - unquoted			
PIA Holdings (Private) Limited (under winding-up)			
750,000 shares of Rs 100 each	100	75,000	75,000
Advance against equity		376	376
		75,376	75,376
Midway House (Private) Limited (under winding-up)			
2,960,000 shares of Rs 10 each	100	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	100	40,000	40,000
Advance against equity		37,042	37,042
		77,042	77,042
PIA Shaver Poultry Breeding Farms (Private) Limited (under winding-up) 293,000 shares of Rs 10 each	100	28,481	28,481
PIA Hotels Limited (under winding-up)			
72,502 shares of Rs 100 each	100	-	-
International Advertising (Private) Limited			
250,000 shares of Rs 10 each	100	850	850
		283,343	283,343
Less: provision for diminution in value of investments		(283,343)	(283,343)
		-	-

10.3.1 The above subsidiaries other than Sky Rooms (Pvt.) Limited and International Advertising (Pvt.) Limited are under winding-up process.

10.3.2 All the subsidiaries are incorporated in Pakistan.

10.4 ASSOCIATED COMPANIES - unquoted

Minhal Incorporated - Sharjah			
1,600 shares of DH 100 each	40.00	396	396
PIA Investments Limited			
400,000 shares of DH 100 each	50.00	99,000	99,000
Advance against shares pending allotment		114,902	114,902
		213,902	213,902
Duty Free Shops (Private) Limited - Pakistan			
87,512 shares of Rs 100 each	26.95	269	269
		214,567	214,567

11. LONG -TERM ADVANCES - unsecured

	MAR - 2004	DEC - 2003
	(Rupees in thousand)	
Subsidiaries - considered doubtful		
Non interest bearing		
PIA Holdings (Private) Limited	17,316	16,614
PIA Shaver Poultry Breeding Farms (Private) Limited	77,413	77,413
Midway House (Private) Limited	9,402	9,402
	<u>104,131</u>	<u>103,429</u>
Less:		
provision for doubtful advances at the beginning of the year	103,429	100,004
provision of advances during the quarter/year	702	3,425
	<u>104,131</u>	<u>103,429</u>
	-	-
Associated Company - considered good		
PIA Investments Limited (PIAIL)		
Non interest bearing (note 11.1)	1,787,342	1,786,100
Accumulated interest (note 11.2)	686,983	1,900,424
	<u>2,474,325</u>	<u>3,686,524</u>
	<u>2,474,325</u>	<u>3,686,524</u>
11.1	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. 2,412 million upto March 31, 2004 (2003: Rs. 2,358 million) will be recorded as and when realised.	
11.2	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. During 2003, the GoP constituted a committee comprising Managing Director of PIAIL and members of Roosevelt Task Force 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 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.	
11.3	These advances do not have a fixed repayment schedule. Aggregate maximum amount due from subsidiaries and an associated company at any month end was Rs. 104.13 million and Rs. 2,474.32 million respectively (2003: Rs. 103.43 million and Rs. 3,686.52 million).	
11.4	The fair value of interest free advances to PIAIL can not be reasonably determined due to related party relationship and uncertainty relating to timing of its repayment (including any interest thereon).	

12. STORES AND SPARES

Stores (note 12.1, 12.3 and 12.4)	755,167	711,660
Inventory held for disposal (note 12.2)		
Cost	1,266,171	1,266,171
Less: adjustment to write down surplus inventory to net realizable value	1,012,936	1,012,936
	<u>253,235</u>	<u>253,235</u>
Spares (note 12.1, 12.3 and 12.4)	4,050,646	3,777,820
Goods-in-transit	489,743	829,528
	<u>5,548,791</u>	<u>5,572,243</u>
Less:		
Provision for slow moving stores and spares		
Provision at beginning of the year	876,909	1,799,712
Add: provision made during the quarter/year	175,517	90,133
	<u>1,052,426</u>	<u>1,889,845</u>
Adjustment to write down surplus inventory to net realizable value	-	1,012,936
	<u>1,052,426</u>	<u>876,909</u>
	<u>4,496,365</u>	<u>4,695,334</u>

- 12.1 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 has commenced and approximately forty percent of the gross amount of the revamped spares has been counted upto February 29, 2004. The cyclic count system has been designed in a manner whereby all the items shall be counted once in a year. Further, the Corporation intends to conduct an exercise to complete documentation of floating capital spares of an aggregate cost of approximately Rs. 3.2 billion and to replace its old inventory accounting system.
- 12.2 Following completion of the revamping of aircraft spares, 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.
- 12.3 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.
- 12.4 It includes inventory of Rs. 41.42 million (2003: Rs. 41.42 million) held with foreign third party for repairing and overhauling of aircraft engines.

