

Directors' Report to the Shareholders

- The Directors of Pakistan International Airlines are pleased to present their report along with financial statements for the six months period ended June 30, 2005.
- Results for the half year ended June 30, 2005 are summarised below:

	2005	2004
	(Rupees in million)	
Revenue	30,026	26,507
Cost of services	27,100	22,041
Gross profit	2,926	4,466
(Loss) / profit before taxation	(1,682)	610
(Loss) / profit after taxation	(2,070)	1,400

- The Corporation recorded a 13% growth in revenues amounting to Rs 3.5 billion over the same period last year. Both passenger and cargo business contributed to the increase despite severe competition from foreign carriers and private domestic airlines. The increase in revenue, though, did not translate into profitability due to a 50% increase amounting to Rs 3.7 billion in the fuel expenses. The fuel bill rose to Rs 11.2 billion in 2005 from Rs 7.5 billion in 2004 as PIA's average fuel price increased to Rs 91.24 per US gallon for the period under review as compared to Rs 61.08 per US gallon in the corresponding period last year. This is the primary reason for a 23% increase in the cost of services.
- The Revenue Passenger Kilometers (RPKs) increased to 6,823 million against 6,679 million during the same period in 2004. Seat factor improved to 69.5% against 67.6% last year. Similarly on the Cargo side, Revenue Freight Tonne Kilometers (RFTKs) increased by 6.6% to 189 million compared with 177 million in the previous fiscal. The Load factor was higher at 58.6% against 51.6% during 2004.
- The management is conscious of the adverse effect of the continuing high fuel prices and to mitigate the impact and restore profitability in the shortest possible time, remedial measures are underway. As part of reorganization of Marketing Department, four Strategic Business Units (SBUs) created namely Passenger Sales, Cargo, Business Tours & Charters and Other Income Streams. With the focus on the Customer and his needs, the strategy is built around three C's – Convenience, Comfort and Competitiveness.

I am happy to report that the measures taken in the last three months have started yielding results:

- Domestic fares were reduced to recover the lost market share. This has resulted in high seat factors and overall improvement in the economics of domestic operations
- Improved inventory and yield management – contributing to high seat factors on international sectors since June 2005
- Network expansion – new destinations – additional flights (all these with the existing fleet)
 - Dubai Special & Kuala Lumpur, Singapore already started
 - Nairobi from 30th August & Urumqi from 2nd September
 - 10th flight to London introduced
 - 5th flight to New York from 26th August
 - Hong Kong/Bangkok flight upgraded to 747 Combi
 - Air Safari flight introduced from 14th August
 - Additional flights on Karachi-Islamabad & Karachi-Lahore soon
 - Shuttle service between Lahore-Islamabad soon

PIA is in the process of finalizing code sharing agreements with Turkish Airlines, China Southern Airlines, Thai Airways and other regional carriers.

- As part of fleet modernization and product improvement the aging A300B4 fleet has been withdrawn from operations.
- PIA successfully obtained the renewal of EASA (European Aviation Safety Agency) certification after a detailed audit conducted by their experts. Currently PIA is undergoing process for IOSA (IATA Operational Safety Audit) certification.
- While the volatility in fuel prices continues to hurt the industry, strong traffic demand worldwide provides an opportunity to counter this by tapping the growth through improved service level, competitiveness and enhanced cost efficiency. The management is committed to put the airline on the path of sustainable profitability and faster growth and the results would be visible in the coming months.

For and on behalf of the Board

Tariq Kirmani
Chairman & CEO

August 25, 2005



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