

ANNUAL REPORT 2005

 **PIA**
Pakistan International
Come Fly With Us



The new entrance of PIA's Corporate Office, Karachi.



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PIA to be a world class
profitable airline
exceeding customer
expectations through
dedicated employees
committed to
excellence.

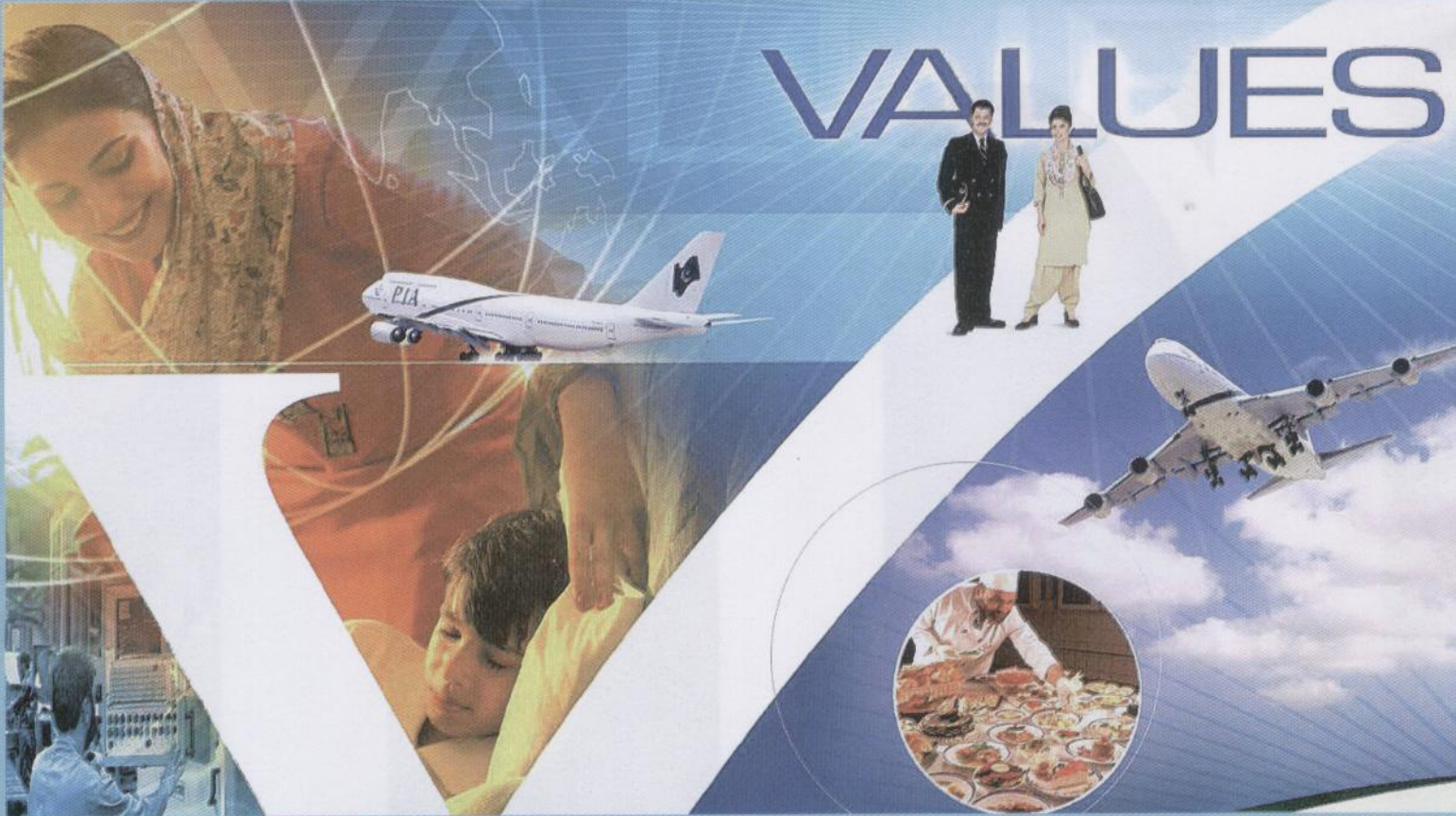
MISSION Statement



Employee teams would contribute towards making PIA a global airline-of-choice:

- Offering quality customer services and innovative products.
- Participating in global alliances.
- Using state-of-the-art technologies.
- Ensuring cost effective measures in procurement and operations.
- Achieving adequate returns for all stake holders.
- Being an equal opportunity employer.
- Providing competitive compensation and a congenial working environment.
- Adhering to business ethics and zero tolerance for corruption.
- Linking remote regions of Pakistan; and
- Fulfilling our Corporate Social Responsibility (CSR) in all fields.

VALUES



- **Customer Expectations**
Convenience, Care and Competitive tariff
- **Service**
Personalised and Courteous
- **Innovation**
Cherishing new ideas, translating into actions
- **Reliability**
Loyalty and Consistency
- **Safety**
Passengers, Employees, Environment and Health
- **Cohesiveness**
Respect for individuals, Team Work and Effective Communication
- **Integrity**
Business Ethics, Accountability and Transparency



Come Fly With Us



Cultural Unity in Diversity



SINDH: Situated in the heart of the Indus Valley Civilization, exemplified by the ruins Moen-jo-daro, the Sindh Province in Southern Pakistan has an ancient and rich tradition of art and crafts. Among them, Hala tile work is one of the most striking representations of a craftsmanship that transforms clay into an object of undying and pristine beauty. Exquisitely adorned with electric blue and white floral patterns and motifs, the Hala craft signifies a labour of love and a passion for perfection. These floral patterns and motifs constitute the design of the aircrafts tails and the aircraft itself is named after the deserts of Sindh.

PUNJAB: As the land of the five rivers the Province of Punjab in Pakistan offers a feast for the senses. With its lush valleys and verdant plains the crafts of the Punjab have a rich and vibrant tradition from the 'royal' craftsmanship of its urban centers to the village crafts of the rural areas. The patterns and the motifs vary from floral designs to figures of birds to majestic elephants. Its historical buildings and gardens, its glasswork shimmering in the Sheesh Mahal, the art of Punjab is best exemplified in the exquisite tile decoration of the Wazir Khan Mosque in Lahore, which is the design on the tail of the airplane. The airplane is named after the Garden of the Moghuls.

FRONTIER: Home of the proud Pathans, the North West Frontier Province stretches from the famous Khyber Pass in the north-west to the mighty Karakorum Range in the north-east. The airplane is named after the Khyber Pass, and the tail is resplendent by the "Phulkari" (flowering) pattern that reflects a rich and colorful tradition of embroidery generally done on shawls, shirts and linen. Often bearing strong Greek influence from the days of Ghandhara civilization, these vibrant geometric patterns and motifs, all in primary colors, reflect exquisite detail and precision of craftsmanship. The tail of the airplane bears witness to this design.

BALUCHISTAN: Pakistan's Baluchistan Province stretches from the coast of Makran in the west to the mountain passes of Bolan and Gomal in the north. This is the land of the thousand of years old Juniper Forests. The local craftsmanship reflects the proud Baluch tribal tradition. A striking and colorful reflection of robust creativity is seen in the kilims, carpets and rugs woven with wool, goat or camel hair and mixed yarn. The pattern is mostly bold geometric motifs in primary colors dominated by red and making it strikingly beautiful. This is the design and motif on the tail. And the airplane is named after the Orchards of Baluchistan.

NOTICE OF 49TH ANNUAL GENERAL MEETING OF PIAC

NOTICE IS HEREBY GIVEN that the 49th Annual General Meeting of the Shareholders of Pakistan International Airlines Corporation will be held at 10:00AM on Wednesday, 26th April 2006, at Pearl Continental Hotel, Club Road Karachi to transact the following business:

1. To confirm the Minutes of the 48th Annual General Meeting held on 28th April 2005.
2. To receive and adopt the Audited Accounts for the Financial Year ended 31st December 2005, together with the Auditors' and Directors' Reports.
3. To transact any other business which may legally be transacted at the Annual General Meeting, with the permission of the Chair.

By Order of the Board

GHAZANFAR MASHKOOR
Secretary - PIAC

Karachi 5th April, 2006

Notes:

1. The Shares Transfer Books of the Corporation will remain closed from 14th April 2006 to 27th April 2006 (both days inclusive). Transfer documents (Physical Scrip Transfers / CDS Transaction IDs) received in order at the Head Office of the corporation up to 05:30 PM by 13th April 2006 will be in time for registration of transfer of Shares.
2. A Shareholder entitled to attend and vote at the Meeting is entitled to appoint another Shareholder as proxy. Proxy and Power of Attorney in order to be effective, must be deposited at the Head Office of the Corporation not less than 48 hours before the time fixed for holding the Meeting i.e. up to 09:00 A.M 24th April, 2006 unless the Power of Attorney has already been registered in the Corporation books, and must be duly stamped, signed and witnessed.
3. Any individual Beneficial Owner of CDC, entitled to attend and vote at the Meeting, must bring his/her CNIC or Passport to authenticate his/her identity along with CDC Account Numbers. However, if proxy is granted by such a Shareholder, the same shall also have to be accompanied with an attested copy of CNIC or Passport of the granter. Representatives of corporate shareholders should bring the usual documents required for such purpose.
4. Shareholders are requested to promptly notify changes, if any, in their registered addresses and also for the consolidation of folio numbers, if any Shareholder holds more than one folio.
5. Entry at the Meeting place will start at 09:00 A.M and close at 10:00 A.M. Shareholders' co-operation in this regard will be appreciated.

CORPORATE PROFILE

Board of Directors

Mr. Tariq Kirmani
Chairman & Chief Executive

Mr. Kamal Afsar

Syed Mohammad Fazal Agha

Mr. Nawid Ahsan
Secretary General Finance

Maj. Gen. (Retd) Muhammad Ashraf Chaudhry
Additional Secretary-I, Ministry of Defence

Dr. Sughra Junejo

Mr. M. Hidayatullah Khan Khaishgi

Mr. Asad Ali Khan

Mr. Javed Saifullah Khan

Air Marshal (Retd) Pervez Akhtar Nawaz
Director General - Civil Aviation Authority Pakistan

Mr. Ali Raza

Mr. Ghazanfar Mashkoor - Secretary

Audit Committee

Mr. Asad Ali Khan - Chairman
Mr. Kamal Afsar
Maj. Gen. (Retd) Muhammad Ashraf Chaudhry
Mr. Javed Saifullah Khan
Mr. S. Ali Raza
Mr. Shehrzad Aminullah - Secretary

Human Resource & Corporate Governance Committee

Mr. Tariq Kirmani - Chairman
Syed Mohammad Fazal Agha
Dr. Sughra Junejo
Mr. M. Hidayatullah Khan Khaishgi
Air Marshal (Retd) Pervez Akhtar Nawaz
Mr. Wasim Bari - Secretary

Registered Office

PIA Building
Jinnah International Airport
Karachi - Pakistan
Web site: www.piac.com.pk

Executive Management

Tariq Kirmani
Chairman & Chief Executive

S. Farooq H. Shah
Deputy Managing Director

M. Rasheed Hasan
SVP Corporate Planning

Wasim Bari
SVP Human Resources & Administration

Umar Ghafoor
SVP Flight Services

Anwaar Rasul Khan
SVP Co-ordination

S. Kamran Hasan
SVP Marketing

Capt. Javed Khan
SVP Quality Assurance

Arif Majeed
SVP Finance

Capt. S. M. Athar
SVP Flight Operations

Col. (Retd) Mudasar Asghar
SVP Works

Shahnawaz Rehman
SVP Financial Monitoring & Appraisal

AVM (Retd) Iftikhar Ahmed Gul
SVP Engineering

Capt. Shahnawaz Dara
SVP Flight Safety & HSE

Jawaid Daud Shaikh
SVP Procurement & Logistics

Nadeem Ikram
SVP Information Technology

AVM Muhammad Rafi
SVP Precision Engineering

THE BOARD OF DIRECTORS



Mr. Tariq Kirmani, Chairman & CEO

Mr. Kirmani, took over on 19th April, 2005, a master's in business administration has over 35 years of multi-faceted experience inclusive of working with a multi-national company in USA, UAE and Australia in senior management positions. He is currently serving as a Director / Member on the boards of several corporations and charities. Mr. Kirmani takes a keen interest in sports & charities and presently is President, Pakistan Hockey Federation and Chief Scout of PIA.



Mr. Kamal Afsar, Director

Mr. Afsar is an elected Director since 24th September, 2004. A Post Graduate in Economics and Business Administration, Mr. Afsar is a renowned bureaucrat and a corporate leader. He is presently Chairman, State Life Insurance Corporation of Pakistan and is also board member of various other organizations. He has held very important positions and has risen to the post of Commerce Secretary, Government of Pakistan. He was also Consul General of Pakistan at Hong Kong in mid eighties.



Syed Mohammad Fazal Agha, Director

Mr. Agha was nominated by the Federal Government as Director on 8th August 2003. The former Governor Balochistan, and former Deputy Chairman, Senate of Pakistan, Mr. Agha graduated as a Civil Engineer and also acquired a degree of LLB with distinction. During his Senate Membership, he served as Chairman or Member of various Committees of Senate. He led Senate delegations to various countries in Europe and Asia. Mr. Agha takes keen interest in the welfare activities and is Chairman of Children Hospital, Quetta. He had remained Board Member of Trust for Voluntary Affairs- an NGO engaged in the social welfare of the society.



**Mr. M. Hidayatulla Khan Khaishgi,
Director**

Mr. Khaishgi was nominated by the Federal Government as Director on 20th January, 2000. A registered "Professional Engineer" with Pakistan Engineering Council and with Engineering Council of U.K as a "Chartered Engineer", he is a First Class Engineer from BOT (UK). Mr. Khaishgi has over 40 years operational and management experience in industry including twenty years as country manager of American Bureau of Shipping USA, Pakistan office. He has worked in Pakistan, United Kingdom, Iran and Saudi Arabia. Presently, he is the Chief Executive of "IMTECH", a technical service provider.



Mr. Asad Ali Khan, Director

Mr. Khan, a Fellow of Institute of Chartered Accountants of Australia, was nominated by the Federal Government as Director with effect from 20th January, 2000. He has been Senior Partner & Service Market Leader of Price Water House Coopers Consulting for Middle East & Pakistan, and Senior Partner, Coopers & Lybrand, Chartered Accountants. He is currently Chairman & CEO of Abacus Consulting Technology. Mr. Khan has diversified experience of multi-national and local companies and has led numerous studies involving project and economic development, strategic planning, mergers and acquisitions, institutional capacity building, privatization transactions, financial and IT system design, and has acted as advisor to or as a professional Board member on Corporate Boards of several multi-national companies in Pakistan and the Middle East. Mr. Khan is also Chairman of the Audit Committee of PIA Board.



Mr. Javed Saifullah Khan, Director

Mr. Saifullah Khan was nominated by the Federal Government as Director on 8th August 2003. An MBA from the University of Pittsburgh, USA; he is multi-lingual and possesses experience of over 30 years in Textiles, Cement, Telecoms, IT and Energy sectors. He is member of various government and social organizations and has represented Pakistan as an official delegate at various international forums. He twice remained Chairman of All Pakistan Textile Mills Association and also member Central Managing Committee. Mr. Saifullah Khan is founder President of Saifullah Foundation for Sustainable Development (SFSD), Member Board of Pakistan Mobile Communications (Pvt) Ltd. (Mobilink), Board of Investment (BOI), government of Pakistan, Executive Committee of Pakistan Petroleum Exploration and Production Companies Association (PPEPCA), and Senior Advisor, Galen Capital Group, LLC, USA. Presently, he is the Chairman of Saif Group involved in diversified fields of IT, Telecommunications, Textiles, Oil & Gas, and Power Generation.



Mr. Nawid Ahsan, Director

Mr. Ahsan, was nominated by the Federal Government as Director on 30th November 2002. Holding Masters of Development Studies (Economic Policy and Planning) from Netherlands, he is an experienced civil servant bringing with him an illustrious academic background which includes gold medal in M.A. Economics as well as academic roll of honour in Bachelor of Arts. He held various assignments in Provincial & Federal Government. He is currently Secretary General Finance. Mr. Ahsan is also Board Member of Pakistan Telecommunication Company Limited, State Bank of Pakistan and Pak-Kuwait Investment Company Limited.



Maj. Gen. Muhammad Ashraf Chaudhry (Retd) HI(M), Director

Maj. Gen. Chaudhry (Retd) was appointed by the Federal Government as Director on 8th August, 2003. Starting his Army career in the Corps of Engineers, he later joined Army Aviation and flew for more than 5000 hours on fixed wing aircraft/helicopters as pilot and instructor. Before joining Ministry of Defence as Additional Secretary-I, Gen. Chaudhry had held important command & staff positions including General Officer Commanding Army Aviation. Gen. Chaudhry has played an active role in the recent modernization plan of PIA Fleet.



Dr. Sughra Junejo, Director

Dr. Junejo was nominated by the Federal Government as Director on 8th August, 2003. A doctor of medicine, with post graduation in Radiology from London, she also has the diplomas in Business Administration from UC Berkeley; and Finance & Accounting from Stanford University, California, USA. An Agriculturalist by profession, Dr. Junejo is one of the renowned exporters of agricultural products. She takes keen interest in the welfare activities and patronises many social and welfare organizations. Presently, Dr. Junejo is the District Nazim of Mirpurkhas.



Air Marshal (Retd) Pervez Akhtar Nawaz HI(M); SB, Director

Air Marshal (Retd) Nawaz was nominated by the Federal Government as Director on 25 August 2003. He graduated from the Combat Commanders' School, Air War College and also completed Armed Forces War Course (NDC). He had a distinguished career in PAF as a Fighter Pilot. At Air Headquarters He held two prestigious appointments; Secretary to the Chief of the Air Staff, PAF and Deputy Chief of the Air Staff (Training). In the Ministry of Defence, he served as Director General, Defence Procurement, and his last appointment in uniform was the Chairman, Aeronautical Complex, Kamra. Presently, he is Director General, Civil Aviation Authority of Pakistan.



Mr. S. Ali Raza, Director

Mr. Raza is an elected Director since 22nd September 2001. Holding Masters Degree in Admin Sciences and Graduation from Business Centre London, he is a renowned banking professional and is presently holding coveted position of Chairman & President, National Bank of Pakistan. He is also board member of various other organizations. Mr. Raza has keen interest in promotion of sports, particularly cricket and is member Pakistan Cricket Board Ad-hoc Committee. He is also interested in welfare activities and is member of the Rotary Club of Karachi Metropolitan / Jinnah Society / Jinnah Foundation.

BOARD'S COMMITTEES

Audit Committee

Board has constituted an Audit Committee to meet Listing Regulations of the Stock Exchanges made in light of Code of Corporate Governance. The Committee is responsible to consider, inter alia, annual accounts, quarterly accounts, review of approach adopted by Internal Audit Division, scope of and relationship with the External Auditors and measures required to address various internal control & material weaknesses. The Committee comprises:

Mr. Asad Ali Khan	:	Chairman
Mr. Kamal Afsar	:	Member
Maj. Gen. (Retd)		
Muhammad Ashraf Choudhry	:	Member
Mr. Javed Saifullah Khan	:	Member
Mr. S. Ali Raza	:	Member
Mr. Shehrzad Aminullah	:	Secretary

Human Resource & Corporate Governance Committee

PIA Board has constituted a Human Resource & Corporate Governance Committee, to assist PIA Management to review HR policies, procedures, programmes & processes aligned with strategic vision & core objectives and to provide leadership & guidance for the organizational transformation to achieve corporate objectives. The Committee also ensures compliance of good governance inline with best corporate practices and regulations of Security Exchange Commission of Pakistan (SECP). The Committee comprises:

Mr. Tariq Kirmani	:	Chairman
Syed Fazal Agha	:	Member
Dr. Sughra Junejo	:	Member
Mr. M. H. Khan Khaishgi	:	Member
Air Marshal (Retd)		
Pervaiz Akhtar Nawaz	:	Member
Mr. Wasim Bari	:	Secretary
SVP (HR&A)		

MANAGEMENT COMMITTEES



Management Committee meeting in progress

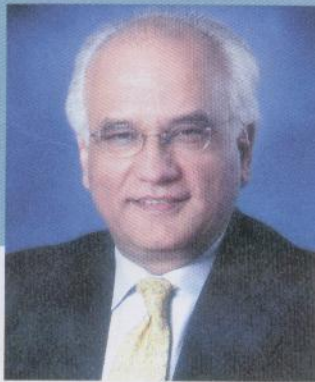
Management Committee (ManCom)

Management Committee (ManCom), a vital element in decision making process. Reviews and approves all major capital and expense projects. Monitors customers' feedback/complaints, provides a quality forum to its members for an effective communication, corrective actions for improved service and collective advice, on every Tuesday. ManCom comprises the Deputy Managing Director, all Senior Vice Presidents and Secretary PIA and is chaired by the Chairman & CEO, PIA.

Employee Leadership Team (ELT)

Employee Leadership Team (ELT) headed by Mr. Tariq Kirmani, Chairman & CEO comprises Deputy Managing Director, Senior Vice Presidents of HR&A; Engineering; Marketing; Flight Services; Finance; Flight Operations; and General Manager (Human Resources). It regularly holds its meetings for a collective decision making on all employee related matters inclusive of promotions, postings, transfers, succession plan and selections.