13. SHORT-TERM INVESTMENTS

	MAR - 2004	DEC - 2003
	(Rupees in thousand)	
Available for sale		
Quoted		
220,853 shares in France Telecom, France (note 13.1)	322,999	358,392
Unquoted		
385,718 shares in SITA INC N.V. the Netherlands (note 13.2)	22,777	22,777
Less: diminution in value of investments	8,207	8,207
	14,570	14,570
	337,569	372,962
13.1 These shares are currently in the custody of Citibank N.A. London.		
13.2 These shares are held by SITA Inc. Foundation on behalf of the Corporation and are transferable subject to certain specified conditions. These shares are yet to be traded on the Stock Exchanges.		

14. TRADE DEBTS

Considered good	4,238,094	3,414,167
Considered doubtful	743,853	743,853
Less: provision for doubtful debts	743,853	743,853
	-	-
	4,238,094	3,414,167
14.1 Trade debts include debts due from Government agencies, other airlines and IATA approved agents. Certain portion of trade debts is secured by bank guarantees received from agents but due to very large number of agents all over the world the amount of secured debts is not determinable.		

15. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances to:		
Associated company - non interest bearing (note 15.1)	12,277	12,205
Executives (note 15.2)	12,234	17,142
Employees	53,332	74,714
Suppliers	1,174,995	520,754
Employees' fund (note 15.3)	54,745	350,553
Others	6,771	9,691
	1,302,077	972,854
Less: provision for doubtful advances	20,777	20,777
	1,281,300	952,077
Trade deposits	43,540	43,848
Prepayments	108,966	15,260
	1,446,083	1,023,390

- 15.1 Maximum aggregate amount due from this company at any month end was Rs.12.28 million (2003: Rs. 12.20 million).
- 15.2 This represents due from executives in respect of advances for expenses and furniture etc. in accordance with the terms of employment. The maximum aggregate amount of advances due from executives at the end of any month during the year was Rs. 12.23 million (2003: Rs. 17.14 million).
- 15.3 This represents advances made to Employees' Provident and Pension Funds, which carries mark-up at the rate of 16.00% per annum.

16. REVENUE

	MAR - 2004	MAR - 2003
	(Rupees in thousand)	
Passenger	12,835,302	11,315,069
Excess baggage	303,877	297,930
Freight	841,548	838,634
Mail	47,022	49,103
Charters	93,790	231,812
Others	471,674	321,916
	<u>14,593,213</u>	<u>13,054,464</u>

17. COSTS AND EXPENDITURE

Salaries, wages and allowances	2,027,616	1,966,918
Welfare & social security costs	145,094	129,875
Provident fund	59,319	31,785
Pension funds	34,227	93,287
Post retirement medical benefits	16,740	2,676
Provision for employees' compensated absences	25,000	-
Legal and professional charges	102,767	51,492
Retirement under Mandatory/VGHS Scheme	-	31,770
Aircraft fuel and oil	3,989,010	3,518,695
Stores and spares consumed	923,558	758,212
Maintenance and overhaul	621,481	457,536
Flight equipment rental	544,960	159,726
Landing and handling	1,510,009	1,268,882
Passenger services	486,522	387,157
Insurance	290,461	317,920
Advertising and selling	153,504	101,490
Rent, rates and taxes	79,171	107,735
Auditors' remuneration	1,615	1,625
General administration and others	902,550	900,928
	<u>11,913,604</u>	<u>10,287,709</u>
Depreciation	764,951	784,084
	<u>12,678,555</u>	<u>11,071,793</u>

18. OTHER PROVISIONS AND ADJUSTMENTS

Provision/(writeback) for doubtful advances	702	(2,373)
Capital spares' scrappage	32	16,034
Provision against stores and spares	175,517	-
Re-instatement of certain assets	(52,515)	-
	<u>123,736</u>	<u>13,661</u>

19. OTHER INCOME

Dividend income	-	59,354
Interest income on advance to an associated company	48,445	43,862
Exchange gain	3,605	10,702
Mark-up on short-term deposits	9,994	36,916
Gain on disposal of fixed assets	109,946	-
	<u>171,990</u>	<u>150,834</u>

