

MDS / 314 / 2009
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Allegation of Violation of Public Procurement Rules 2004 by PIA Procurement of US
\$ 2 billion deal at list price with Airbus and Boeing for the purchase
of 27 New single-aisle aircraft

Dear Sir,

Please refer your letter dated July 8, 2009 on the above subject. We are pleased to respond as follows:

Aircraft acquisition is a highly complex and capital intensive decision which at times attracts unnecessary media attention. Further, due to lack of understanding of the aviation industry norms and practices, the news appearing in the media are often mis-interpreted and are contrary to facts.

Needless to emphasize that an airline needs aircraft to carry on its business. For an airline, aircraft evaluation/acquisition is a continuous process as no aircraft can be operated forever. With the passage of time the maintenance requirements and other operational issues with older aircraft necessitate the need to evaluate new and more efficient types and eventually replace the older types with newer ones.

PIA at present is discussing its medium/long term Strategic Plan with the government. The corner stone of this plan is modernization of the PIA fleet and replacement of its aging aircraft with modern and more fuel efficient ones. In addition, PIA plans further growth in terms of traffic as well as routes which envisages induction of additional aircraft.

The following will explain the facts of the matter and PIA's perspective on concerns raised in your above referred letter.

- Aviation industry has suffered huge losses due to unprecedented increase in fuel prices and PIA is no exception.
- PIA has already shown improvement in its financial performance however, the massive losses accumulated over the years can not be mitigated in a short period. The policies adopted by the management have set the right direction for the airline.

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- It is customary that airline executives participating at prestigious forums discuss the future plans of their companies. MD PIA had also recently visited Paris Air show which is the most well known aviation event of the year. This event gives airline executives the opportunity to meet with their counterparts from leading airlines as well as major aircraft manufacturers from around the world. This forum also provides an opportunity to airlines in announcing their aircraft acquisition orders. Since PIA is still in the process of evaluating various aircraft types, it could not make use of the occasion to make a formal announcement. The comments made by MD PIA were within the ambit of aviation norms and showed his faith in PIA's vision for growth in the future. These comments can not be construed as a commitment with any vendor in selecting a particular aircraft type.
- PIA is considering to induct upto 27 narrow body aircraft over the next five years. However, in order to minimize the financial impact PIA proposes to stagger the mode of acquisition into a mix of outright purchase, options and leases. Hence the figure of US\$2 billion being quoted in media is far from the truth.
- The decision to acquire these aircraft shall be made on the basis of detailed feasibility study. This feasibility is an integral part of PIA's long term strategic plan which is currently under review at the appropriate internal forums as well as with the concerned quarters of the government.
- PIA is fully aware of the delicacy of this subject and is committed to maintain transparency in the matter.
- The specification/configuration and other details are discussed for bringing the competitive aircraft at the same level for a fair comparison. The discussions both with Airbus and Boeing are being held for customizing the aircraft to meet PIA's needs as the number of optional features and aircraft configuration have to be selected according to its need. Both manufacturers need to carry out due diligence on aircraft specifications and to understand PIA's requirements. This will enable them to submit their respective technical as well as commercial offers so that they cover the technical, operational as well as airlines specific requirements.

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