DIRECTORS' REPORT TO THE SHAREHOLDERS



The Directors of Pakistan International Airlines

Corporation are pleased to present their report along with financial statements for the year ended December 31, 2005.

Year Under Review Results

The financial results for the year ended December 31, 2005 reflect the following position:

	2005	2004	Change
	(Rupees in million)		
Revenue	64,074	57,770	+10.9%
Cost & Expenditure			
Aircraft Fuel	26,463	17,913	+47.7%
Operating Expenses	40,126	37,959	+5.7%
Mandatory retirement cost	487	-	
Financing Cost	2,787	2,199	+26.7%
Other Income / Provisions - Net	(1,276)	(1,138)	+12.1%
	68,587	56,933	+20.5%
(Loss)/Profit before tax	(4,513)	837	
(Loss)/Profit after tax	(4,412)	2,307	

The bottom line reveals a change of colour although it conceals more than it reveals. For even a cursory look

Fuel Price Trend

	Quantity US Gallon in million	Price Rs per USG	Cost Rs in billion
2005	258.9	102	26.46
2004	248.8	72	17.91
Increase	10.1	30	8.55
			Rs. in billion
	Due Quantity		0.71
	Due Price		7.84
	Total		8.55

into the numbers will show that while all the key performance indicators applicable to any airline's performance showed wholesome improvement, all of it was undone by just one factor i.e. price of jet fuel.

It is evident from the table that the otherwise profitable bottom-line was dented by an impact of Rs. 7.8 billion on account of increase in the price of fuel alone.



President Islamic Republic of Pakistan General Pervez Musharaf sharing views with Mr. Tariq Kirmani Chairman & CEO Pakistan International Airlines while visiting the PIA Stall at Expo 2006 Karachi.

IPE Brent Crude Oil Closing Price (begin July 1988)



Average monthly data from July 1988 through February 2006

In fact, fuel prices continued to rock the entire airline industry as these bedeviled the budget and projections of most airlines. Thus, IATA carriers collectively reported losses in the vicinity of US\$ 7 billion in 2005. Little wonder, financial numbers projected last year for PIA's 2005 budget were also invalidated as expenditure on fuel outpaced all other numbers. Reaching a level of Rs. 26.5 million in 2005, it overturned PIA's projected profitability.

The year's profit also absorbed the one time cost of mandatory retirement of certain categories of employees amounting to Rs. 487 million.

If the fuel prices were kept constant at financial year 2004 level then Pakistan International Airlines would have made a profit of Rs. 3.3 billion in 2005.

Operational Performance

Operational performance of the airline registered healthy improvement as is reflected in the key performance indicators.

Performance during 2005

The airline's business continued to grow in 2005 and this is visible in the attainment of the overall revenue at Rs.64.07 billion up from Rs.57.77 billion in 2004. It reflects a healthy percentage growth of 10.9% despite the cut throat competition from the private



The Chairman & CEO PIA Mr. Tariq Kirmani with Prime Minister Mr. Shaukat Aziz at the PM House, Islamabad, discussing current financial and administrative matters and future prospects of the corporation.

domestic and foreign carriers. Another positive indicator during 2005 is the fact that the increase in overall operating expenses (except fuel) was restricted to 5.7% notwithstanding addition of new destinations during the year as well as increase in frequencies on some of the existing routes.

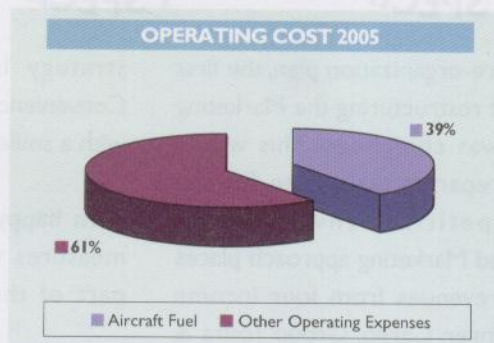
The single factor which unfortunately affected the profitability of the airline, rather devastated the economics of the aviation industry itself, is the unheard level of oil prices reaching US \$70/barrel in 2005. PIA could not remain immune from the unprecedented and unforeseen increase in fuel price which overshadowed and overwhelmed all round improvements in the operating parameters. PIA's fuel expenses for 2005 escalated to Rs.26.46 billion from Rs.17.91 billion in 2004 denoting an increase of Rs.8.55 billion. This is by all means a huge and un-absorbable increase.

Had the fuel prices remained at some reasonable level the bottom line would have presented a totally different picture.

Key Performance Indicators

	Growth over 2004	
	%	
Passenger		
ASK	2.3	▲
RPK	7.3	▲
Cargo		
AFTK	12.6	▼
RFTK	2.1	▲
Yield		
Passenger	4.1	▲
Freight	5.6	▲
Seat Factor		
	4.9	▲

All the above improvements translated into



an increase in airline's revenue in absolute terms by an amount of Rs. 6.3 billion or 10.9% over last year.

Traffic on international routes in terms of Revenue Passenger Kilometers (RPKs) recorded an increase over 7.6% on 2004, while on domestic routes the increase was 5%. As a result an overall system growth of 7.3% was achieved. Contribution from all major routes improved from last year's levels. The highest growth of 13% was

achieved in the Regional Markets followed by UK 11% Americas 6.7% Gulf 6.1% and Europe 5.8%. Similarly, overall cargo traffic performance in 2005 also surpassed 2004 performance by 1.3% with an increase of 1.1% on international routes and 3.3% on domestic routes.

THE MARKETING DEPARTMENT REORGANIZED FOR IMPROVED PERFORMANCE



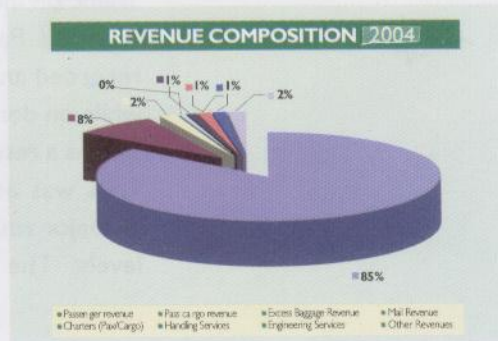
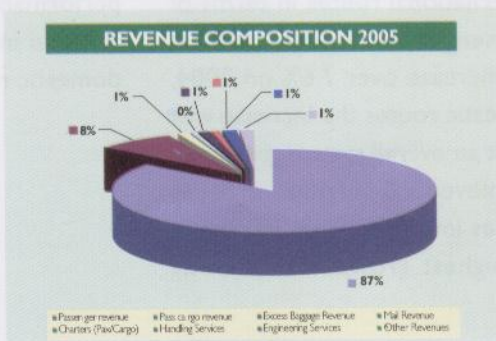
As part of the re-organization plan, the first phase, aimed at restructuring the Marketing Department was completed. This would facilitate in preparing the airline for the highly competitive environment. The reorganized Marketing approach places emphasis on revenues from four income streams Passenger, Cargo, Group Tours & Charters and other Businesses. Heads of each business unit are responsible for achieving the targets set for them in their respective areas.

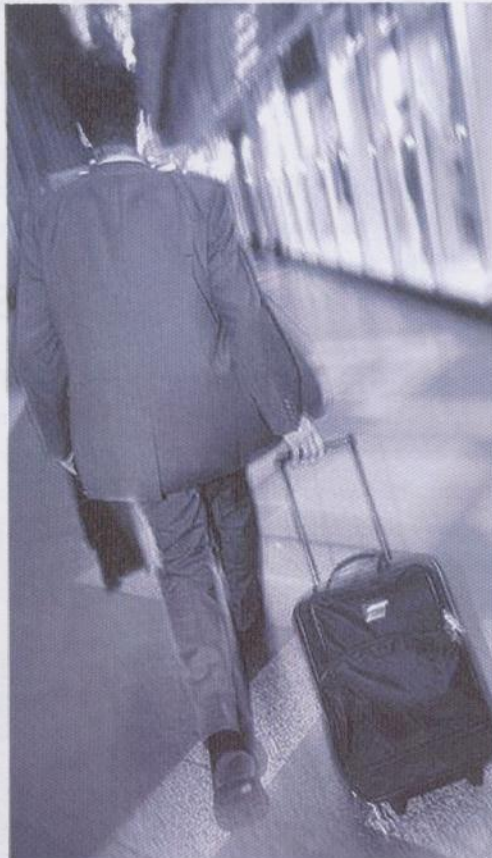
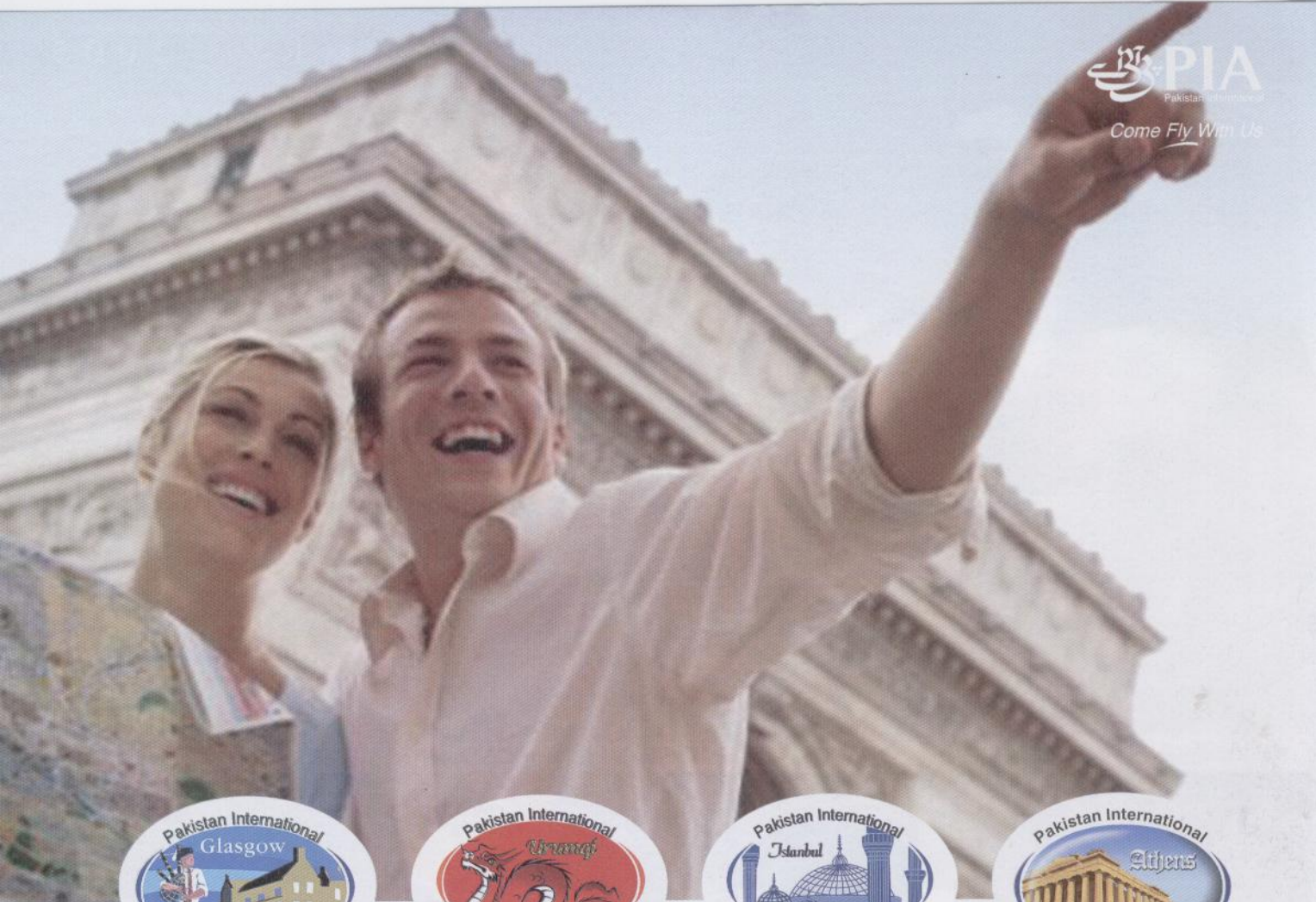
With the focus on the Customer needs, the

strategy is built around three C's – Convenience, Comfort and Competitiveness with a smile.

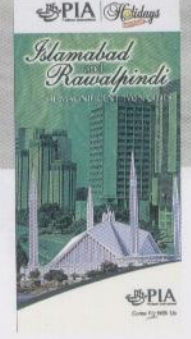
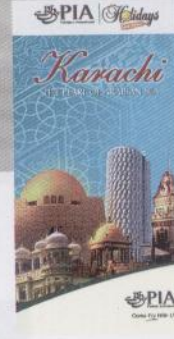
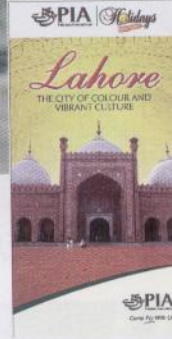
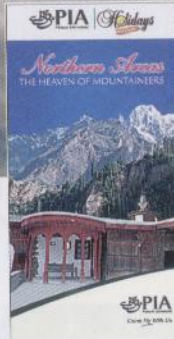
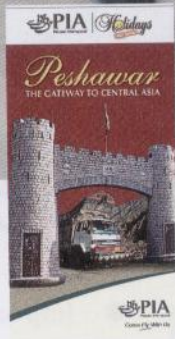
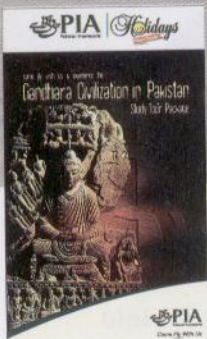
I am happy to report that the following measures were taken during the year as part of the ongoing restructuring plan.

- Domestic fares were reduced temporarily to recover the lost market share. This resulted in higher 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 and additional flights were added into the schedule.
 - Dubai Special, Kuala Lumpur, Singapore, Nairobi, Urumqi and Glasgow started.
 - 10th flight to London.
 - 6th flight to Manchester.
 - 3rd flight to Toronto.
 - Hong Kong / Bangkok flight upgraded to 747 Combi.
 - Air Safari flight introduced.
 - Additional flights on Karachi – Islamabad & Karachi – Lahore.
 - Shuttle service between Lahore – Islamabad.



PIA Holidays

PIA has exclusively established a separate business unit : GROUP TOURS & CHARTERS within the marketing department to cater for tourism facilitation (inbound, outbound and domestic).

To promote tourism, PIA has embarked on a strategy to introduce a newly designed product line, PIA Holidays. PIA Holidays product depth contains several distinctive packages for different areas/ tourists spots to promote inbound and outbound tourism, keeping in view the competitive dynamics.

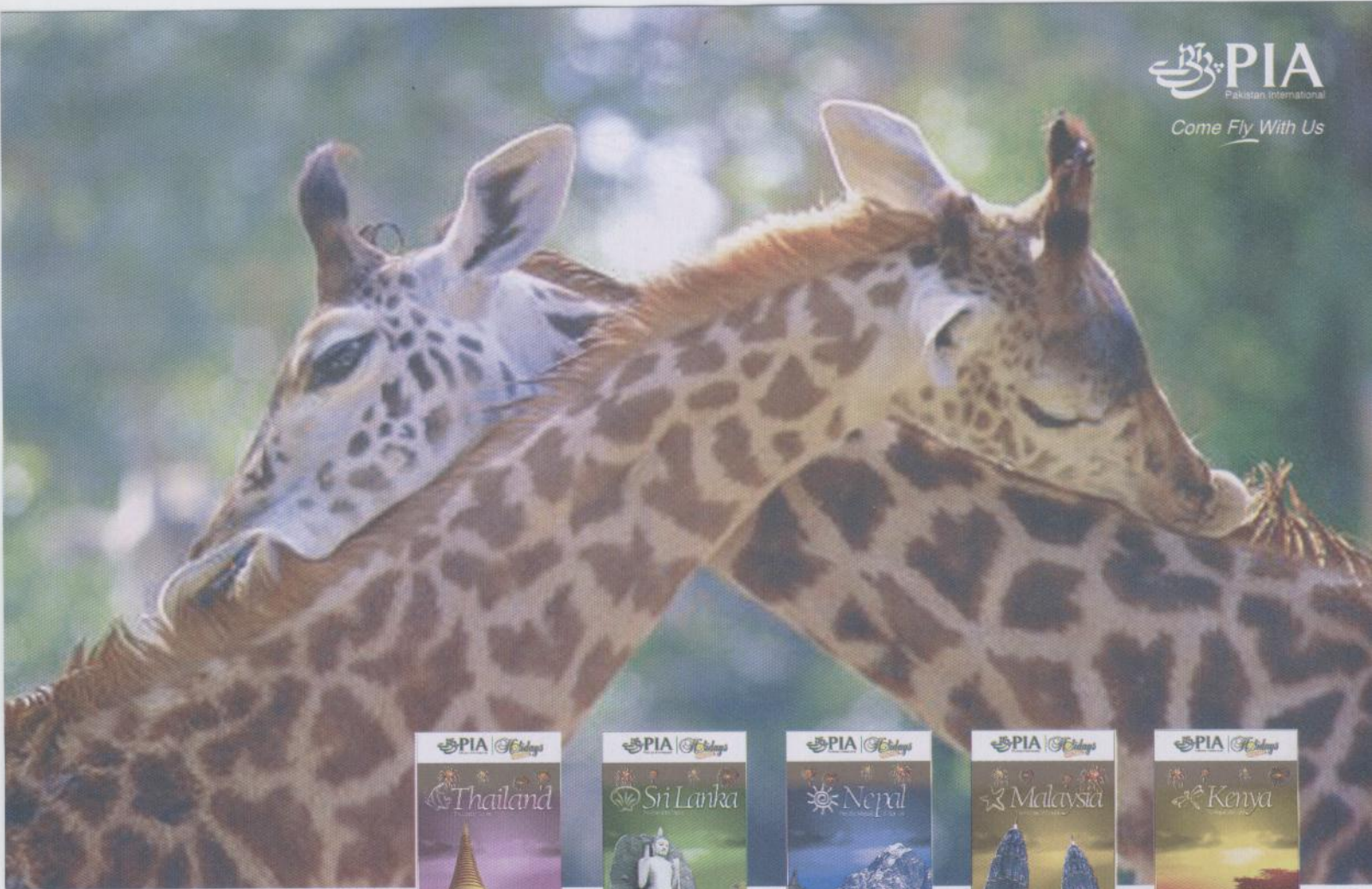
These area/city tour packages include all information regarding accessibility, shopping, transportation, sight seeing/ places of interest etc.

Group tours and charters are currently focusing on the promotion of the Gandhara civilization which is an ancient heritage of Pakistan and is an attraction for tourists around the globe.

Code Sharing Arrangements

PIA and THY (Turkish Airlines) have concluded an agreement to code share on flights on Istanbul-Karachi-Istanbul sector and Islamabad-Istanbul-Islamabad sector. Turkish airlines will





be operating carrier between Karachi and Istanbul while PIA will be the marketing carrier. On Islamabad-Istanbul sector PIA will be operating carrier while Turkish airlines will be its marketing partner. Ticket holders of PK and TK will now have the flexibility and choice to fly on any of the code shared flight, on either sector, without endorsement.

PIA has also signed an MOU with Thai Airways, to conclude a code share agreement on flights between Pakistan and Bangkok.

Umra Operations a Success

PIA during Umra season operated additional 222 extra flights besides the normal scheduled flights to Jeddah carrying 151,000 pilgrims this year.

The hallmark of this year's operation was

the issuance of return advance boarding cards to Umra passengers, omitting the requirement of getting reconfirmations done in Saudi Arabia. The system worked efficiently as returning passengers were saved the inconvenience of queuing at PIA offices to obtain reconfirmation. The entire operation was conducted smoothly without compromising on standards of service.

As a result, there were no stranded passengers and PIA with legitimate pride can state that it was a seamless operation. All said and done, PIA's Umra 2005 operation was a roaring success.

Hajj Flights

This year, PIA transported 124,000 Hajj pilgrims to Saudi Arabia through 349 Hajj flights to the Holy Land from the four Provincial Capitals and Islamabad.



For the first time, PIA operated 54 pre Hajj flights directly for Madina, 9 flights from Karachi, 23 from Lahore and 22 from Islamabad.

For the convenience of the pilgrims, PIA made special arrangements to provide complimentary Hajj Guides, Ahrams to male Hajjis and abbas to female Hajjis before departure in Hajj Camps.

E-Ticketing

PIA has taken up E-ticketing as a project designed to achieve web based ticketing so as to propel its ticketing capability to keep pace with the competition. Beyond our own ticket offices, this is also aimed to enable our agents on Global Distribution System to avail this facility.

Global Distribution System (GDS)

This year has also witnessed PIA's quantum

enhancement in the level of participation in GDS's thus broadening PIA's selling base.

Emergency Response Planning (ERP)

Emergency response planning is no longer a matter of choice but an IATA / IOSA requirement. PIA has organized a dedicated set up to institute emergency response planning throughout its network.

Fleet Renewal

The long term fleet modernization plan initiated by the airline in 2002 to induct eight Boeing B-777 wide body aircraft to replace and renew the aging fleet is being implemented smoothly. Till 2004 the airline inducted three B-777-200 ER aircraft and during February / March 2006 two B-777-200 LR, world's longest range aircraft have joined the PIA fleet. The B-777-200LR aircraft can connect any two destinations in the world without making a stopover.