20. Cash generated from operations

	MAR - 2004	MAR - 2003
	(Rupees in thousand)	
Profit before taxation	1,399,091	1,503,336
Adjustments for:		
Depreciation	764,951	784,084
Amortization of deferred cost	-	31,770
Capital spares' scrappage	32	16,034
Provision of staff retirement medical benefits	10,000	-
Provision of staff compensated absences	25,000	-
Provision/(write back) of provision for doubtful advances	702	(2,373)
Provision against stores and spares	175,517	-
Financial charges	563,821	616,508
Interest income on advances to an associated company	(48,445)	(43,862)
(Gain) on disposal of fixed assets	(109,946)	-
Re-instatement of certain assets	(52,515)	-
Operating profit before working capital changes	2,728,208	2,905,497
Changes in operating assets and liabilities		
Decrease/(increase) in stores and spares	23,452	(22,464)
(Increase) in trade debts	(823,927)	(696,275)
(Increase)/decrease in advances, deposits and prepayments	(422,693)	527,087
(Increase)/decrease in other receivables	(187,881)	368,846
(Decrease) in creditors, accrued expenses and other liabilities	(559,946)	(4,562,590)
Cash generated from/(used for) operations	757,213	(1,479,899)

21. GEOGRAPHICAL SEGMENTS**21.1 Revenue analysis**

The analysis of material accounts of traffic revenue is as follows:

USA/Canada	1,042,728	882,488
Europe	3,452,667	3,013,255
Middle East/Africa	2,016,772	1,894,781
Asia (excluding Pakistan)	523,181	243,457
Pakistan	7,557,865	7,020,483
	14,593,213	13,054,464

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

22. 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 are as follows:

Catering services from Sky Rooms (Private) Limited	14,113	2,816
Advertising services from International Advertising (Private) Limited	8,999	1,954
Interest on advances to PIA Investments Limited	48,445	43,862
Interest on pension/provident fund balances	68,300	92,500

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

23. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorized for issue in the Board of Directors Meeting held on April 28, 2004.

24. GENERAL

24.1 The information as to the available capacity and utilization thereof during the quarter has been disclosed in the statistics annexed to the financial statements.

24.2 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. 57.56 = US\$ 1 solely for convenience purposes.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

QUARTERLY SUMMARY

		2004	2003				2002
		1st Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter
Traffic Operations							
Available Seat Kilometers (million)	International	3,460	2,911	3,026	3,453	3,766	2,745
	Domestic	678	650	598	647	704	603
	Hajj	1,294	1,428	-	-	76	1,190
	Total	5,432	4,989	3,624	4,100	4,546	4,538
Revenue Passenger Kilometers (million)	International	2,635	2,218	2,105	2,644	2,540	2,125
	Domestic	441	424	407	472	430	406
	Hajj	663	727	-	-	42	607
	Total	3,739	3,369	2,512	3,116	3,012	3,138
Seat Factor (%)	International	76.16	76.19	69.56	76.57	67.44	77.43
	Domestic	65.02	65.13	68.06	72.95	61.08	67.31
	Hajj	51.22	50.88	-	-	55.25	50.98
	Total	68.83	67.81	69.32	76.00	66.26	69.15
Available Freight Tonne Kilometers (million)	International	147	127	129	156	131	115
	Domestic	20	19	17	20	20	19
	Total	167	146	146	176	151	134
Revenue Freight Tonne Kilometers (million)	International	72	81	69	94	70	58
	Domestic	9	9	10	10	8	7
	Total	81	90	79	104	78	65
Load Factor (%)	International	49.03	63.78	53.48	60.26	53.43	50.87
	Domestic	44.14	48.22	58.82	50.00	40.00	39.26
	Total	48.44	55.03	54.11	59.09	51.65	49.22

Financial

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

Operating Revenue	14,593	13,055	10,363	11,611	12,923	11,967
Operating Expenses	12,678	11,072	9,525	10,165	11,812	10,201
Operating profit	1,915	1,983	838	1,446	1,111	1,766
Profit before taxation	1,399	1,503	24	904	1,269	1,097
Profit/(loss) after taxation	833	1,113	(505)	726	(35)	1,037
Fixed Assets	45,463	24,182	26,432	27,855	(48,745)	23,065
Current Assets	22,327	17,839	18,159	20,825	(34,422)	12,754
Current Liabilities	17,277	18,024	16,903	16,571	(28,300)	28,199
Long-term Debts	42,291	23,597	26,112	26,141	(53,816)	10,364
Net Worth	7,472	1,714	1,278	1,981	1,701	(3,807)