FLEET PROFILE

	2005	2004
BOEING 777-200ER	3	3
BOEING 737-340	7	7
BOEING 747-300	6	6
BOEING 747-200	2	4
AIRBUS - A310	12	12
AIRBUS - A300	-	6
FOKKER - F27	6+1	8
TWIN OTTER	2	2
TOTA	39	48

PIA is the launch operator of B-777-200 LR or the Worldliner as it is also known.

The Boeing 777-300 ER induction plan has been accelerated and, in agreement with Boeing, deliveries of the three aircraft are now scheduled in December 2006, February 2007 and March 2008 instead of all three deliveries in the first quarter of 2008. Efforts are also in hand to advance the delivery of the third aircraft from 2008 to 2007. PIA also signed an agreement with International Lease Finance Corporation (ILFC) for leasing of one new 777-200ER in airline's own configuration. The aircraft is under production and would be delivered in January, 2007.

The airline entered into an agreement with M/s. Avions de Transport Regional (ATR) for the purchase of seven new ATR 42-500 turbo prop aircraft. The total value of the contract is approximately US\$ 100 million. The aircraft will replace PIA's aging F-27 aircraft fleet operated on socio-economic routes. The 48 seater aircraft has a specially designed low noise cabin interior providing maximum comfort to the passengers. The seven 48 seater aircraft are scheduled to be delivered between 2006 and 2007, with delivery of the first aircraft to PIA in May 2006.

US EX-IM Financing

In September 2005, US EX-IM issued final commitment for providing guarantee in the amount of US\$ 271 million for purchase of two Boeing 777-200LR aircraft/ spares. Citibank was selected as the guaranteed lender in August, 2005 for the subject transaction. The financing has been obtained under most competitive terms and it is the first time that PIA was offered a sub-Libor pricing.

PDP Financing for Boeing 777-300ER

During the year PIA also negotiated the financing requirement in the amount of US\$ 108 million with Citibank for making pre-delivery payments (PDP) to Boeing for the next batch of aircraft whose delivery has been accelerated. The financing has been secured on favorable terms.

Interest Rate Fixing

During the year, PIA exercised its option to switch from floating rate to fix rate on two of its three Boeing 777-200ER aircraft that were delivered in first quarter of 2004. This rate fixing was very timely and is part of airlines risk management initiative. PIA was able to secure an attractive fixed rate at the time. This is resulting in savings considering the continuing rise in interest rates.

Fleet Utilization & Punctuality

Operational performance is crucially linked to optimal utilization of our fleet. PIA revisited the drawing board, identified idle capacity and deployed it:

- On existing routes
- On routes flown previously but discontinued
- On new routes



As a result, PIA was able to significantly improve its fleet utilization and indeed take it to higher than the known world-wide averages for different aircraft types in our fleet. Concurrently, with improved maintenance and cross-functional management discipline, flight punctuality of 87% was recorded in the year 2005, which is the highest in the last 26 years. All this was achieved without compromising on safety.

Realization of Boeing 777 Offset Program

Optimal utilization of offset offered by Boeing under the 777 Purchase Contract of 2002 is envisaged. PIA has acquired 03 machining centers plus two other small machines to be utilized for the manufacturing of Boeing parts. PIA is now in a position to start deliveries to the Boeing Company under the offset program.

Business Ethics Prevail at PIA

Pakistan International Airlines showed its

profound commitment to fundamental values of integrity, transparency and accountability by signing the Partnering Against Corruption Initiative (PACI) Principles. This puts PIA amongst the rank of enterprises committed to anti-corruption doctrines, reflecting the fact that corruption and bribery have been recognized as corrosive to economic progress.

The PACI Principles offer practical guidance to companies for developing their own policy statements and programs aimed at combating bribery and other forms of corruption in international business.

The multinational task forces of companies working with the World Economic Forum, Transparency International and the Basel Institute on Governance have developed principles providing a framework for superior business practices and risk management strategies designed to help counter bribery and corruption in any form.

CO-BRANDING



PIA signing historic Co-branding liaison with PSO.

A Memorandum of Understanding was signed at the PIA Head Office on June 11, 2005 between PIA and Transparency International for implementation of transparency in the airline's procurement system. Transparency International is a non-governmental organization dedicated to strengthening accountability and curbing corruption. Its national chapter, Transparency International Pakistan aims at building a coherent National Integrity System with primary emphasis on reforming the system.

is the largest international bank operating in Pakistan and with PIA's partnership further enhances benefits for their customers.



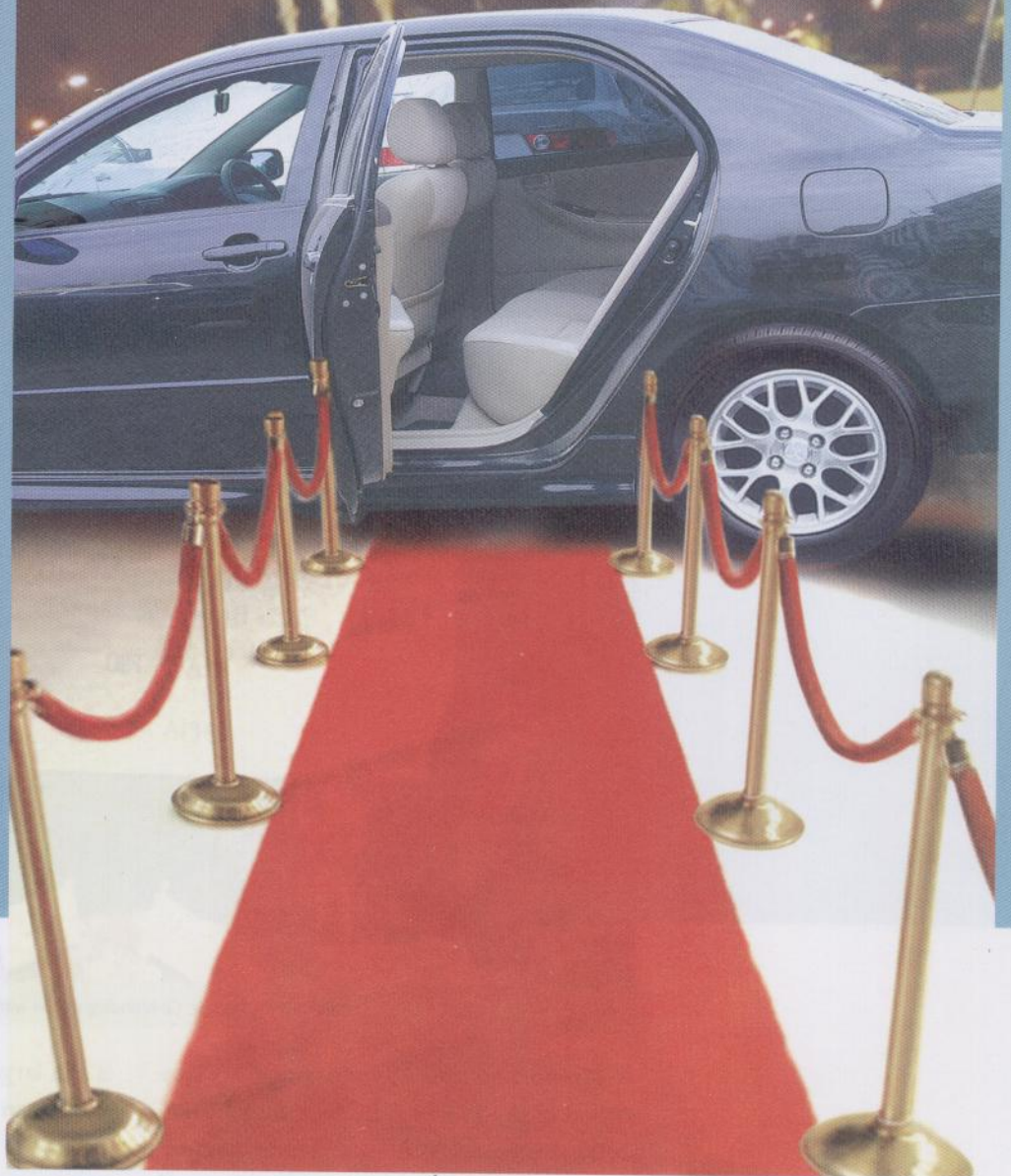
PIA "First" Once Again – Co-branding of Credit Cards



The PIA-Standard Chartered partnership on Co-branding of Credit Cards in Pakistan is the first of its kind innovation. Standard Chartered

Fly – Drive Accord Signed with Avis

PIA passengers will be benefiting from special discounted rates when renting an Avis car in all countries where Avis operates. Members of the airline's Awards Plus program will in addition be enjoying added benefits. To obtain the agreed discounts,



PIA passengers will simply show their boarding pass to the Avis rental agent on collection of their vehicle.

Free Pickup and Drop for Business Class Passengers

PIA introduced free Limousine Service for pickup and drop of its Business class passengers worldwide. The service from April will be extended to all destinations.

Home Delivery of Mishandled Baggage

By way of enhancing service level, mishandled baggage is being delivered at the residence of valued customers. Initially, this service is

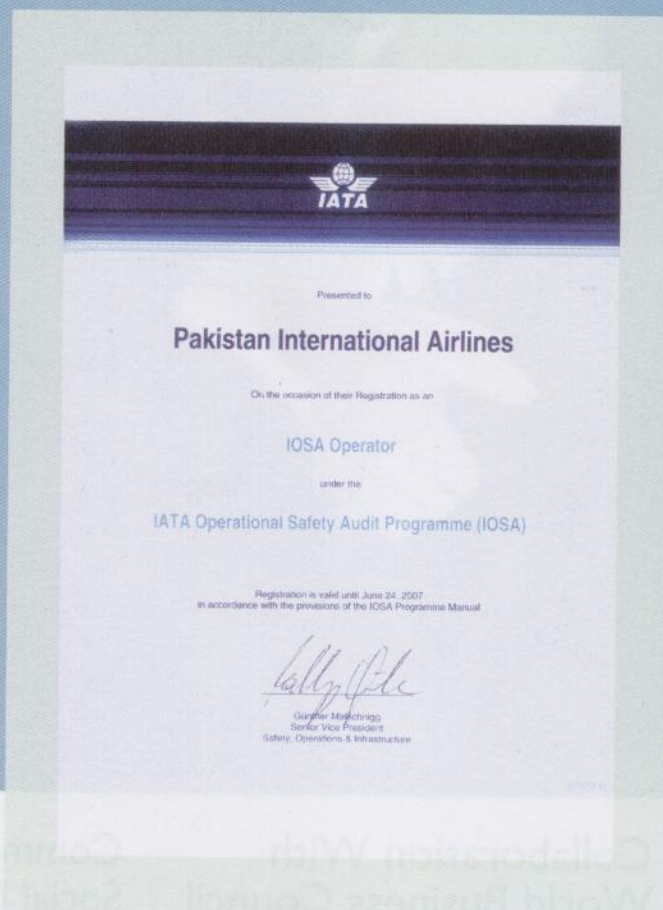
being provided at Karachi and Islamabad stations.

Baggage Information Delivery Services (BIDS)

Baggage Information Delivery Service is linked to the World Tracer System at Atlanta. This has been introduced allowing the passengers to check the status of their mishandled baggage on-line by entering their AHL (PIR) number.

EASA Certification

PIA successfully obtained the renewal of EASA (European Aviation Safety Agency) certification after a detailed audit conducted by their experts.



has been pending for quiet some time.

PIA Gets IOSA Audit Clearance

An IOSA Audit Team from Australia visited PIA to perform an audit to award accreditation to the airline on the basis of set down standards and requirements. PIA met the overall requirements as set forth under IOSA audit and clearance was given to Marketing, Flight Operations, Airport Services, Flight Services and Quality Assurance. PIA Training Centre (PTC, a division of Quality Assurance Department) met all requirements of IOSA audit without a single exception of compliance.

Having achieved the clearance, PIA has now been added to the list of a handful of other airlines that enjoy IOSA Certification. It will give PIA an opportunity to enter into strategic alliances with other airlines, such as code sharing with Thai Airways, which

The IOSA Program is an internationally recognized and accepted evaluation system designed to assess an airline's operational management and regulates systems within the airline. IOSA uses internationally recognized quality audit principles and is designed in such a manner that it allows audits to be conducted in a standardized and consistent manner.

It addresses the following eight service areas that are considered most essential to the operational safety of an airline:

- Corporate Organization and Management
- Cabin Services
- Cargo Operations(Dangerous Goods)
- Ground Handling and Ramp Handling
- Engineering and Maintenance
- Flight Operations
- Flight Dispatch
- Security Services.



Collaboration With World Business Council

With an aim to provide business leadership, whilst promoting the role of eco-efficiency, innovation and corporate social responsibility, PIA has joined the World Business Council for Sustainable Development (WBCSD). This offers a unique platform to the airline for discussing and analyzing strategic issues and experiences connected to various aspects of sustainable development with internationally renowned business leaders.

An alliance comprising 175 international companies, WBCSD shares a commitment towards sustainable development keeping in view economic growth, ecological balance and social progress.

The members belong to more than 35 countries and 20 major industrial sectors including automobile, finance, petroleum, consumer goods and electronics.

Committee on Corporate Social Responsibility

On October 13, 2005, the management shaped a Corporate Social Responsibility (CSR) committee from within the Organization, a first in PIA's history. The CSR team will now be assisting in various areas of the social sector such as Sports, Health, Charities, Arts Academy, Al-Shifa Trust and Environment.

Earthquake Relief Efforts

The earthquake on October 8, 2005 devastated regions of Azad Kashmir and NWFP killing an estimated 90,000 persons injuring over 150,000 and leaving more than three million people homeless.

In response to the unprecedented earthquake devastation, PIA was in the forefront of the relief and rehabilitation efforts. It carried approximately 2500 tons



The Chairman & CEO PIA Mr. Tariq Kirmani presenting a cheque to Prime Minister Mr. Shaukat Aziz for the President's relief fund contributed by the employees of PIA.



The Chairman & CEO PIA Mr. Tariq Kirmani distributing relief goods at the earthquake effected areas.

of relief and rehabilitation goods from life saving drugs & vaccines to specially built timber houses in semi finished condition. This tonnage was uplifted on PIA's own aircraft and on chartered flights. PIA also mounted an emergency operation to fly about 4,000 relatives of aggrieved earthquake victims in extra sections to Islamabad within 48 hours of the earthquake.

PIA also directly contributed cash of Rs. 26.5 million to the President Relief Fund, which included Rs. 16.5 million as employees' contribution from their salaries and Rs. 10 million as PIA contribution.

PIA Scouts continued their active participation in the earthquake affected areas as a part of Pakistan Boy Scout

Association and UNICEF's joint campaign for Health, Sanitation and Education in areas including Muzaffarabad, Bagh, Balakot and Batrasi district.

PIA in collaboration with The Citizens Foundation (TCF) is planning to construct 5,000 seismically designed homes over the next two years apart from other rehabilitation activities.

Employees Reward and Recognition Program

An Employee Reward & Recognition Program has been introduced with the intention of rewarding members of staff who have made any extraordinary contribution and effort for the organization.

Four initiatives geared towards keeping a vibrant organizational environment are being implemented to reward employees.

Chairman's Award is the top most award and is given once a year in January to an outstanding employee. The winner will receive a plaque and a citation alongwith cash award of Rs. 100,000 while two runner ups receive Rs. 50,000 award each alongwith appreciation certificates.

The Management award (being second to none) will also be the same as Chairman Award except that it will be given in July.



The Award winning employees

Going an Extra Mile Award is given to employees (50% Management & 50% Non Management Staff) each month for their hard work and dedication and carries a cash award alongwith appreciation certificate. Service with a Smile/ Spot Awards Appreciation Certificates will be given by the SVPs or GM/Equivalent to employees of their own department or any other department providing exceptional customer service.

Code of Corporate Governance

The Board of Directors of the Corporation has always strived to adopt best practices in managing the Corporation and providing policy guidelines. The promulgation of Code of Corporate Governance through amendments in the Listing Regulations of Stock Exchanges has further defined the responsibilities of the directors in this regard. Corporate Governance strengthens investors' trust and ensures a long-term partnership that helps in fulfilling the quest for achieving significant value addition, growth and profits. The Corporation has made good progress towards implementation of principles contained in the Code and status of compliance is set out in the compliance statement.

Corporate & Financial Reporting Framework and Internal Control

The directors to the best of their knowledge and belief provide following opinions to comply with the Code of Corporate Governance:

- a) The Financial statements, prepared by the management of Pakistan International Airlines Corporation, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b) Proper books of account of the Corporation have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- d) International Accounting Standards, as applicable in Pakistan, have been consistently applied in preparation of financial statements and any departure therefrom has been adequately disclosed.
- e) Boards' statement on internal control: The Corporation has a comprehensive framework of internal controls in all areas of its operation. The Board had identified certain areas which required improvements to reinforce the internal control system. These included the new revenue accounting system and weaknesses in inventory management reporting system. In order to strengthen the internal controls and enhance the efficiency of management reporting, the Corporation has drawn up definitive plans to implement 'Enterprise Resource Planning (ERP) solution for all of its key functions which shall include inventory accounting and management systems. The Board is ultimately responsible for the Corporation's system of internal control and reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives, and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss. The principal features of internal control include:
 - 1) The Board has established an audit committee, the members of which comprises wholly non-executive directors. The Audit Committee

operates under terms of reference set out in the code of corporate governance. It reviews the approach adopted by the Corporation's internal audit division and the scope of and relationship with the external auditors. It also receives report from the internal audit division and the external auditors on the system of internal control and any material weaknesses that have been identified, and discusses the actions to be taken in areas of concern with relevant executive management.

- 2) The Corporation has an internal audit function, which carries out, on a continuing basis, reviews of internal controls and reports to the audit committee.
- 3) The board approves budgets and monitors the actual performance with the budgets. There also exists a strategic planning process.
- 4) An organization structure, which supports clear lines of communication and tiered level of authority with delegation of responsibility and accountability, has also been established.
- f) There are no significant doubts upon the Corporation's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

Changes in Board of Directors

Since the publication of Annual Report 2004,

Mr. Ahmad Saeed, Chairman resigned on April 16, 2005 while Mr. Tariq Kirmani assumed the charge of Chairman & CEO of the Corporation with effect from April 19, 2005.

The Board wishes to record its appreciation for the valuable services rendered by Mr. Ahmad Saeed and extends its warm welcome to Mr. Tariq Kirmani as Chairman & CEO of the Corporation.

Subsidiary and Associate Companies Affairs

Subsequent to the balance sheet date, the Corporation has acquired in its Associate Company PIA-IL, shares of the other shareholder thereby increasing its holding in that company to 99%. The management is now actively pursuing the sale of assets owned by PIA-IL. In view of evidence available with the Corporation there are strong indications that the sale proceeds of assets of PIA-IL would be sufficient so as to enable PIA-IL to settle all outstanding debts including those payable to the Corporation. The Corporation believes that the carrying value of its investment in PIA-IL (including the amount of US\$ 67.75 million paid subsequent to December 31, 2005) represents its recoverable amount.

Auditors' Report

External auditors have expressed a qualification that due to lack of adequate audit trail to support the carrying value of inventories at moving average cost as a result of problems with the inventory management system, they were unable to confirm the valuation of inventories.

The qualification has arisen due to the inherent limitation of the over two decade old inventory management system with respect to valuation of inventories. This

constraint will be addressed after the proposed implementation of the 'Enterprise Resource Planning (ERP)' project which includes the inventory management system.

Future Outlook

Year 2004 turned out to be one of the best years for economic growth of aviation industry for three decades. The growth accelerated in 2005 but it did not translate into profitability for the industry. The primary factor preventing carriers from reaping the rewards has been the cost of fuel. At the global level, the industry continues to be dragged down by oil prices that have not only remained at historically unheard of levels, but have climbed well past the predictions of most analysts.

Looking ahead, the tough time will be hard for the industry to shake off. What all carriers are hoping for is lower fuel prices, which have gone as high as US\$ 70 a barrel. Over the past 10 years the average barrel price was US\$ 21. Analysts predict that oil prices will eventually range between US\$ 40 to 60 but there will only be small progress on fuel prices in 2006. Traffic will continue to move ahead with the growth in world economy but fares will rise only slightly.

While the volatility in the fuel prices continues to hurt the industry, strong traffic demand worldwide provides an opportunity to counter this by tapping growth through improved service level, competitiveness and enhanced cost efficiency. Undaunted and steadfastly focused, PIA's strategy will not be inward looking or retrogressive; instead, it will be decisively directed towards exploiting this opportunity offered in the industry to those who have the will to grasp it. Specifically, this strategy will reflect

- 1- Fleet renewal by replacing cost prohibitive, aging aircraft with fuel efficient new aircraft.

- 2- Higher utilization of available aircraft capacity.
- 3- Expansion so as to dilute fixed costs and improve margins.
- 4- Proactive marketing to capture market share.
- 5- Enhanced service levels to attract passengers specially high yield segment.
- 6- Cost containment by re-engineering processes in operational areas and by enforcing discipline in non operational areas.

For and on behalf of the Board

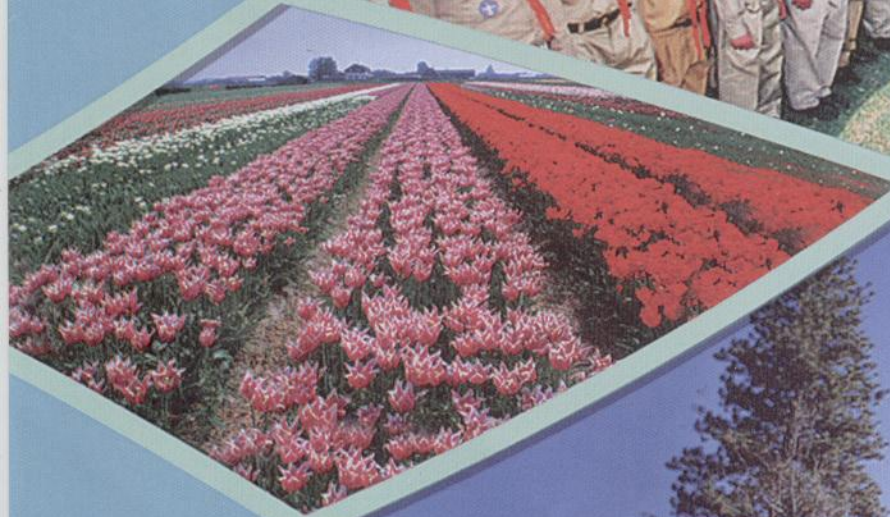
Tariq Kirmani
Chairman & CEO
April 03, 2006

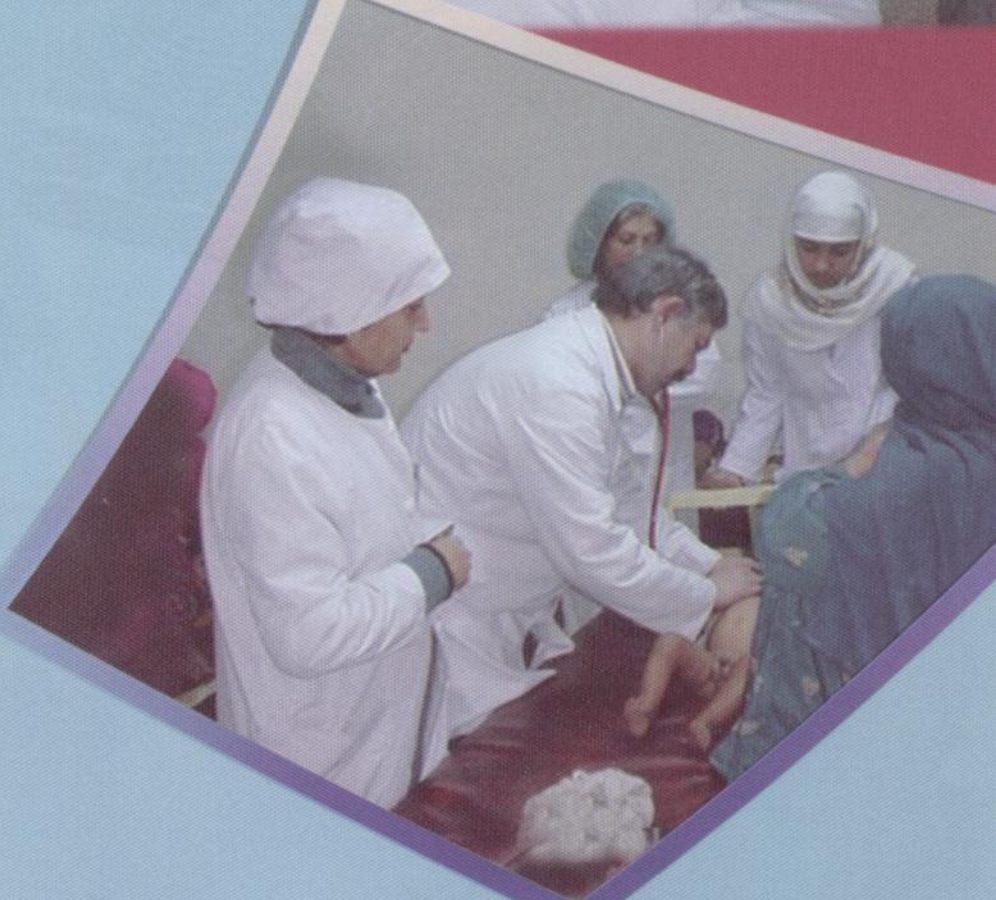
Corporate Social Responsibility

Our Airline. Our Community.



Social Services





Medical Services



Training and Educational Services

Sports



ATTENDANCE OF DIRECTORS AT BOARD MEETINGS

During the Financial Year 2005, eight (8) Meetings of the Board of Directors were held and the number of Meetings attended by each Director is given hereunder:

S. No.	Name of Board Member	Meetings Held	Meetings Attended
1.	Mr. Ahmad Saeed* Chairman	2	2
2.	Mr. Tariq Kirmani ** Chairman & Chief Executive	6	6
3.	Mr. Nawid Ahsan Secretary General Finance	8	3
4.	Maj. General (Retd) Muhammad Ashraf Chaudhry Additional Secretary - I, MOD	8	6
5.	Air Marshal (Retd) Parvez Akhtar Nawaz Director General, Civil Aviation Authority	8	4
6.	Mr. Asad Ali Khan	8	6
7.	Mr. M.H.K. Khaishgi	8	7
8.	Syed Mohammad Fazal Agha	8	6
9.	Mr. Javed Saifullah Khan	8	5
10.	Dr. Sughra Junejo	8	6
11.	Mr. S. Ali Raza	8	6
12.	Mr. Kamal Afsar	8	6

*Relinquished the post of Chairman on April 16, 2005.

**Assumed charge as Chairman & Chief Executive with effect from April 19, 2005.

ATTENDANCE OF DIRECTORS AT AUDIT COMMITTEE MEETINGS

During the Financial Year 2005, seven (7) Meetings of the Audit Committee were held and the number of Meetings attended by each Director is given hereunder:

S. No.	Name of Board Member	Meetings Held	Meetings Attended
1.	Mr. Asad Ali Khan Chairman	7	7
2.	Air Marshal (Retd) Parvez Akhtar Nawaz Director General, Civil Aviation Authority	4	1
3.	Maj. General (Retd) Muhammad Ashraf Chaudhry Additional Secretary - I, MOD	3	3
4.	Mr. Javed Saifullah Khan	7	3
5.	Dr. Sughra Junejo *	4	4
6.	Mr. Kamal Afsar	3	1
7.	Mr. S. Ali Raza	7	3

*Air Marshal (Retd) Parvez Akhtar Nawaz and Dr. Sughra Junejo relinquished as Members of the Audit Committee on May 27, 2005 and were replaced by Maj.Gen.(Retd) Muhammad Ashraf Chaudhry and Mr. Kamal Afsar.

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

The adherence to the Corporate Governance provides comfort to the Board and the Corporation functionaries for all / any function(s) performed by it / them. Therefore, notwithstanding, the exemptions granted by the Securities and Exchange Commission of Pakistan, vide their letter No.EMD/ 233/ 472/ 2002-3790 dated 22nd December, 2004, from the applicability of inter-alia clauses(ii), (iii), (iv), (v), (vi), (viii)(a), (xxiii), (xxv) and clause (xxvi) of the Code, the Corporation during financial year 2005, being a listed Corporation on all three Stock Exchanges in Pakistan has complied with the Code set out in their Listing Regulations, in the following manner:

1. According to PIAC Act, 1956 the Board of Directors consists of Chairman and ten Directors. Chairman and eight Directors are nominated by the Federal Government and two Directors are elected by the shareholders other than the Federal Government. Presently all the Directors are non-executive except for the Chairman who is the Chief Executive of the Corporation and his terms and conditions are determined by the Government of Pakistan (GoP).
2. The nominated / elected Directors are not serving on more than ten listed companies, inclusive of the Corporation.
3. The nominated / elected Directors are registered tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or being a member of a Stock Exchange, has been declared as defaulter by that Stock Exchange.
4. No casual vacancy occurred in the Board during financial year 2005.
5. The Corporation has developed a 'Statement of Ethics and Business Practices' and the statement has been signed by majority of directors and employees of the Corporation and is in the process of obtaining signatures by remaining directors and employees of the Corporation.
6. The Board has developed a Vision, Mission and Values Statements, overall corporate strategy and significant policies of the Corporation. A complete record of particulars of significant policies along with the dates on which these were approved or amended is available with relevant departments.
7. The Corporation will file a Secretarial Compliance Certificate and the requirement(s) of filing of annual return will be met within the permissible period after the Annual General Meeting of the shareholders.
8. The nominated / elected directors in addition to declaration of fidelity and secrecy as required under Section 19 of PIAC Act, 1956 have given their consent to act as Directors and are aware of their duties and powers under PIAC Act, 1956; PIAC Rules & Regulations, 1958; and Listing Regulations of the Stock Exchanges.
9. The Corporation files periodic financial statements (quarterly, half yearly and annual) to Securities & Exchange Commission of Pakistan (SECP) as required by the Companies Ordinance, 1984 and Listing Regulations and all material transactions are reported accordingly through these statements and circulation through print & electronic media. Further, such information was reported in the press and electronic media. The Corporation intends to establish appropriate controls to communicate all material transactions to SECP and Stock Exchanges.
10. The Board exercised all powers and took decisions in the general direction and the administration of the Corporation and its affairs inclusive of material transactions in accordance with the PIAC Act, 1956 and PIAC Rules and Regulations, 1958.
11. The Meetings of the Board held during financial year 2005 were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with the agenda and working papers were circulated; the minutes of the meetings were appropriately recorded and signed by the Chairman.

12. The Corporation had arranged an orientation course for its Directors to apprise them of their duties and responsibilities.
13. The Board had approved the appointments of Secretary-PIAC and Chief Internal Auditor, including their remuneration and terms and conditions of employment, as determined by the Chairman. The appointment of Chief Financial Officer is still under process, however, SVP (Finance) remained in attendance in Board Meetings held in financial year 2005.
14. The Directors' report for financial year 2005 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
15. The financial statements of the Corporation were duly endorsed by the Chairman and SVP (Finance), before approval of the Board.
16. The information regarding the extent of shareholdings of Chairman / Chief Executive Officer, Directors and SVPs and their interest in the shares of the Corporation have been included in the pattern of shareholding as on December 31, 2005. The Corporation will continue seeking a declaration for any subsequent changes in the shareholdings of these categories.
17. The Corporation has complied with all the Corporate and Financial reporting requirements of the Code.
18. The Board has constituted an Audit Committee comprising five non-executive directors including the Chairman of the Committee.
19. The meetings of the Audit Committee were held to review quarterly, half-yearly and annual financial statements of the Corporation prior to its approval by the Board, as per requirement of the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
20. The Corporation has an Internal Audit Division which carries out on a continuing basis audit of various Head Office / stations functions. The internal audit function is also supplemented by outsourcing certain internal audit activities to an independent firm of Chartered Accountants.
21. The statutory auditors of the Corporation have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), and that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Corporation and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) Guidelines with code of ethics as adopted by ICAP.
22. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Tariq Kirmani
Chairman & Chief Executive

April 03, 2006

AUDITORS' REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

Ford Rhodes Sidat Hyder & Co.

Chartered Accountants
6th Floor, Progressive Plaza
Beaumont Road
Karachi

Anjum Asim Shahid Rahman

Chartered Accountants
1st Floor, Modern Motors House
Beaumont Road
Karachi

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the code) prepared by the Board of Directors of **Pakistan International Airlines Corporation** to comply with the Listing Regulations No. 37 (Chapter XI), No. 43 (Chapter XIII) and No. 36 (Chapter XI) of the Karachi, Lahore and Islamabad Stock Exchanges respectively where the Corporation is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Corporation. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Corporation's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Corporation personnel and review of various documents prepared by the Corporation to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Corporation's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Corporation for the year ended December 31, 2005.

Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

Anjum Asim Shahid Rahman

Chartered Accountants

Karachi: April 03, 2006

SIX-YEAR SUMMARY

	2005	2004	2003	2002	2001	2000
OPERATION						
Route Kilometers	343,525	354,664	290,129	257,858	265,643	317,213
Revenue Kilometers Flown (000)	82,550	80,087	68,851	61,921	70,958	76,212
Revenue Hours Flown	134,039	130,977	115,017	105,553	121,860	134,066
Available Tonne Kilometers (000)	3,102,805	2,973,437	2,475,904	2,242,157	2,540,547	2,631,392
Available Seat Kilometers (000)	20,816,469	20,353,863	17,259,080	15,775,960	17,755,558	18,691,763
TRAFFIC						
Revenue Passengers Carried (000)	5,499	5,120	4,556	4,166	4,877	5,297
Revenue Passengers Kilometers (000)	14,506,683	13,519,847	12,009,419	10,779,496	11,652,295	12,055,619
Passenger Load Factor (%)	69.7	66.4	69.6	68.3	65.6	64.5
Revenue Freight Tonne Kilometers (000)	410,991	402,359	350,713	346,944	371,304	340,384
Kgs. of Excess Baggage & Cargo (000)	124,852	118,151	102,180	100,717	111,526	107,798
Kgs. of Mail (000)	1,433	1,649	1,771	1,586	1,914	1,930
Revenue Tonne Kilometers (000)	1,729,220	1,634,825	1,447,906	1,330,803	1,438,303	1,452,094
Revenue Load Factor (%)	55.7	55.0	58.5	59.3	56.6	55.2
Avg. Pax Stage Distance (Statute Kilometers)	2,638	2,641	2,636	2,587	2,389	2,276
FINANCIAL						
Operating Revenue (Rs. in million)	64,074.47	57,788.08	47,951.82	43,673.97	43,608.37	39,227.70
Operating Expenses (Rs. in million)	67,075.58	55,872.08	42,574.23	38,097.11	43,242.16	42,033.17
Operating Profit/(loss) (Rs. in million)	(3,001.11)	1,916.00	5,377.59	5,576.86	366.21	(2,805.47)
Profit/(loss) after tax (Rs. in million)	(4,411.66)	2,306.60	1,298.65	1,873.32	(2,205.53)	(5,155.28)
Fixed Assets (Rs. in million)	51,376.33	49,604.39	29,724.14	23,782.66	23,636.95	23,515.95
Current Assets (Rs. in million)	12,756.55	19,716.29	22,401.24	14,696.31	11,343.08	9,969.13
Current Liabilities (Rs. in million)	21,237.10	18,990.09	23,197.88	30,905.08	28,483.77	26,724.43
Long-Term Debts (Rs. in million)	38,099.18	42,517.85	22,033.73	8,921.13	10,760.99	6,755.79
Net Worth (Rs. in million)	10,446.30	13,441.19	6,673.50	569.99	(4,843.94)	(2,907.27)
Jet Fuel Prices (Rs. per US Gallon)	102.05	71.68	51.90	45.27	51.88	50.94
Cost per A. T. K. (Rs.)	21.62	18.79	17.19	16.99	17.02	15.97
RATIOS						
Earnings per share (Rs.)	(2.55)	1.76	1.57	4.10	(5.91)	(13.80)
Net assets per share (Rs.)	29.85	45.59	40.27	25.89	29.73	31.14
Debt equity ratio	4.15	3.52	4.72	20.83	(5.00)	6.00
Current ratio	0.60	1.04	0.97	0.48	0.40	0.40
SHARE PRICES (Rs. 10 Share)						
High	14.65	26.70	23.30	12.75	7.50	13.15
Low	6.50	9.90	7.30	2.95	2.45	5.00
Closing	12.30	13.70	20.55	11.70	2.85	5.00
PERSONNEL						
Average No. of Employees	19,263	19,634	18,570	16,689	17,170	17,663
Revenue per Employee (Rs.)	3,326,298	2,943,266	2,576,030	2,616,932	2,539,800	2,220,897
A. T. K. per Employee	161,076	151,443	133,328	134,349	147,964	148,978

PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 2005

NO. OF SHAREHOLDERS	SHAREHOLDING		TOTAL SHARES HELD	
	FROM	TO	ORDINARY 'A' CLASS SHARES OF Rs. 10/- EACH	ORDINARY 'B' CLASS SHARES OF Rs. 5/- EACH
11,949	1	100	619,161	13,101
35,015	101	500	11,437,567	9,635
6,123	501	1000	5,380,363	2,241
6,663	1001	5000	16,705,096	12,507
1,179	5001	10000	9,108,875	
370	10001	15000	4,722,835	
244	15001	20000	4,504,704	
175	20001	25000	4,201,089	
79	25001	30000	2,247,572	
40	30001	35000	1,318,494	
50	35001	40000	1,943,127	
35	40001	45000	1,520,360	
82	45001	50000	4,065,420	
22	50001	55000	1,169,421	
21	55001	60000	1,227,356	
7	60001	65000	444,496	
8	65001	70000	548,304	
15	70001	75000	1,113,000	
6	75001	80000	470,900	
1	80001	85000	83,000	
7	85001	90000	618,792	
6	90001	95000	564,692	
45	95001	100000	4,492,584	
7	100001	105000	721,061	
2	105001	110000	216,000	
5	110001	115000	560,997	
5	115001	120000	590,455	
10	120001	125000	1,240,746	
4	125001	130000	509,500	
3	130001	135000	395,500	
3	135001	140000	409,000	
4	140001	145000	569,300	
7	145001	150000	1,050,000	
1	150001	155000	150,275	
2	155001	160000	312,290	
3	160001	165000	489,500	
2	165001	170000	331,771	
2	170001	175000	345,712	
2	175001	180000	357,500	
2	185001	190000	376,687	
2	190001	195000	389,837	
9	195001	200000	1,793,560	
1	200001	205000	200,062	
2	205001	210000	412,000	
1	210001	215000	214,739	
3	220001	225000	670,078	
2	225001	230000	451,722	
4	230001	235000	930,693	
2	240001	245000	486,350	
7	245001	250000	1,745,752	
1	255001	260000	260,000	
1	260001	265000	265,000	
9	295001	300000	2,693,755	
2	300001	305000	608,000	
3	325001	330000	985,634	
1	350001	355000	351,500	
1	390001	395000	392,500	
4	395001	400000	1,596,530	
2	405001	410000	812,502	
1	410001	415000	413,000	
2	420001	425000	847,500	
1	435001	440000	438,500	
3	445001	450000	1,350,000	
1	465001	470000	468,996	
1	470001	475000	472,500	
1	480001	485000	485,000	
5	495001	500000	2,500,000	
1	510001	515000	513,483	
1	520001	525000	520,500	
1	530001	535000	532,000	
1	550001	555000	554,625	
2	565001	570000	1,135,763	
2	595001	600000	1,199,500	
1	630001	635000	630,067	
1	720001	725000	720,656	
1	745001	750000	750,000	
1	810001	815000	814,500	
1	820001	825000	825,000	
1	825001	830000	826,000	
1	845001	850000	850,000	
1	870001	875000	871,500	

NO. OF SHAREHOLDERS	SHAREHOLDING		TOTAL SHARES HELD	
	FROM	TO	ORDINARY 'A' CLASS SHARES OF Rs. 10/- EACH	ORDINARY 'B' CLASS SHARES OF Rs. 5/- EACH
1	930001	935000	933,000	
1	945001	950000	950,000	
4	995001	1000000	4,000,000	
1	1095001	1100000	1,100,000	
1	1130001	1135000	1,132,000	
1	1185001	1190000	1,188,000	
1	1285001	1290000	1,285,811	
1	1325001	1330000	1,329,500	
1	1405001	1410000	1,410,000	
1	1540001	1545000	1,545,000	
1	1635001	1640000	1,639,500	
1	1665001	1670000	1,667,821	
1	1680001	1685000	1,684,500	
1	1710001	1715000	1,714,927	
1	1750001	1755000	1,752,000	
1	1995001	2000000	2,000,000	
1	2050001	2055000	2,055,000	
1	2475001	2480000	2,477,500	
2	2495001	2500000	4,997,778	
1	3000001	3005000	3,003,500	
1	3240001	3245000	3,241,466	
1	4395001	4400000	4,400,000	
1	4830001	4835000	4,833,704	
1	5055001	5060000	5,056,000	
1	7100001	7105000	7,100,475	
1	10520001	10525000	10,525,000	
1	17015001	17020000	17,018,247	
1	1587160001	1587165000	1,587,162,324	1,462,515
<u>62,326</u>			<u>1,797,315,859</u>	<u>1,499,999</u>

CATEGORIES OF SHAREHOLDERS

CATEGORIES OF SHAREHOLDERS	NOS.	Number of Shares Held		
		Ordinary 'A' Class Shares of Rs. 10/- Each	Ordinary 'B' Class Shares of Rs. 5/- Each	Percentage
Associated Companies, undertakings related parties	-	-	-	-
NIT and ICP				
National Investment Trust	1	759,000	-	0.04
NBP Trustee Department	1	4,833,704	-	0.27
Investment Corporation of Pakistan	1	11,484	1,003	-
Directors, CEO and their spouse and minor children				
Syed Ali Raza , Member PIA Board	1	1,100	-	-
Mr. Kamal Afsar , Member PIA Board	1	136	-	-
Executives	26	3,930	-	-
Public Sector Companies and Corporations	-	-	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds	76	41,044,709	2,633	2.28
Shareholder holding 10% or more voting interest				
Secretary - Ministry of Defence, Government of Pakistan	1	1,587,162,324	1,462,515	88.31
Individuals	61,991	128,463,461	33,536	7.15
Others	227	35,036,011	312	1.95
Total	62,326	1,797,315,859	1,499,999	100.00

The above two statements include 10,664 shareholders holding 175,264,129 "A" Class Ordinary Shares and 2,405 "B" Class Ordinary Shares through The Central Depository Company of Pakistan Limited (CDC).

AUDITORS' REPORT TO THE MEMBERS

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants
6th Floor, Progressive Plaza
Beaumont Road
Karachi

Anjum Asim Shahid Rahman
Chartered Accountants
1st Floor, Modern Motors House
Beaumont Road
Karachi

We have audited the annexed balance sheet of Pakistan International Airlines Corporation as at December 31, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that except for the matters referred to in paragraph (a) below, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Corporation's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

Except for the matter referred to in paragraph (a) below, we conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) due to lack of adequate audit trail to support the carrying value of inventories at moving average costs as a result of problems with the inventory management system, we could not verify the valuation of capital spares and consumable stores and spares with carrying value of Rs. 3,282 million and Rs. 2,157 million respectively and we consider that there were no alternative procedures that we could apply to confirm the valuation of such inventories;
- b) in our opinion, except for the effect of matters stated in paragraph (a) above, proper books of account have been kept by the Corporation as required by the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984;
- c) in our opinion:
 - i) except for the effect of the matter stated in paragraph (a) above, the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Corporation's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Corporation;

Balance Sheet As at December 31, 2005

- d) except for the effect on the financial statements of the matter stated in paragraph (a), if any, in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Pakistan International Airlines Corporation Act, 1956 and the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Corporation's affairs as at December 31, 2005 and of the loss, its cash flows and changes in equity for the year then ended; and
- e) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980. Without further qualifying our opinion, we draw attention to the following uncertainties:
 - i) note 26.1(a) to the financial statements, explaining the difference between the amount due as per the Corporation's records and amounts claimed by Civil Aviation Authority for which a reconciliation and settlement exercise is in progress through Ministry of Defence.
 - ii) note 6.1.4, which states that subsequent to the balance sheet date on February 16, 2006 the Corporation has acquired shares of the other shareholder thereby increasing its shareholding in PIA Investments Limited (PIAIL) to 99%. The Corporation expects to realise its advances together with accumulated interest thereon booked till December 31, 2005 of Rs. 4,674 million by disposal of the properties of PIAIL in the ensuing year;

the proceeds from the disposal of properties of PIAIL stated above together with efforts undertaken by the management to revamp its business operations mitigate the conditions mentioned in note 1.2 relating to the Corporation's current liabilities exceeding its current assets by Rs. 8,481 million and loss for the current year of Rs. 4,412 million. These financial statements have therefore been prepared on a going concern basis for the aforesaid reasons.

Previous year's financial statements were audited by Ford Rhodes Sidat Hyder & Co. and Taseer Hadi Khalid & Co. whose report dated April 4, 2005 expressed a qualified opinion due to valuation of capital spares and consumable stores and spares and recognition of interest due on working capital advance and renovation loan given to PIAIL. Further, the auditors had also included emphasis of matter paragraphs in respect of Civil Aviation Authority's disputed claim and payment of interim dividend.

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Anjum Asim Shahid Rahman
Chartered Accountants

Karachi: April 03, 2006

Balance Sheet As at December 31, 2005

	Note	2005 (Rupees in thousand)	2004 (Rupees in thousand)	2005 (US\$ in thousand)
NON CURRENT ASSETS				
Fixed assets				
Property, plant and equipment	3	51,263,914	49,530,139	856,540
Intangibles	4	112,421	74,254	1,878
		51,376,335	49,604,393	858,418
Long term investments	5	323,705	334,295	5,409
Long term advances and other receivable	6	6,635,933	7,196,914	110,876
Long term deposits and prepayments	7	1,804,977	1,754,854	30,158
		60,140,950	58,890,456	1,004,861
CURRENT ASSETS				
Stores and spares	8	2,790,137	2,416,290	46,619
Trade debts	9	5,222,534	3,997,758	87,260
Advances	10	513,917	679,771	8,587
Trade deposits and prepayments	11	581,175	549,454	9,711
Accrued interest		39,708	36,063	663
Other receivables	12	481,449	612,447	8,044
Short term investments	13	363,855	440,446	6,079
Taxation - advance tax net of provision		149,087	214,990	2,491
Cash and bank balances	14	2,614,691	10,838,898	43,687
		12,756,553	19,786,117	213,141
		72,897,503	78,676,573	1,218,002
SHARE CAPITAL AND RESERVES				
Share capital	15	17,980,659	16,529,926	300,429
Reserves	16	4,280,712	4,280,712	71,524
Unrealized (loss)/gain on remeasurement of investments - net		(15,107)	18,863	(253)
Accumulated loss		(11,799,966)	(7,388,309)	(197,159)
		10,446,298	13,441,192	174,541
NON CURRENT LIABILITIES				
Long term finance under mark-up arrangements	17	1,621,099	2,431,659	27,086
Term finance certificates	18	14,003,940	14,760,910	233,984
Liabilities against assets subject to finance lease	19	21,706,064	23,724,678	362,674
Long term murabaha finance	20	768,075	1,600,608	12,833
Long term deposits	21	290,236	328,155	4,849
Deferred liabilities	22	2,824,690	3,399,282	47,196
		41,214,104	46,245,292	688,622
CURRENT LIABILITIES				
Trade and other payables	23	14,983,921	13,654,457	250,358
Accrued interest/mark-up	24	607,769	540,570	10,155
Short term borrowing	25	362,075	-	6,050
Current portion of:				
Long term finance under mark-up arrangements	17	1,621,103	1,621,110	27,086
Term finance certificates	18	756,970	378,635	12,648
Liabilities against assets subject to finance lease	19	2,067,363	1,960,217	34,542
Long term murabaha finance	20	837,900	835,100	14,000
		21,237,101	18,990,089	354,839
CONTINGENCIES AND COMMITMENTS				
	26	72,897,503	78,676,573	1,218,002

The annexed notes 1 to 43 form an integral part of these financial statements.

Tariq Kirmani
 Chairman & Chief Executive

Asad Ali Khan
 Director

Profit and Loss Account For the year ended December 31, 2005

			2005	2004	2005
	(Rupees in thousand)	(US\$ in thousand)	(Rupees in thousand)	(US\$ in thousand)	(US\$ in thousand)
Turnover - net			64,074,470	57,769,837	1,070,584
Cost of services					
Aircraft fuel			(26,462,721)	(17,913,327)	(442,151)
Others			(32,478,115)	(31,141,447)	(542,659)
			(58,940,836)	(49,054,774)	(984,810)
Gross profit			5,133,634	8,715,063	85,774
Other operating income			1,241,669	3,162,830	20,746
Marketing and distribution costs			(3,809,169)	(2,965,342)	(63,645)
Administrative expenses			(4,325,576)	(3,851,970)	(72,273)
			(6,893,076)	(3,654,482)	(115,172)
(Loss)/profit from operations			(1,759,442)	5,060,581	(29,398)
Finance cost			(2,787,399)	(2,199,067)	(46,573)
Other provisions and adjustments - net			33,605	(2,024,211)	561
			(2,753,794)	(4,223,278)	(46,012)
(Loss)/profit before tax			(4,513,236)	837,303	(75,410)
Taxation			101,579	1,469,295	1,697
(Loss)/profit for the year			(4,411,657)	2,306,598	(73,713)
(Loss)/earnings per share					
'A' class ordinary shares (Rs./US\$)			(2.55)	1.76	(0.04)
'B' class ordinary shares (Rs./US\$)			(1.28)	0.88	(0.02)

The annexed notes 1 to 43 form an integral part of these financial statements.

Cash Flow Statement For the year ended December 31, 2005

		2005	2004	2005
	Note	(Rupees in thousand)		(US\$ in thousand)
Cash flows from operating activities				
Cash generated from operations	36	1,728,239	6,913,032	28,877
Profit on bank deposits received		185,197	270,864	3,094
Deferred custom duty paid		(323,350)	424,543	(5,403)
Finance cost paid		(2,720,200)	(2,221,300)	(45,450)
Taxes paid		(272,760)	(247,303)	(4,557)
Dividend paid		(5,255)	(570,486)	(88)
Staff retirement benefits paid		(332,320)	(399,827)	(5,553)
Compensated absences paid		(80,000)	-	(1,337)
Long term deposits - net		(88,042)	(1,430,414)	(1,471)
Net cash (used in)/inflow from operating activities		(1,908,491)	2,739,109	(31,888)
Cash flows from investing activities				
Fixed capital expenditure		(5,895,913)	(2,077,382)	(98,511)
Proceeds from sale of fixed assets		790,685	254,463	13,211
Investments		53,211	(42,695)	889
Received from associated undertaking		902,896	1,239,344	15,086
Long term advances and other receivable		(49,000)	46,887	(819)
Net cash used in investing activities		(4,198,121)	(579,383)	(70,144)
Cash flows from financing activities				
Proceeds from issue of share capital		1,450,733	5,015,100	24,239
Repayment of long term finance under mark-up arrangements		(810,567)	(939,376)	(13,543)
Redemption of term finance certificates		(378,635)	(304)	(6,326)
Repayment of obligations under finance lease		(1,911,468)	(4,017,221)	(31,938)
Repayment of long term murabaha finance		(829,733)	(718,305)	(13,864)
Payment of obligations under hire purchase		-	(685,438)	-
Repayment of short term borrowing		-	(65,000)	-
Net cash used in financing activities		(2,479,670)	(1,410,544)	(41,432)
(Decrease)/increase in cash and cash equivalents		(8,586,282)	749,182	(143,464)
Cash and cash equivalents at the beginning of the year		10,838,898	10,089,716	181,101
Cash and cash equivalents at the end of the year		2,252,616	10,838,898	37,637
CASH AND CASH EQUIVALENTS				
Cash and bank balances	14	2,614,691	10,838,898	43,687
Short term borrowing	25	(362,075)	-	(6,050)
		2,252,616	10,838,898	37,637

The annexed notes 1 to 43 form an integral part of these financial statements.

Tariq Kirmani
Chairman & Chief Executive

Asad Ali Khan
Director

Statement of Changes in Equity For the year ended December 31, 2005

	Share capital	Capital reserve	Revenue reserve	Unrealized (loss)/gain on re-measurement of investments	Accumulated loss	Total
(Rupees in thousand)						
Balance as at December 31, 2003	11,514,826	2,501,038	1,779,674	(2,876)	(9,119,166)	6,673,496
Issue of share capital 'A' class ordinary shares	5,015,100	-	-	-	-	5,015,100
Unrealized gain on re-measurement of investments	-	-	-	39,455	-	39,455
Tax effect on unrealized gain on re-measurement of investments	-	-	-	(17,716)	-	(17,716)
				21,739		21,739
Profit for the year	-	-	-	-	2,306,598	2,306,598
Interim dividend 'A' class ordinary shares @ Re. 0.50 per share	-	-	-	-	(575,366)	(575,366)
'B' class ordinary shares @ Re. 0.25 per share	-	-	-	-	(375)	(375)
Balance as at December 31, 2004	16,529,926	2,501,038	1,779,674	18,863	(7,388,309)	13,441,192
Issue of share capital 'A' class ordinary shares	1,450,733	-	-	-	-	1,450,733
Unrealized loss on re-measurement of investments	-	-	-	(52,261)	-	(52,261)
Tax effect on unrealized loss on re-measurement of investments	-	-	-	18,291	-	18,291
				(33,970)		(33,970)
Loss for the year	-	-	-	-	(4,411,657)	(4,411,657)
Balance as at December 31, 2005	17,980,659	2,501,038	1,779,674	(15,107)	(11,799,966)	10,446,298

The annexed notes 1 to 43 form an integral part of these financial statements.

Tariq Kirmani
Chairman & Chief Executive

Asad Ali Khan
Director

Notes to the Financial Statements

For the year ended December 31, 2005

I STATUS AND ACTIVITY

- 1.1 Pakistan International Airlines Corporation (the Corporation) was incorporated in Pakistan on April 18, 1956 under the Pakistan International Airlines Corporation Act, 1956 (PIAC Act) and its shares are quoted on all Stock Exchanges of Pakistan. The registered office is situated at Karachi Airport. Principal activity of the Corporation is to provide air transport services. Other activities of the Corporation include provision of engineering and other allied services.
- 1.2 During the year the Corporation has incurred a net loss of Rs. 4,412 million, which is primarily due to increase in international fuel prices, resulting in an accumulated loss of Rs. 11,800 million as of the balance sheet date. The fuel cost for the year amounted to Rs. 26,463 million (2004: Rs. 17,913 million). Further, as of that date the current liabilities of the Corporation exceeded its current assets by Rs. 8,481 million. The management has initiated corrective measures to improve operating results of the Corporation. As also explained in note 6.1, the Corporation intends to dispose off the properties of its associated company PIA Investments Limited (PIAIL) and realise its advances and accumulated interest thereon booked till December 31, 2005 thereby considerably improving its cash flow position. Also, historically support of the Government of Pakistan (GoP) is available to the Corporation as GoP has already issued guarantees to secure certain long term finances and Term Finance Certificates (TFCs) of the Corporation. The GoP had agreed to provide equity contribution to the Corporation equivalent to accumulated loss of the Corporation as at December 31, 2000, to cover interest/profit payments on long term finances and TFCs. As part of the financial package, an amount of Rs. 5,430 million (2004: 3,979 million) has been provided to the Corporation upto December 31, 2005 against which 543,009,081 (2004: 397,935,878) 'A' class ordinary shares of Rs. 10 each were issued to GoP up to that date. Hence, the Corporation expects continued financial support of GoP in future as well. In view of the above, the Corporation has prepared these financial statements on a going concern basis.

In addition GoP had approved a fleet replacement plan. Accordingly, the Corporation has entered into an agreement for purchase of eight new Boeing 777 aircraft. GoP had provided funding of US\$ 150 million - Rs. 8,816 million (2004: US\$ 150 million- Rs. 8,816 million) in the form of equity and guarantees for acquisition of the said aircraft up to December 31, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements are prepared in accordance with the requirements of the PIAC Act, relevant provisions of the Companies Ordinance, 1984 and approved accounting standards as applicable in Pakistan except for certain requirements of International Accounting Standard (IAS) - 27 "Consolidated and Separate Financial Statement" as described in note 2.4. Approved accounting standards comprise such IASs as notified under the provisions of the Companies Ordinance, 1984. Where the requirements of the PIAC Act, the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the PIAC Act, the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except the following:

- Corporation's aircraft fleet is stated at revalued amounts less accumulated depreciation referred to in notes 3.1.1 and 3.1.2; and
- Available for sale investments are stated at fair values in accordance with requirements of IAS - 39 "Financial Instruments: Recognition and Measurement" referred to in notes 5.3.1 and 13.

2.3 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Corporation's accounting policies. The Corporation makes estimates and assumptions concerning the future. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- Provision for taxes and deferred taxation
- Provision for slow moving stores and spares
- Estimates made for revaluation/impairment of property, plant and equipment
- Provision for staff retirement benefits
- Unearned and earned revenue

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

2.4 Consolidation

The consolidated financial statements for the year ended December 31, 2005 have not been prepared as required by IAS - 27 "Consolidated and Separate Financial Statements" and section 237 of the Companies Ordinance, 1984 in view of the exemption granted by the SECP vide their letter No. EMD/233/472/2002-8226 dated February 17, 2006.

2.5 Property, plant and equipment

2.5.1 Operating fixed assets and depreciation

Owned

Leasehold land is stated at cost. Aircraft fleet are stated at revalued amounts less accumulated depreciation. Other fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated on straight-line method to write-off the cost or revalued amount of assets, less their residual values, over their expected useful lives. Remaining useful lives of significant assets and their residual values are reviewed periodically and changes in estimates arising from such review is accounted for in current and future years. The rates of depreciation are stated in note 3.1.

For assets other than aircraft fleet, full year's depreciation is charged on additions during first six months whereas six months' depreciation is charged on additions during the second half of the year. No depreciation is charged on assets and spares disposed off during the year. Proportionate depreciation on aircraft fleet is charged from the date of acquisition.

Repairs and maintenance costs are charged to income as and when incurred. Major renewals and improvements are capitalised.

Gains and losses on disposal of fixed assets are dealt through profit and loss account.

Change in accounting estimate

During the year, the Corporation has reviewed the residual values of its fixed assets in order to comply with requirement of IAS - 16 "Property, Plant and Equipment". Depreciation on fixed assets is now charged after taking 20% residual value of assets which was not considered previously. Had the Corporation not changed the accounting estimate, net loss for the year would have been increased by Rs. 416.93 million and the depreciation charge for the year would have been increased by the same amount.

Leased

The assets under finance lease are recorded at an amount equal to fair value of the leased assets at inception of the lease or, if lower, at the present value of minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease or incremental borrowing rate of the Corporation, where appropriate.

Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on outstanding liability.

Depreciation is charged to income applying the straight-line method on a basis similar to owned assets. The fair value of aircraft signifies cost less manufacturers' credits, if any.

2.5.2 Capital work-in-progress

These are stated at cost less impairment, if any. The assets are transferred to operating fixed assets when they are available for use.

2.6 Impairment

The carrying amount of the Corporation's assets is reviewed at each balance sheet date to determine whether there is any objective evidence that an asset or group of assets may be impaired. If any such evidence exists, the asset or group of assets' recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account immediately.

2.7 Intangibles

Costs that are directly associated with identifiable software products controlled by the Corporation and have probable economic benefit beyond one year are recognized as intangible assets.

Intangible assets are stated at cost less accumulated amortization. Intangible assets are amortized on a straight line basis over their estimated useful lives as specified in note 4.

2.8 Investments

Subsidiaries and associates

Investments in subsidiaries and associates are carried at cost less impairment, if any.

Available for sale

All of the Corporation's investments other than fixed maturity investments and investments in subsidiaries and associates are classified as available for sale as the Corporation has no investments for the purpose of generating a profit from short term fluctuations in prices or dealer's margin. All investments classified as available for sale are initially recognized at cost inclusive of transaction costs and are subsequently marked to market using period end bid prices from stock exchange quotations and quotations from brokers and in case of unquoted investments, at break up value, less impairment. Any resultant gain / loss is recognized directly in equity until the investment is de-recognised. Any impairment loss including that had been recognized directly in equity is removed from equity and recognized in profit and loss account for the year.

Held to maturity

Financial assets with fixed or determinable payments and fixed maturity for which the Corporation has ability to hold them till maturity are classified as held to maturity investments. These instruments are initially recognized in the balance sheet at cost and subsequently measured at amortized cost using effective interest rate method. All financial assets categorized under held to maturity are subject to annual review for impairment.

2.9 Stores and spares

Capital spares

Rotable and repairable stores are treated as operating fixed assets and are depreciated based on the average useful remaining life of the related aircraft. The average rate is stated in note 3.1.

Other stores and spares

These are valued at lower of cost and net realisable value except goods-in-transit, which are valued at cost. Cost is determined as follows:

- Fuel and medical inventories first-in-first-out basis
- Other stores and spares moving average cost

Net realisable value signifies the estimated selling price in the ordinary course of business less cost of completion and cost necessary to be incurred in order to make the sale.

2.10 Trade debts and other receivables

These are stated net of provision for impairment, if any. Provision is made against the debts considered doubtful.

2.11 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks and short term placements readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents also include bank overdrafts/short term borrowings that are repayable on demand and form an integral part of the Corporation's cash management.

2.12 Trade and other payables

Trade and other payables are stated at their costs, which is fair value of consideration received.

2.13 Financial instruments

Financial assets and financial liabilities are recognised at the time when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised at the time when the Corporation loses control of the contractual rights that comprise the financial assets. Financial liabilities are de-recognised at the time when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to the profit and loss account currently.

2.14 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet if the Corporation has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.15 Equity instruments

Equity instruments issued by the Corporation are stated at their face value.

2.16 Taxation

Current taxation

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any, or one half percent of turnover, whichever is higher.

Deferred taxation

Deferred tax is provided using the liability method, providing for all temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilised. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefits will be realised.

2.17 Revenue recognition

Passenger and cargo revenue

Passenger and cargo sales are recognized as revenue when the transportation is provided. The value of unutilized tickets and airway bills is shown as an advance against transportation. However, in view of the limitation of the Corporation's revenue accounting system, the value of unutilized tickets and air way bills is not provided by the system and is determined by the management on the basis of estimated number of days delay between the sale of ticket/air way bills and actual travel/lift.

Engineering and other services

Revenue of engineering and other services is recognized when services are rendered and invoices raised.

Interest/mark-up and dividend income

■ The Corporation recognizes interest income/mark-up on short term bank deposits and interest bearing advances on time proportion basis.

- Interest on held to maturity investments are recognized on time proportion basis so as to provide a constant periodic rate of return.
- Dividend income is recognized, when the right to receive dividend is established.

2.18 Interest bearing borrowings and borrowing costs

Interest bearing loans are recorded at the amount of proceeds received.

The Corporation recognizes the borrowing costs as an expense in the period in which these costs are incurred.

2.19 Provision for obligations

A provision is recognized in the balance sheet when the Corporation has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

2.20 Foreign currency translation

Monetary assets and liabilities at the year end are translated at the rates of exchange prevailing at the balance sheet date.

Foreign currency transactions are translated into Pakistani Rupees at the last week of the preceding month's average rate of exchange. All gains/losses on monetary items are dealt with in the profit and loss account.

2.21 Employees' benefits

Provident Fund

The Corporation operates a defined contribution provident fund scheme for all its permanent employees. Equal monthly contributions are made to the Fund by the Corporation and the employees in accordance with the Fund's Rules.

Pension Funds

The Corporation operates a funded defined benefit pension scheme for all its permanent employees. Pension scheme is a final salary pension scheme and is invested through three funds for both cockpit and non-cockpit employees namely PALPA, FENA and Employees' Pension Funds. Contributions are made to the scheme on the basis of actuarial valuation that is carried out every year. Actuarial gains and losses are recognized immediately

Post retirement medical benefits

The Corporation operates an unfunded defined benefit medical scheme and provides medical allowances and free hospitalization benefits to all its retired employees and their spouses in accordance with their service regulations. The post retirement medical benefit is accounted for on the basis of actuarial valuation that is carried out every year. Actuarial gains and losses are recognized immediately.

Actuarial valuation of pension funds and post retirement medical benefit scheme was carried out at December 31, 2005. The valuation has been carried out using projected unit credit method and the following significant financial assumptions have been used:

	2005	2004
Discount rate	10.8% p.a.	9.46% p.a.
Expected long term rate of increase in salary level	8.7% p.a.	7.38% p.a.
Expected rate of increase in pension cost	2.6% p.a.	1.35% p.a.
Expected rate of medical cost trend	5.5% p.a.	4.25% p.a.
Expected rate of return on investment	10.8% p.a.	9.46% p.a.

Compensated absences

The Corporation accounts for all accumulated compensated absences when the employees render service that increases their entitlement to future compensated absences based on actuarial valuation.

Actuarial valuation of liability for compensated absences has been carried out at December 31, 2005. The valuation has been carried out using projected unit credit method and the following assumptions have been used:

	2005	2004
Discount rate	9.46% p.a.	9.46% p.a.
Level of increase in salary	7.38% p.a.	7.38% p.a.
Utilisation of leaves	As leave prior to retirement	

2.22 Transfer pricing and related parties

Related parties include the Corporation's subsidiaries, associates, directors and the companies under common directorship, key management personnel and employees' benefit funds. GoP despite being the major shareholder is not treated as a related party. Transactions between the Corporation and its related parties other than the interest on advances to PIAIL are carried out on arm's length basis at prices determined under "Comparable Uncontrolled Price Method". Interest rates on PIAIL advances are as per agreement with the PIAIL. This arrangement was decided prior to the promulgation of law and rules on transfer pricing. The related party transactions are disclosed in note 40.

3. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets (note 3.1)
Capital work-in-progress (note 3.2)

2005	2004
41,024,467	43,676,363
10,239,447	3,853,776
51,263,914	49,530,139

(Rupees in thousand)

3.1 Operating fixed assets

	COST / REVALUED AMOUNT				DEPRECIATION				Net book value at December 31, 2005	Annual depreciation rate %
	January 1, 2005	Additions/ (disposals)	Transfers/ Adjustment	December 31, 2005	January 1, 2005	For the year/ (on disposals)	Transfers / Adjustment / Revaluation ^a	December 31, 2005		
(Rupees in thousand)										
Owned										
Leasehold land	67,828	-	-	67,824	-	-	-	-	67,824	-
		(4)	-							
Buildings on leasehold land	769,498	140,268	-	909,766	280,904	23,762	-	304,666	605,100	2.5
Workshops and hangars	799,290	2,974	-	802,264	667,529	14,926	-	682,455	119,809	5
Renovation and improvements	402,103	46,271	-	448,374	349,558	33,433	-	382,991	65,383	20
Aircraft fleet (note 3.1.1, 3.1.2 & 3.1.3)	29,952,223	71,220 (5,577,643)	-	24,445,800	19,993,150	1,578,337 (5,448,346)	(1,728,870) ^b	14,394,271	10,051,529	3.85-4.55
Operating ground equipment, catering communication and meteorological equipment	426,769	98,900 (12,925)	-	512,744	350,225	22,459 (12,925)	-	359,759	152,985	10
Engineering equipment and tools	956,961	32,227 (129)	-	989,059	806,858	28,925 (114)	-	835,669	153,390	10-20
Traffic equipment	1,430,318	170,229 (6,331)	-	1,594,216	1,153,800	72,496 (6,314)	(92,045)	1,127,937	466,279	10-20
Furniture, fixture and fitting	585,233	23,097 (2,411)	-	605,919	500,472	18,027 (2,075)	-	516,424	89,495	10
Motor transport	201,258	19,197 (115,230)	96,268	201,493	186,625	13,203 (55,300)	37,307 (16,325)	165,510	35,983	25
Office equipment	73,044	3,508 (180)	-	76,372	60,742	3,445 (180)	-	64,007	12,365	15
Computer and office automation	1,107,089	54,432 (505)	-	1,159,456	777,234	96,300 (505)	-	873,029	286,427	10-20
Precision engineering equipment	815,671	4,360	-	820,031	759,575	23,466	-	783,041	36,990	10
Printing press equipment	11,599	3,440	-	15,039	11,598	344	-	11,942	3,097	20
Reservation equipment	12,619	-	-	12,619	12,618	-	-	12,618	1	10
Other equipment	402,711	3,842 (28,041)	-	378,512	381,819	4,134 (28,032)	-	357,921	20,591	10
Capital spares (note 3.1.4)	5,421,106	615,925 (46,264)	136,298	6,127,065	2,609,541	587,512 (46,264)	(305,864)	2,844,925	3,262,140	3.85-4.55
	43,435,320	1,289,890 (5,789,663)	232,566 (1,560)	39,166,553	28,902,248	2,520,769 (5,600,055)	37,307 (414,234) (1,728,870) ^b	23,717,165	15,449,388	
Leased										
Aircraft fleet (note 3.1.1, 3.1.2 & 3.1.3)	30,254,454	-	-	30,254,454	1,309,445	1,619,147	-	4,794,370	25,460,084	4.55
							1,865,778 ^a			
Vehicles - MT	222,155	14,102	(96,268)	139,989	99,742	32,676	(37,307) (2,691)	92,420	47,569	25
Vehicles - TGS	84,430	-	-	84,430	8,561	8,443	-	17,004	67,426	10-20
	30,561,039	14,102	(96,268)	30,478,873	1,417,748	1,660,266	(37,307) (2,691)	4,903,794	25,575,079	
							1,865,778 ^a			
Total	73,996,359	1,303,992 (5,789,663)	136,298 (1,560)	69,645,426	30,319,996	4,181,035 (5,600,055)	- (416,925) 136,908 ^a	28,620,959	41,024,467	

	COST / REVALUED AMOUNT				DEPRECIATION				Net book value at December 31, 2004	Annual depreciation rate %
	January 1, 2004	Additions/ (Disposals)	Transfers/ Adjustment ^a	December 31, 2004	January 1, 2004	For the year/ (on disposal)	Transfers / Adjustment ^a	December 31, 2004		
Owned	(Rupees in thousand)									
Leasehold land	65,548	2,282 (2)	-	67,828	-	-	-	-	67,828	-
Buildings on leasehold land	722,209	54,297 (7,008)	-	769,498	264,269	19,139 (2,504)	-	280,904	488,594	2.5
Workshops and hangars	792,902	6,388	-	799,290	652,002	15,527	-	667,529	131,761	5
Renovation and improvements	375,202	26,901	-	402,103	324,952	24,606	-	349,558	52,545	20
Aircraft fleet	19,437,136	- (1,048,753)	13,199,192 (1,635,352) ^b	29,952,223 ^a	15,208,903	1,635,114 (986,438)	3,683,561 (452,010) ^a	19,993,150	9,959,073	3.85-4.55
Operating ground equipment, catering communication and meteorological equipment	401,473	29,340 (3,179)	- (865) ^a	426,769	340,514	12,866 (2,290)	- (865) ^a	350,225	76,544	10
Engineering equipment & tools	816,392	141,069 (500)	-	956,961	779,380	27,978 (500)	-	806,858	150,103	10-20
Traffic equipment	1,281,411	81,901 (26,617)	97,224 (3,601) ^a	1,430,318	1,107,921	68,564 (26,568)	7,484 (3,601) ^a	1,153,800	276,518	10-20
Furniture, fixture and fitting	566,052	23,983 (4,336)	- (466) ^a	585,233	486,888	17,211 (3,161)	- (466) ^a	500,472	84,761	10
Motor transport	233,702	14,277 (49,382)	2,661 -	201,258	226,063	6,213 (49,263)	3,612 -	186,625	14,633	25
Office equipment	66,986	6,406 -	- (348) ^a	73,044	57,665	3,425 -	- (348) ^a	60,742	12,302	15
Computer and office automation	980,749	126,340	-	1,107,089	670,657	106,577	-	777,234	329,855	10-20
Precision engineering equipment	640,314	357 -	- 175,000 ^b	815,671	613,356	23,719 -	- 122,500 ^a	759,575	56,096	10
Printing press equipment	11,599	-	-	11,599	11,598	-	-	11,598	1	20
Reservation equipment	12,619	-	-	12,619	12,618	-	-	12,618	1	10
Other equipment	398,410	4,301	-	402,711	364,307	17,512	-	381,819	20,892	10
Capital spares	4,263,744	2,066,158 (157,126)	- (751,670) ^b	5,421,106	2,710,657	807,680 (157,126)	- (751,670) ^b	2,609,541	2,811,565	3.85-4.55
	31,066,448	2,584,000 (1,296,903)	13,299,077 (2,217,302) ^b	43,435,320	23,831,750	2,786,131 (1,227,850)	3,694,657 (182,440) ^a	28,902,248	14,533,072	
Hire purchase										
Aircraft fleet	5,956,772	-	(5,956,772)	-	3,547,187	136,374	(3,683,561)	-	-	7.8
Leased										
Aircraft fleet	8,566,284	28,058,973	(7,437,353) 1,066,550 ^a	30,254,454	650,884	1,303,240	(644,679)	1,309,445	28,945,009	4.55
Vehicles - MT	197,249	37,730 (10,163)	(2,661)	222,155	58,151	50,315 (5,112)	(3,612)	99,742	122,413	25
Vehicles - TGS	151,348	30,307	(97,225)	84,430	10,250	5,795	(7,484)	8,561	75,869	10-20
	14,871,653	28,127,010 (10,163)	(13,494,011) 1,066,550 ^a	30,561,039	4,266,472	1,495,724 (5,112)	(4,339,336)	1,417,748	29,143,291	
Total	45,938,101	30,711,010 (1,307,066)	(194,934) (1,150,752) ^a	73,996,359	28,098,222	4,281,855 (1,232,962)	(644,679) (182,440) ^a	30,319,996	43,676,363	

- 3.1.1 During the year, aircraft fleet of the Corporation was valued by an independent valuer Airclaims Limited - UK on the basis of professional assessment of current market values as of December 31, 2005. Current market value represents the value that an aircraft could best achieve under today's open market conditions and, therefore, takes into account a thorough review of recent market activity and known transactions involving the subject aircraft covering new sales, new orders, the limited open market and financial activity that has occurred to date. It additionally considers the perceived demand for the type, its availability in the market and further takes account of the expressed views of informed industry sources. The appraisal has taken into account the age, specification, accrued hours and cycles of the aircraft and produced a Current Market Half-Life Values (CMHLV). Half Life or mid-time assumes the airframe, engine, gears and all major components are half way between major overhauls. CMHLV has been then adjusted to account for the maintenance status of the aircraft in accordance with the information supplied. The determination of such values involves a multiplicity of variables and some variation in perceived value must be expected. In this case, the appraiser considers that a tolerance of +/- 5% may reasonably apply to the calculated market value.
- 3.1.2 As a result of valuation made by the appraiser an amount of Rs. 136.91 million representing deficit on revaluation of aircraft fleet has been charged in these financial statements. However, in connection with this analysis, the valuer did not physically inspect any of the aircraft and has relied on the information provided by the Corporation.
- 3.1.3 Airclaims Limited - UK reviewed the useful lives of the aircraft and these have been estimated as follows:

	BOEING			AIRBUS
	737 - 300	747-200	777-200ER	A310-300
	Years			
Airframes	30	25	25	25
Engines	35	30	25	30
Other component	30	25	25	25

Further, according to the fleet replacement plan, the Corporation intends to retire certain aircraft from the years 2006 to 2026. Accordingly, the Corporation has taken the useful lives of its aircraft and related equipment based on lower of its fleet replacement plan and useful life considered by appraiser as stated in note 3.1.1 above.

- 3.1.4 The Corporation has carried out physical verification of floating capital spares in 2004. However, the differences identified as a result of physical verification have not been accounted for in these financial statements due to certain limitation in existing inventory management system and absence of adequate documentation to support the values of floating capital spares identified during physical count.
- 3.1.5 Had there been no revaluation, the written down value of the revalued assets in the balance sheet would have been as follows:

	Cost at	Accumulated Depreciation	Book value at
	(Rupees in thousand)		
Aircraft fleet - 2005	52,243,279	12,911,023	39,332,256
- 2004	55,128,468	11,281,967	43,846,501

- 3.1.6 Depreciation charge for the year has been allocated as under:

	2005	2004
	(Rupees in thousand)	
Cost of services (note 28)	3,621,290	4,188,728
Marketing and distribution costs (note 30)	44,234	40,581
Administrative expenses (note 31)	98,586	52,547
	<u>3,764,110</u>	<u>4,281,856</u>

3.1.7 Following fixed assets were disposed off during the year:

Description	Sold to	Method of disposal	(Rupees in thousand)			
			Cost	Accumulated depreciation	Net book value	Sale/Insurance proceeds
Leasehold land	Mr. Manzoor Hussain (Rawalpindi)	Through auction	4	-	4	14,901
Aircraft fleet						
Six A300	M N G (Turkey)	Through negotiation	3,435,205	3,305,908	129,297	603,351
B747-200 AP-AYW	Evergreen Aircraft (USA)	Through negotiation	1,038,818	1,038,818	-	55,269
B747-200 AP-BCL	Orange Air Services Limited (Jordan)	Through negotiation	1,046,811	1,046,811	-	26,922
F-27 AP-BCT	-	Written off	56,809	56,809	-	-
Motor vehicles						
To employees						
Toyota Corolla (AJG-265)	Mr. Salman Javed Ex-SVP	As per Corporation's policy	969	-	969	-
Toyota Corolla (GA-8751)	Mr. Ahsan Siddique Ex-SVP	As per Corporation's policy	939	587	352	-
Honda City (GA-4738)	Mr. Latif Siddique Ex-GM	As per Corporation's policy	735	551	184	-
Honda City (GA-8928)	Mr. S. Aftab Azeem Ex-GM	As per Corporation's policy	735	551	184	-
Honda City (GA-8550)	Mr. Nazeer Akhund Ex-GM	As per Corporation's policy	735	551	184	-
Honda City (GA-8728)	Mr. Iqbal Zafar Malik Ex-GM	As per Corporation's policy	735	551	184	439
Honda City (GA-8486)	Mr. Azeem Zafar Ex-GM	As per Corporation's policy	735	551	184	2
Honda City (GA-4762)	Mr. Salahuddin Ex-GM	As per Corporation's policy	735	551	184	2
To others						
Toyota Corolla (AJN-190)	National Insurance Corporation	Insurance claim	969	-	969	969
Various vehicles *	Airport Limousine Services	Through negotiation	89,950	33,413	56,537	72,500
Aggregate value of items where WDV is less than Rs. 50,000	Various	-	114,779	114,403	376	16,330
Total			5,789,663	5,600,055	189,608	790,685
			1,307,066	1,232,962	74,104	254,463

*This includes 70 vans, having WDV above Rs. 50,000. In view of large number of vehicles, the management considers it impracticable to disclose the particulars of all vehicles sold to Airport Limousine Services.

Sale of fixed assets is made through disposal committee in accordance with the prescribed procedures.

3.2 Capital work-in-progress

	2005	2004
	(Rupees in thousand)	
Buildings	27,244	18,863
Other equipment	86,653	61,801
Renovation and improvements	80,135	28,661
Non-refundable advance against purchase of aircraft and other equipments	10,119,877	16,906,651
Advance against revenue accounting package	-	694
	10,313,909	17,016,670
Less: Transfer to operating fixed assets	68,038	11,131,364
Charged off/adjustment	6,424	31,530
	74,462	11,162,894
	10,239,447	5,853,776

4. INTANGIBLES

Computer softwares

Cost		
Opening	111,228	99,336
Additions	71,513	11,892
Closing	182,741	111,228
Less: Accumulated amortization		
Opening	36,974	32,298
Charge for the year	33,346	4,676
Closing	70,320	36,974
Net book value	112,421	74,254
Useful life	5 - 10 years	5 - 10 years

5. LONG TERM INVESTMENTS

		2005		2004	
		(Rupees in thousand)			
Investments in related parties					
Subsidiaries (note 5.1)		214,567		214,567	
Associated companies (note 5.2)		109,138		119,728	
Other investments (note 5.3)		323,705		334,295	
		323,705		334,295	
		(Rupees in thousand)			
		Break-up value		Percentage of shareholding	
		2005	2004		
		(Rupees in thousand)			
5.1	Subsidiaries				
	Unquoted- at cost				
	Sky Rooms (Private) Limited	(26,147)	(29,310)	100	40,000
	4,000,000 shares of Rs. 10 each				40,000
	Midway House (Private) Limited (under winding-up) 2,960,000 shares of Rs. 10 each	(134,565)	(130,893)	100	28,520
					68,520
					68,520
	Less: provision for diminution in value of investments				-
5.1.1	All the subsidiaries are incorporated in Pakistan. Audited financial statements of the above subsidiaries for the year ended December 31, 2005 are not available accordingly break-up values as at December 31, 2004 have been used.				
5.2	Associated companies				
	Unquoted - at cost				
	PIA Investments Limited (PIAIL) - British Virgin Islands	2,181,798	2,415,004	50.00	99,000
	400,000 shares of DH 100 each				114,902
	Advance against shares pending allotment				213,902
	Minhal Incorporated - Sharjah	112,373	107,829	40.00	396
	1,600 shares of DH 100 each				396
	Duty Free Shops (Private) Limited - Pakistan	-	-	26.95	269
	87,512 shares of Rs 100 each				214,567
5.2.1	Audited financial statements for the year ended December 31, 2005 are not available and accordingly break-up value as at December 31, 2004 have been used.				
5.3	Other investments				
	Available for sale (note 5.3.1)	31,224		27,930	
	Held to maturity (note 5.3.2)	77,914		91,798	
		109,138		119,728	
5.3.1	Available-for-sale				
	Quoted				
	Pakistan Services Limited (172,913 shares of Rs.10 each) (Market value Rs.180 each)	31,124		27,830	
	Unquoted				
	Pakistan Tourism Development Corporation Limited (10,000 shares of Rs. 10 each)	100		100	
		31,224		27,930	
5.3.2	Held to maturity				
	Promissory notes issued by the Nigerian Government	77,914		91,798	

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 seized by the Nigerian Government at the time of coup and civil war in Nigeria. These notes and interest thereon are redeemable in fixed quarterly instalments of US\$ 58,676 and US\$ 26,325 respectively during the period starting from April 5, 1990 to January 5, 2010.

6. LONG TERM ADVANCES AND OTHER RECEIVABLE

		2005	2004
		(Rupees in thousand)	
	Long term advances (note 6.1)	4,674,933	5,284,914
	Other receivable (note 6.2)	1,961,000	1,912,000
		6,635,933	7,196,914
6.1	Long term advance -- unsecured		
	Subsidiaries - considered doubtful		
	Sky Rooms (Private) Limited	37,042	37,042
	Midway House (Private) Limited	82,476	82,476
	Less: provision for doubtful advances	119,518	119,518
		119,518	119,518
	Associated company - considered good		
	PIAIL		
	Advance for working capital requirements (note 6.1.2 & 6.1.4)	936,760	1,852,240
	Accumulated interest on advance for working capital requirements (note 6.1.2 & 6.1.4)	2,890,637	2,669,090
	Accumulated interest on loan for renovation of a Hotel (note 6.1.3 & 6.1.4)	847,536	763,584
		4,674,933	5,284,914
		4,674,933	5,284,914
6.1.1	These advances do not have a fixed repayment schedule. Maximum aggregate amount due from the subsidiaries and an associated company at any month end was Rs. 119.52 million and Rs. 4,674.93 million (2004: Rs. 119.52 million and Rs. 5,284.91 million) respectively.		
6.1.2	These advances were disbursed to PIAIL for working capital requirements. These advances carry interest at the rate of 5% per annum.		
6.1.3	This represents accumulated interest on loan disbursed to PIAIL at the rate of 10% per annum for renovation of Roosevelt Hotel - New York owned by PIAIL. The loan to which this interest relates was paid back on October 13, 2000.		
6.1.4	The amounts due from PIAIL are considered good and the management of the Corporation believes that it has become evident that these amounts will now be recovered as subsequent to the balance sheet date, the Corporation has acquired shares of the other shareholder thereby increasing its holding in PIAIL to 99%. The management is now actively pursuing the sale of assets owned by PIAIL. In view of evidence available with the Corporation there are strong indications that the sale proceed of assets of PIAIL would be sufficient so as to enable PIAIL to settle all outstanding debts including those payable to the Corporation. Further, in view of expected balance of proceed of assets of PIAIL after settling all outstanding debts, the Corporation believes that the carrying value of its investment in PIAIL (including the amount of US\$ 67.75 million paid subsequent to December 31, 2005) represents its recoverable amount.		
6.2	Other receivable - pension funds		
	Asset recognized in the balance sheet		
	Present value of defined benefit obligation	8,930,000	8,998,000
	Less: fair value of plan assets	10,891,000	10,910,000
		1,961,000	1,912,000
	Expense recognized in profit and loss account		
	Current service cost	241,000	252,000
	Interest cost	807,000	693,000
	Settlement cost	17,000	-
	Expected return on plan assets	(993,000)	(851,000)
	Actuarial (gain)/loss recognized - net	(23,000)	24,000
		49,000	118,000
	Movement in asset during the year		
	Balance at the beginning of the year	1,912,000	1,931,000
	Charge for the year	(49,000)	(118,000)
	Payments made during the year	98,000	99,000
	Balance at the end of the year	1,961,000	1,912,000
	Actual return on plan assets	827,000	558,000

The fair value of plan assets includes securities of Rs. nil (2004: Rs. 9.3 million) of other funds and investments in the Corporation's shares amounting to Rs. 7 million (2004: Rs. 7.77 million).

Number of employees covered by the scheme as on December 31, 2005 was 12,725 (2004: 14,125).

7. LONG TERM DEPOSITS AND PREPAYMENTS

	2005	2004
	(Rupees in thousand)	
Deposits		
Aircraft fleet lease deposit	854,203	759,010
Aircraft fuel	6,444	4,894
Engine maintenance	226,205	220,705
Rent	33,871	36,587
Utilities	10,419	10,300
Guarantee deposit	2,923	3,170
Others	65,098	44,351
	1,199,163	1,079,017
Prepayments		
Exposure fee on Ex-Im Bank supported financing (note 7.1)	675,837	745,669
Less: current portion (note 11.1)	70,023	69,832
	605,814	675,837
	1,804,977	1,754,854

- 7.1 This represents the payment made by the Corporation to Ex-Im Bank in consideration of 12 years guarantee issued by Ex-Im Bank for leasing arrangement. Accordingly, this exposure fee is being amortized over the period of lease term i.e. 12 years.

8. STORES AND SPARES

Stores (note 8.2 & 8.3)	659,612	735,827
Spares (note 8.2, 8.3 & 8.4)	3,924,807	3,814,580
	4,584,419	4,550,407
Less: provision for slow moving stores and spares (note 8.1)	2,427,229	2,645,730
	2,157,190	1,904,677
Inventory held for disposal (note 8.5)		
Cost	1,253,852	1,241,491
Less: adjustment to write down surplus inventory to net realisable value	1,012,936	1,012,936
	240,916	228,555
Goods-in-transit	392,031	283,058
	2,790,137	2,416,290
8.1 Movement in provision is as follows:		
Balance at the beginning of the year	2,645,730	876,909
Reversal/provision made during the year (note 33)	(218,501)	1,768,821
Balance at the end of the year	2,427,229	2,645,730

- 8.2 The Corporation had undertaken revamping of its stores and spares and the exercise was completed during the year ended December 31, 2003. Following completion of revamping exercise, a programmed cyclic count of the stores and spares is now in practice. The cyclic count system has been designed in a manner whereby all the items shall be counted once in a year.
- 8.3 The provision against slow moving stores and spares is being made in a manner whereby the book value of stores and spares at the end of each year shall be charged to the profit and loss account as provision for slow moving stores and spares on a retrospective basis in a manner that the provision made shall be in proportion to the initially estimated average useful lives of the relevant category of the aircraft attained upto the balance sheet date. The useful lives of the aircraft were ascertained to be the lower of the useful lives stated in the valuation report of Airclaims Limited - UK and the useful lives according to the revised fleet replacement plan approved by the Board of Directors.
- 8.4 It includes inventory of nil (2004: Rs. 26.92 million) held with foreign third party for repairing and overhauling of aircraft engines.
- 8.5 This represents inventory held with foreign third party for sale in the open market.

9. TRADE DEBTS

	2005	2004
	(Rupees in thousand)	
Considered good	5,222,534	3,997,758
Considered doubtful	407,888	587,853
Less: provision for doubtful debts (note 9.1)	407,888	587,853
	-	-
	<u>5,222,534</u>	<u>3,997,758</u>
9.1 Movement in provision is as follows:		
Balance at the beginning of the year	587,853	743,853
Written off during the year	(13,612)	-
Reversal made during the year (note 33)	(166,353)	(156,000)
Balance at the end of the year	<u>407,888</u>	<u>587,853</u>
9.2 Trade debts include debts due from Government agencies, other airlines and International Air Transport Association's (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.		

10. ADVANCES

Considered good		
Related parties (note 10.2)		
Sky Rooms (Private) Limited - subsidiary	129,122	80,419
PIAIL - associated company	16,704	14,297
	<u>145,826</u>	<u>94,716</u>
Others		
Executives (note 10.3)	22,752	19,743
Employees	97,075	85,154
Suppliers	241,872	473,493
Others	6,392	6,665
	<u>368,091</u>	<u>585,055</u>
Considered doubtful	25,048	20,777
Less: provision for doubtful advances (note 10.1)	25,048	20,777
	-	-
	<u>513,917</u>	<u>679,771</u>
10.1 Movement in provision is as follows:		
Balance at the beginning of the year	20,777	20,777
Provision made during the year (note 33)	4,271	-
Balance at the end of the year	<u>25,048</u>	<u>20,777</u>
10.2 Maximum aggregate amount due from the subsidiary and an associated company at any month end was Rs. 129.12 million and Rs. 16.70 million (2004: Rs. 80.41 million and Rs. 14.30 million) respectively.		
10.3 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. 22.75 million (2004: Rs. 19.74 million).		

11. TRADE DEPOSITS AND PREPAYMENTS

Trade deposits	37,640	41,443
Prepayments (note 11.1)	543,535	508,011
	<u>581,175</u>	<u>549,454</u>
11.1 Prepayments		
Current portion of long term prepayment (note 7)	70,023	69,832
Insurance	66,602	84,039
Rent	10,652	4,060
Commission	348,495	316,860
Interest on leased aircraft	47,047	23,882
Others	716	9,338
	<u>543,535</u>	<u>508,011</u>

12. OTHER RECEIVABLES

	2005	2004
	(Rupees in thousand)	
Considered good		
Insurance and other claims	154,063	246,036
Excise duty [note 26.1 (b)]	100,000	100,000
Sales tax receivable	190,983	236,213
Others	36,403	30,198
	481,449	612,447
Considered doubtful	30,257	30,257
Less: provision for doubtful receivables	30,257	30,257
	481,449	612,447

13. SHORT TERM INVESTMENTS

Available for sale		
Quoted		
232,791 shares in France Telecom, France (Market value 20.99 euro each) (note 13.2)	351,073	425,336
Unquoted		
325,491 shares in SITA INC N.V. (note 13.3)	19,220	22,777
Less: provision for diminution in value of investment (note 13.1)	6,438	7,667
	12,782	15,110
	363,855	440,446
13.1 Movement in provision is as follows:		
Balance at the beginning of the year	7,667	8,207
Reversal made during the year	(1,229)	(540)
Balance at the end of the year	6,438	7,667
13.2 These shares are currently in the custody of Citibank N.A. London.		
13.3 These shares are held by SITA INC. N.V. on behalf of the Corporation and are transferable subject to certain specified conditions.		

14. CASH AND BANK BALANCES

With banks		
In current accounts		
Collection (note 14.1)	1,623,249	3,476,988
Overdrawn bank balances	(633,608)	(693,048)
	989,641	2,783,940
In short term deposit accounts	1,516,805	7,962,043
	2,506,446	10,745,983
In hand	8,035	15,088
In transit	100,210	77,827
	2,614,691	10,838,898

- 14.1 Includes Rs. 1.3 million (2004: Rs. 10.295 million) held in the Corporation's bank account with a Libyan bank which is not currently repatriable due to certain Foreign Government restrictions.

15. SHARE CAPITAL

2005		2004				2005		2004					
No. of shares										(Rupees in thousand)			
Authorized capital													
Ordinary share capital													
2,949,250,000	2,949,250,000	'A' class shares of Rs.10 each		29,492,500	29,492,500								
1,500,000	1,500,000	'B' class shares of Rs. 5 each		7,500	7,500								
2,950,750,000	2,950,750,000			29,500,000	29,500,000								
Preference share capital													
50,000,000	50,000,000	Preference shares of Rs. 10 each		500,000	500,000								
3,000,750,000	3,000,750,000			30,000,000	30,000,000								
Issued, subscribed and paid up share capital													
Ordinary share capital													
'A' class shares of Rs.10 each													
1,562,450,349	1,417,377,146	Issued for consideration in cash (note 15.1)		15,624,504	14,173,771								
931,028	931,028	Issued for consideration other than cash		9,310	9,310								
233,934,482	233,934,482	Issued as bonus shares		2,339,345	2,339,345								
1,797,315,859	1,652,242,656			17,973,159	16,522,426								
'B' class shares of Rs.5 each													
1,003,374	1,003,374	Issued for consideration in cash		5,017	5,017								
2,625	2,625	Issued for consideration other than cash		13	13								
494,000	494,000	Issued as bonus shares		2,470	2,470								
1,499,999	1,499,999			7,500	7,500								
				17,980,659	16,529,926								

- 15.1 Under the terms of financial package as stated in note 1.2, an amount of Rs. 1,451 million (2004: Rs. 1,449 million) has been received from GoP as equity contribution. Accordingly, 145,073,203 ordinary shares of Rs. 10 each (2004: 144,915,073 ordinary shares of Rs. 10 each) have been issued to GoP during the year.
- 15.2 At December 31, 2005 GoP held 1,587,162,325 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively (2004: 1,442,089,122 and 1,462,515 'A' class ordinary shares and 'B' class ordinary shares respectively).

16. RESERVES

Capital reserves			
Reserve for replacement of fixed assets (note 16.1)		1,966,779	1,966,779
Capital redemption reserve fund		250,000	250,000
Other		284,259	284,259
		2,501,038	2,501,038
Revenue reserve		1,779,674	1,779,674
		4,280,712	4,280,712

- 16.1 Upto June 1988, depreciation on fully depreciated aircraft was charged and credited to the reserve for replacement of fixed assets and excess of sale proceeds over cost of fixed assets disposed off was also credited to the aforesaid account. With effect from 1989-90, the Corporation changed this policy to comply with the IASs and the excess proceeds over cost of relevant assets are credited to the profit and loss account.

17. LONG TERM FINANCE UNDER MARK-UP ARRANGEMENTS - secured

Financier	Type of Facility	Limit (Rupees in	Repayment Period	Half Yearly Instalments	Mark-up %	2005	2004
						(Rupees in thousand)	
United Bank Limited & 17.2	Syndicate	1,045	2004-2006	6	6 months T-Bills + 2.5%*	348,327	696,667
Habib Bank Limited	Demand Finance	2,135	2004-2006	6	6 months T-Bills + 2.5%*	711,667	1,423,333
National Bank of Pakistan	Demand Finance	1,683	2004-2006	6	6 months T-Bills + 2.5%*	561,110	1,122,220
United Bank Limited & 17.6	Syndicate	1,650	2005-2009	10	6 months Kibor+0.79%	1,621,098	810,549
						3,242,202	4,052,769
Less: current portion						1,621,103	1,621,110
						<u>1,621,099</u>	<u>2,431,659</u>

* These carry mark-up rate which is higher of prevailing interest rate on T-Bills plus 2.5% and floor rate of 5%.

17.1 Following are the participating banks:

- 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

17.2 The finance is secured by way of hypothecation of stores and spares and book debts and lien on sale proceeds of Karachi and Lahore booking offices.

17.3 The finance is secured by first ranking pari passu charge by way of hypothecation of stores and spares and lien on sale proceeds of Peshawar, Islamabad and Rawalpindi booking offices.

17.4 The finance is secured by way of hypothecation of present and future stores and spares and book debts.

17.5 Following are the participating banks:

- United Bank Limited
- National Bank of Pakistan
- Habib Bank Limited

17.6 The finance is secured by way of hypothecation of capital spares and traffic equipment.

17.7 All the aforementioned charges are un-registered.

17.8 The above finances have been 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.

18. TERM FINANCE CERTIFICATES

TFCs - secured (non participatory)	14,760,910	15,139,545
Less: current portion	756,970	378,635
	<u>14,003,940</u>	<u>14,760,910</u>

- 18.1 During the year 2003 the Corporation, through private placement, issued 151,400 fully paid scrips of TFCs having a denomination of Rs. 100,000 each. The salient features of the TFCs are as follows:

Instalment payable	Semi - annually in arrears
Repayment period	2003-2011
Rate of profit	50 basis points 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%.

*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. In order to protect the interest of the TFC holders, United Bank Limited has been appointed as the Trustee under the trust deed. In case the Corporation defaults on any of its obligations, the Trustee may enforce the Corporation's obligations in accordance with the terms of the trust deed. The proceeds of any such enforcements shall be distributed to the TFC holders at that time on a pari passu basis in proportion to the amounts owed to them pursuant to the TFCs.

The TFCs have an embedded call option for early redemption exercisable by the Corporation at 24 and 48 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 on 0.25% of the outstanding amount at the time of the exercise of call option.

The above TFCs have been obtained as part of financial package of Rs. 20 billion approved by GoP and are secured against guarantees issued by GoP. An amount equal to mark up on TFCs is provided by GoP as its equity contribution.

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2005	2004
	(Rupees in thousand)	
Present value of future rental obligations - aircraft fleet		
A310 (note 19.2)	5,782,248	6,167,690
B777 (note 19.3)	17,852,601	19,283,807
	23,634,849	25,451,497
Present value of future rental obligations - vehicles (MT, TGS) (note 19.4)	138,578	233,398
	23,773,427	25,684,895
Less: current portion	2,067,363	1,960,217
	21,706,064	23,724,678

- 19.1 The amount of future payments and the year in which they will become due are:

	2005			2004		
	Payment	Interest	Principal	Payment	Interest	Principal
	(Rupees in thousand)					
Less than one year	2,553,748	486,385	2,067,363	2,520,664	560,447	1,960,217
Between one and five years	10,552,925	1,485,890	9,067,035	11,382,168	2,556,911	8,825,257
Over five years	13,077,091	438,062	12,639,029	16,472,912	1,573,491	14,899,421
	26,183,764	2,410,337	23,773,427	30,375,744	4,690,849	25,684,895

- 19.2 In 2003, the Corporation had entered into aircraft lease agreements with Airbus Leasing Inc. USA for six A310-300 aircraft. One of these was acquired in 2003 and the five remaining aircraft were acquired in 2004. The salient features of the lease are as follows:

Discount rate	5.2%	5.2%
Lease period	144 months	144 months
Security deposits (Rupees in thousand)	193,914	193,266

Bargain purchase option can be exercised at the end of the lease period. Fixed monthly maintenance payments are to be made by the Corporation to the lessor.

19.3 In 2004, the Corporation entered into an agreement for Ex-Im Bank supported financing for US\$ 345 million to acquire three Boeing 777-200 aircraft and spare engines, from Taxila Limited, a special purpose entity incorporated in Cayman Islands. The guaranteed lender of the financing is Citibank and Govco (an entity administered by Citibank). The salient features of the lease are as follows:

	2005	2004
Discount rate - aircraft and spare engines	4.65%	3 months LIBOR
Lease period - aircraft	3 months LIBOR	144 months
Lease period - spare engines	144 months	96 months
Security deposit (Rupees in thousand)	96 months	567,641
Bargain purchase option can be exercised at the end of the lease period.	567,641	565,744

19.4 The salient features of the lease are as follows:

Discount rate	7.71% to 13.89%	7.71% to 13.32%
Lease period	48 to 60 months	48 to 60 months
Security deposit (Rupees in thousand)	1,039	1,039
Bargain purchase option can be exercised at the end of the lease period.		

20. LONG TERM MURABAHA FINANCE - secured

Financier	Type and purpose of facility	Facility amount in million US Dollars	Repayment period	Instalment period	Mark-up %	2005	2004
						(Rupees in thousand)	
National Bank of Pakistan Habib Bank Limited, Bahrain United Bank Limited, UAE (facility agent)	Syndicated murabaha financing for purchase of six B747-300 aircraft and spares	70	2002-2007	Monthly	1-month LIBOR plus 2.70%	1,605,975	2,435,708
Less: current portion						837,900	835,100
						768,075	1,600,608

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 United Bank Limited 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 and spares. The aforementioned charges are un-registered.

21. LONG TERM DEPOSITS

Deposits from agents	109,000	107,500
Retention money	181,236	220,655
	290,236	328,155

22. DEFERRED LIABILITIES

Deferred taxation (note 22.1)	-	440,242
Deferred custom duties	249,690	573,040
Obligations for compensated absences (note 22.2)	1,364,000	1,461,000
Post retirement medical benefits (note 22.3)	1,211,000	925,000
	2,824,690	3,399,282

22.1 Deferred taxation

	2005	2004
	(Rupees in thousand)	
Deferred tax credits:		
Accelerated tax depreciation	9,236,381	9,069,346
Unrealized gain on re-measurement of investments	-	17,716
	9,236,381	9,087,062
Deferred tax debits:		
Unrealized loss on re-measurement of investments	(18,291)	-
Unused tax losses	(7,356,877)	(6,250,080)
Provisions for liabilities and to write down other assets	(2,333,238)	(2,396,740)
	(9,708,406)	(8,646,820)
	(472,025)	440,242

Deferred tax asset has not been recognized in these financial statements in accordance with the accounting policy stated in note 2.16.

22.2 Obligations for compensated absences

Liability recognized in the balance sheet		
Balance at beginning of the year	1,461,000	1,435,000
(Reversal)/charge for the year	(17,000)	26,000
	1,444,000	1,461,000
Less: payments made during the year	80,000	-
Balance at end of the year	1,364,000	1,461,000

22.3 Post retirement medical benefits

Liability recognized in the balance sheet		
Present value of defined benefit obligation	1,211,000	925,000
Expense recognized in profit and loss account		
Current service cost	20,000	17,000
Interest cost	85,000	60,000
Settlement cost	18,000	-
Net actuarial loss recognized	220,000	124,000
	343,000	201,000
Movement in liability during the year		
Balance at the beginning of the year	925,000	771,000
Charge for the year	343,000	201,000
Less: payments made during the year	57,000	47,000
Balance at the end of the year	1,211,000	925,000

Number of employees covered by the scheme as on December 31, 2005 was 12,725 (2004: 14,125).

23. TRADE AND OTHER PAYABLES

	2005	2004
	(Rupees in thousand)	
Trade creditors	2,305,947	1,673,024
Goods	1,459,791	1,146,691
Services	629,747	584,760
Airport related charges	4,395,485	3,404,475
	2,031,198	1,926,995
Accrued liabilities		
Advance against transportation (unearned revenue)		
Normal	4,686,980	4,168,174
Hajj	1,476,107	2,087,728
	6,163,087	6,255,902
Advance from customers	390,521	393,718
	91,052	114,095
Payable to employees' provident fund		
Unclaimed dividend	-	5,255
Ordinary shares	3,297	3,297
Preference shares	3,297	8,552
	785,719	582,148
Collection on behalf of others	777,045	741,009
Custom and central excise duty	47,225	33,505
Capital value tax	8,841	13,310
Stamp duties	34,532	49,482
Income tax deducted at source	100,000	-
Provision for construction of University Road, Karachi	137,229	111,735
Short term deposit	18,690	19,594
Liabilities acquired from subsidiaries - net (note 23.1)	14,983,921	13,654,457

23.1 The subsidiaries of Corporation, PIA Holdings (Private) Limited, PIA Shaver Poultry Breeding Farms (Private) Limited and PIA Hotels Limited, had applied under the 'Easy Exit Scheme' announced by the SECP for voluntary winding up. Assets and liabilities of these subsidiaries were taken over by the Corporation.

24. ACCRUED INTEREST/MARK-UP

Long term finance under mark-up arrangement	56,024	56,810
TFCs	511,255	441,328
Long term murabaha finance	5,979	7,921
Short term borrowing	34,511	34,511
	607,769	540,570

25. SHORT TERM BORROWING - secured

Short term running finance facility for US\$ 15 million was arranged from United Bank Limited - Dubai for one year repayable on demand. It carries interest at the rate of one month LIBOR + 2%. The facility is secured by way of first pari passu charge over present and future current assets of the Corporation valuing US\$ 20 million. The unutilised portion of the facility as at year end amounted to Rs. 535.66 million (2004: Rs. nil).

26. CONTINGENCIES AND COMMITMENTS

26.1 Contingencies

- a) Civil Aviation Authority (CAA), Pakistan has claimed additional amounts aggregating to Rs. 3,819 million (2004: Rs. 3,110 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.
- b) The Collector Central Excise had raised demand of Rs. 1,126 million (2004: Rs. 1,059 million) in respect of duties levied on tickets provided by the Corporation to its staff either free of charge or at concessional rates, repair/replacement of re-imported aircraft engines, non-availability of invoices, import related to miscellaneous consignments, printed material sent at its various stations abroad for utilization, late/short payment of sales tax and central excise duty and excess baggage tickets. On protest by the Collector Central Excise, the Corporation has already paid an amount of Rs. 100 million which is considered fully recoverable by the management. The Corporation has filed appeals with the Customs, Central Excise & Sales Tax Tribunal which are pending adjudication. Management is confident that the decision would be made in Corporation's favour. Consequently, no provision has been made in these financial statements.
- c) The Corporation is contesting litigations relating to suits filed against it on dispute over throughput charges aggregating to Rs. 125 million (2004: Rs. 92 million) against which it has filed appeals with the High Court of Sindh, Karachi and District Court which are pending. The management is of the view that ultimate outcome would be in favour of the Corporation. Accordingly, no provision in this respect has been made in these financial statements.
- d) The Corporation is contesting several litigations mainly relating to suits filed against it for unlawful termination of contracts, breach of contractual rights and obligations, non-performance of servicing stipulations due to negligence or otherwise. The Corporation's management is of the view that these cases have no sound legal footing and it does not expect these contingencies to materialize. Accordingly no provision has been made in these financial statements against these claims amounting to Rs. 1,392 million (2004: Rs. 1,104 million).
- e) Various ex-employees of the Corporation have lodged claims against the Corporation for their dues specifically relating to their re-instatements. However, the liability that may arise in these cases cannot be determined and consequently, no provision has been made in these financial statements.
- f) Contingencies relating to income tax matters are referred in note 34.2.
- g) Contingencies in respect of the tax matters relating to the Corporation's subsidiaries, PIA Holdings (Private) Limited and PIA Shaver Poultry Breeding Farms (Private) Limited amounted to Rs. 11.2 million (2004: Rs. 11.2 million).

26.2 Commitments

- a) Commitments for purchase of aircraft amounted to Rs. 60,613 million (2004: Rs. 59,945 million).
- b) Commitments for capital expenditure amounted to Rs. 1.1 million (2004: Rs. 13.34 million).
- c) Outstanding letters of credit amounted to Rs. 127 million (2004: Rs. 309 million).
- d) Outstanding letters of guarantee amounted to Rs. 145 million (2004: Rs. 184 million).
- e) Commitment in respect of construction of University Road, Karachi amounted to Rs. 200 million. (2004: nil).
- f) Rentals under operating lease commitments amounted to Rs. 758.89 million (2004: Rs. 670.32 million).

27. TURNOVER - net

	2005	2004
	(Rupees in thousand)	
Passenger	55,019,895	49,206,908
Cargo	4,914,588	4,554,098
Excess baggage	833,173	938,590
Charter	664,064	622,897
Engineering services	845,515	699,558
Handling and related services	635,034	517,030
Mail	302,785	267,404
Others	859,416	963,352
	64,074,470	57,769,837

28. COST OF SERVICES - others

Salaries, wages and allowances	5,352,545	5,359,743
Welfare and social security costs	46,229	68,641
Retirement benefits	299,569	366,730
Compensated absences	(8,030)	17,160
Mandatory retirement (note 31.4)	234,624	-
Legal and professional charges	9,105	5,492
Stores and spares consumed	2,409,663	3,131,219
Maintenance and overhaul	4,821,345	3,933,914
Flight equipment rental	2,530,872	1,493,764
Landing and handling	7,249,119	6,874,919
Passenger services	2,270,619	2,061,270
Crew layover	1,730,719	1,698,487
Staff training	80,784	117,202
Utilities	3,015	9,037
Communication	60,001	59,631
Insurance	1,240,655	1,295,663
Rent, rates and taxes	315,225	253,857
Printing and stationery	98,686	82,323
Amortization	3,061	421
Depreciation (note 3.1.6)	3,621,290	4,188,728
Others	109,019	123,246
	32,478,115	31,141,447

29. OTHER OPERATING INCOME

Interest income on advance to an associated company	292,915	2,771,594
Interest income on advance to pension and provident funds	10,445	9,641
Profit on bank deposits	188,842	143,105
Gain on disposal of fixed assets	601,077	212,458
Profit on takeover of subsidiaries assets and liabilities	-	7,791
Insurance claims	146,444	18,241
Gain on disposal of short term investments	1,946	-
	1,241,669	3,162,830

30. MARKETING AND DISTRIBUTION COSTS

	2005	2004
	(Rupees in thousand)	
Salaries, wages and allowances	1,321,765	1,255,628
Welfare and social security costs	155,829	134,590
Retirement benefits	111,918	76,933
Compensated absences	(3,122)	4,160
Mandatory retirement (note 31.4)	57,669	-
Distribution and advertising expenses	1,309,953	704,558
Legal and professional charges	16,467	21,117
Repairs and maintenance	41,299	43,561
Insurance	13,543	16,227
Printing and stationery	36,058	34,003
Communication	309,535	257,967
Staff training	35,448	32,107
Rent, rates and taxes	244,319	237,886
Utilities	23,037	22,581
Amortization	1,470	234
Depreciation (note 3.1.6)	44,234	40,581
Others	89,747	83,209
	3,809,169	2,965,342

31. ADMINISTRATIVE EXPENSES

Salaries, wages and allowances	1,456,059	1,497,302
Welfare and social security costs	594,861	548,476
Retirement benefits	206,832	110,164
Compensated absences	(5,848)	4,680
Mandatory retirement (note 31.4)	194,396	-
Legal and professional charges	203,226	263,050
Repairs and maintenance	142,112	146,275
Insurance	58,326	36,379
Printing and stationery	41,745	41,749
Staff training	39,807	42,590
Rent, rates and taxes	264,154	190,681
Utilities	350,661	327,467
Auditors' remuneration (note 31.1 and 31.2)	8,204	8,204
Communication	445,496	346,382
Amortization	28,815	4,021
Depreciation (note 3.1.6)	98,586	52,547
Donations (note 31.3)	14,954	5,379
Others	183,190	226,624
	4,325,576	3,851,970
31.1 Auditors' remuneration		
Audit fee	5,850	5,850
Fee for review of interim financial statements	1,754	1,754
Other certification	300	300
Out of pocket expenses	300	300
	8,204	8,204
31.2 Auditors' remuneration is shared equally by the two firms of auditors.		
31.3 Directors including Chairman/CEO and their spouses do not have any interest in the donee.		
31.4 The Corporation implemented a mandatory retirement scheme for certain category of employees, who have attained the age of 57 years and above. These employees are entitled to all the benefits as per Corporation's rules.		

32. FINANCE COST

	2005	2004
	(Rupees in thousand)	
Mark-up on long term finance under mark-up arrangements	312,918	231,573
Profit on TFCs	1,284,118	1,214,492
Interest on obligation under finance leases	947,187	484,870
Mark-up on long term murabaha finance	121,662	119,307
Mark-up on short-term borrowing	3,199	2,074
Interest to pension/provident funds	659	18,658
Interest on obligation under hire purchase	-	11,595
Arrangement, agency and commitment fee	80,163	81,856
Bank charges, guarantee commission and other related charges	37,493	34,642
	2,787,399	2,199,067

33. OTHER PROVISIONS AND ADJUSTMENTS - net

Reversal/(provision) for slow moving stores and spares (note 8.1)	218,501	(1,768,821)
Reversal of provision for doubtful debts (note 9.1)	166,353	156,000
Deficit on revaluation of aircraft fleet - net (note 3.1.2)	(136,908)	-
Provision for the construction of University Road, Karachi	(100,000)	-
Provision for doubtful advances (note 10.1)	(4,271)	-
Exchange loss - net	(110,070)	(957,194)
Reversal of liabilities no longer payable	-	493,289
Re-instatement of certain assets	-	52,515
	33,605	(2,024,211)

34. TAXATION

Current (note 34.1 & 34.2)	320,372	288,940
Prior	-	(698,465)
Deferred (note 22.1)	(421,951)	(1,059,770)
	(101,579)	(1,469,295)

- 34.1 Current
In view of available tax losses for the year, provision for minimum taxation has been made at 0.5% of turnover under section 113 of the Income Tax Ordinance, 2001.

No numeric tax rate reconciliation is given as the Corporation is liable for turnover tax.

- 34.2 Assessments of the Corporation have been finalized upto and including the assessment year 2002-2003. The Corporation has filed appeals before the Income Tax Appellate Tribunal (ITAT) for the assessment years 1991-1992, 1992-1993, and 1997-1998 to 2002-2003 in respect of which decision are still pending.

The department while finalising assessments, had made additions to income on account of long outstanding liabilities under Section 25(c) of the Income Tax Ordinance, 1979 of the repealed ordinance. The minimum tax liability under section 80D of the repealed ordinance has been assessed by the department upto the assessment year 2002-03 after adding 10% of net turnover on estimated basis. The Corporation had filed appeals against the above orders for the assessment years 1991-92, 1992-1993 and 1997-98 to 2002-2003 which are pending adjudication, while the appeals filed against the said enhancement of turnover for assessment years 1993-94 to 1996-97 have been set aside but appeal effect orders are pending. The Corporation has also made a representation to Secretary, Ministry of Law, GoP and to Chairman Central Board of Revenue Under Section 134A of Income Tax Ordinance 2001 by Alternate Dispute Resolution Committee for resolving the issue of addition made in net turnover by 10% on estimated basis for levy of minimum tax under section 80D of the repealed ordinance, whose decision will be considered as final.

Recently, the Corporation has received assessment order for the tax year 2003 and 2004 where assessments have been finalized without any addition in the loss declared in the returns and an amount of Rs. 326 million has become refundable from the department.

35. (LOSS)/EARNINGS PER SHARE

	2005	2004
	(Rupees in thousand)	
(Loss)/profit for the year (Rupees in thousand)	(4,411,657)	2,306,598
Weighted average number of ordinary shares outstanding	1,730,658,315	1,309,084,005
(Loss)/earnings per share		
'A' class ordinary share (Rupees)	(2.55)	1.76
'B' class ordinary share (Rupees)	(1.28)	0.88

35.1 Basic (loss)/earnings per share have no dilution effect.

36. CASH GENERATED FROM OPERATIONS

(Loss)/profit before tax	(4,513,236)	837,303
Adjustments for:		
Depreciation	3,764,110	4,281,855
Deficit on revaluation of aircraft fleet	136,908	-
Gain on disposal of fixed assets	(601,077)	(180,301)
Amortization	33,346	4,676
(Reversal)/provision for slow moving stores and spares	(218,501)	1,768,821
Reversal of provision for doubtful debts	(166,353)	(156,000)
Provision/(reversal) for doubtful advances	4,271	(91,605)
Deferred gain on sale and lease back transaction	-	(403,629)
Provision for the construction of University Road, Karachi	100,000	-
Provision for employees' benefits	601,319	579,827
Finance cost	2,787,399	2,199,067
Interest income on advances to an associated company	(292,915)	(2,771,594)
Profit on bank deposits	(188,842)	(143,105)
	1,446,429	5,925,315
Working capital changes		
(Increase)/decrease in stores and spares	(155,346)	510,223
Increase in trade debts	(1,058,423)	(427,591)
Decrease in advances	161,583	283,772
Increase in trade deposits and prepayments	(31,721)	(490,346)
Decrease in other receivables	130,998	96,724
Increase in trade and other payables	1,234,719	1,014,935
Cash generated from operations	281,810	987,717
	1,728,239	6,913,032

37. REMUNERATION OF CHAIRMAN/CEO AND EXECUTIVES

	2005	2004	2005	2004
	(Rupees in thousand)			
Managerial remuneration	4,615	-	86,624	105,288
Corporation's contribution to provident fund	223	-	4,608	6,303
Other perquisites	219	-	70,419	86,651
	5,057	-	161,651	198,242
Number	1	1	104	126

Directors other than Chairman/CEO are non-executive directors. Aggregate amount charged in the financial statements for fee to directors was Rs. 0.213 million (2004: Rs. nil). Chairman/CEO and certain executives are also provided with the Corporation maintained cars and facilities as per the Corporation's rules.

38. GEOGRAPHICAL SEGMENTS

	2005	2004
	(Rupees in thousand)	
Revenue analysis		
USA/Canada	6,755,682	5,757,857
Europe	14,543,885	12,947,554
Middle East/Africa	10,191,566	8,562,300
Asia (excluding Pakistan)	3,153,225	2,585,978
Pakistan	29,430,112	27,916,148
	64,074,470	57,769,837

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

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.

39. RISK MANAGEMENT

39.1 Credit risk exposure

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation minimizes the credit risk by diversifying business with IATA approved ARC, BSP, CASS agents and by obtaining bank guarantees from other agents.

39.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation manages its currency risk by effectively utilizing its foreign currency receipts to satisfy its foreign currency obligations.

39.3 Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Corporation manages its liquidity risk by maintaining sufficient cash and cash equivalents and through support of GoP to meet its liabilities when due through a financial package, whereby GoP has issued guarantees to secure long-term finances and TFCs. Further, GoP has agreed to provide equity contribution as mentioned in note 1.2.

39.4 Fuel price risk

Fuel price risk is the risk attributable to fluctuations in the international oil prices arising from external factors. The Corporation plans to manage this issue, to the extent possible by taking certain measures including hedging of fuel prices.

39.5 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair value.

39.6 Interest rate risk exposure

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation's exposure to interest rate risk and the effective rates on its financial assets and liabilities as of December 31, 2005 are summarized as follows:

	Interest bearing				Non-Interest bearing				Total
	Up to one Year	One year to five years	Five years and above	Sub Total	Up to one Year	One year to five years	Five years and above	Sub Total	
(Rupees in thousand)									
Financial Assets									
Investments	16,657	61,257	-	77,914	363,855	-	31,224	395,079	472,993
Advances and other receivables	-	6,635,933	-	6,635,933	336,272	-	-	336,272	972,205
Deposits	-	-	-	-	37,640	-	867,545	905,185	905,185
Trade debts	-	-	-	-	5,222,534	-	-	5,222,534	22,534
Accrued interest	-	-	-	-	39,708	-	-	39,708	39,708
Cash and bank balances	1,516,805	-	-	1,516,805	1,097,886	-	-	1,097,886	2,614,691
Total	1,533,462	6,697,190	-	8,230,652	7,097,895	-	898,769	7,996,664	16,227,316
2004	8,012,461	7,268,784	4,163	15,285,408	8,229,446	-	773,137	9,002,583	24,287,991
Financial Liabilities									
Finance under markup arrangement	1,621,103	1,621,099	-	3,242,202	-	-	-	-	3,242,202
Term finance certificates	756,970	11,859,192	2,144,748	14,760,910	-	-	-	-	14,760,910
Liabilities against assets subject to finance lease	2,067,363	9,067,035	12,639,029	23,773,427	-	-	-	-	23,773,427
Murabaha finance	837,900	768,075	-	1,605,975	-	-	-	-	1,605,975
Deposits	-	-	-	-	-	290,236	-	290,236	290,236
Deferred liabilities	-	2,575,000	-	2,575,000	-	-	-	-	2,575,000
Trade and other payables	-	-	-	-	6,776,951	-	-	6,776,951	6,776,951
Accrued interest/markup	-	-	-	-	607,769	-	-	607,769	607,769
Borrowing	362,075	-	-	362,075	-	-	-	-	362,075
Total	5,645,411	25,890,401	14,783,777	46,319,589	7,384,720	290,236	-	7,674,956	53,994,545
2004	5,335,631	25,473,686	17,044,169	47,853,486	6,381,937	1,130,260	-	7,512,197	55,365,683
On balance sheet gap - 2005	(4,111,949)	(19,193,211)	(14,783,777)	(38,088,937)	(286,825)	(290,236)	898,769	321,708	(37,767,229)
On balance sheet gap - 2004	2,676,830	(18,204,902)	(17,040,006)	(32,568,078)	1,847,509	(1,130,260)	773,137	1,490,386	(31,077,692)

Effective interest rates

Investments		5.20%
Advances	5.00%	& 10.00%
Deposits		5.71%
Cash and bank balances	1.00%	to 11.00%
Finance under markup arrangement	5.50%	to 10.60%
Term finance certificates	8.00%	to 9.50%
Murabaha finance	5.06%	to 6.77%
Liabilities against assets subject to finance lease	5.20%	to 10.00%
Markup/interest accrued on loans	6.00%	to 11.00%

40. 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 those not mentioned elsewhere in these financial statements are as follows:

	2005	2004
	(Rupees in thousand)	
Recovery of advances from PIAL	921,690	1,263,000
Interest on advances to PIAL	292,915	2,771,594
Catering services from Sky Rooms (Private) Limited	43,434	33,531
Advertising services from International Advertising (Private) Limited	-	38,439
Contribution to retirement funds	323,036	592,965
Interest on advance to retirement funds	10,445	9,641

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

41. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorized for issue in the Board of Directors meeting held on April 03, 2006.

42. COMPARATIVES

Prior year's figures have been rearranged where ever necessary for the purpose of comparison. Major reclassifications made during the year are as follows:

Components	Reclassification from	Reclassification to	Rupees in thousand
Advance against equity	Long term investments	Long term advances	110,116
Commission to agents	Trade debts	Trade deposits and prepayments	316,860
Accrued interest	Other receivables	Accrued interest (balance sheet)	36,063
Retention money	Other liability- airport related charges	Long term deposits	122,895

43. GENERAL

- 43.1 The information as to the available capacity and utilization thereof during the year has been disclosed in the statistics annexed to the financial statements.
- 43.2 The US\$ amounts in balance sheet, profit and loss account and cash flow statement have been translated into US\$ at the rate of Rs. 59.85 = US\$ 1 solely for convenience purposes.
- 43.3 Number of the Corporation's employees as at December 31, 2005 were 18,647 (2004: 19,615).

Tariq Kirmani
Chairman & Chief Executive

Asad Ali Khan
Director

Statement under section 237 of the Companies Ordinance, 1984

Midway* House (Pvt) Ltd. (Under winding-up)	Skyrooms* (Private) Limited
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(Rupees in thousand)

STATEMENT UNDER SUB-SECTION 1(e)

(a)	Extent of the interest of PIAC (the holding Company) in the equity of its subsidiaries at the end of the last of the financial years of the subsidiaries.	100%	100%
(b)	The net aggregate amount of revenue profits less losses of the subsidiaries companies so far as these concern members of the holding company and has not been dealt with in the accounts of the holding company for the year ended June 30, 2005 are		
(i)	for the last of the financial year of the subsidiaries.	(3,671)	293**
(ii)	for the previous years upto June 30, 2004 but subsequent to the acquisition of the controlling interest by the holding company.	(160,494)	(67,235)
(c)	The net aggregate amount of profit less losses of the subsidiary companies so far as these have been dealt with or provision made for losses in the account of the holding company for the year ended June 30, 2005.		
(i)	for the last of the financial years of the subsidiaries.	NIL	NIL
(ii)	for the previous years upto June 30, 2004 but subsequent to the acquisition of the controlling interest by the holding company.	NIL	NIL

* Based on un-audited accounts **For the year ended December 31, 2005

FINANCIAL HIGHLIGHTS OF SUBSIDIARIES BALANCE SHEET AS AT

	Midway* House (Pvt) Ltd. (Under winding-up) June 30, 2005	Skyrooms* (Private) Limited December 31, 2005
(Rupees in thousand)		
SHARE CAPITAL		
AUTHORISED	50,000	50,000
ISSUED, SUBSCRIBED AND FULLY PAID UP	29,600	40,000
RESERVES AND SURPLUS		
Capital	-	687
Accumulated (loss)	(164,165)	(66,942)
	(134,565)	(26,255)
ADVANCE AGAINST EQUITY	73,074	37,042
LONG-TERM DEPOSITS	55	128
DEFERRED LIABILITIES	-	37,406
LONG-TERM ADVANCES	-	52,047
CURRENT LIABILITIES		
Creditors, accrued expenses and other liabilities	54,485	42,985
Payable to PIAC	22,752	-
	77,237	42,985
	15,801	143,353
FIXED ASSETS		
At cost less accumulated depreciation	-	26,477
Long-term deposits	-	1,961
CURRENT ASSETS		
Stores and spares	-	2,317
Loose tools	-	11
Stock in trade	-	640
Loans and advances	97	14,280
Trade debts	5,022	15,909
Short term prepayment	-	341
Other receivables	-	1,837
Trade deposits	79	-
Advance tax	8,940	55,404
Short-term investments	-	16,845
Cash and bank balances	1,663	7,331
	15,801	114,915
	15,801	143,353

*Un-audited

Note: Complete financial statements of the subsidiaries are available at registered office of the Corporation for inspection and would be provided to the members on request without any cost.

FINANCIAL HIGHLIGHTS OF SUBSIDIARIES PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

	Midway* House (Pvt) Ltd. (Under winding-up) June 30, 2005	Skyrooms* (Private) Limited December 31, 2005
	(Rupees in thousand)	
REVENUE		
SALES/COMMISSION	-	135,895
LESS: COST OF SALES	-	121,261
GROSS PROFIT	-	14,634
OTHER INCOME	-	1,530
TOTAL INCOME	-	16,164
EXPENDITURE		
Administrative, general and selling	3,671	15,849
Financial	-	22
PROFIT/(LOSS) FOR THE YEAR	3,671 (3,671)	15,871 293
PROVISION FOR TAXATION	-	-
PROFIT/(LOSS) AFTER TAXATION	(3,671)	293
BALANCE BROUGHT FORWARD	(160,494)	(67,235)
BALANCE CARRIED TO BALANCE SHEET	(164,165)	(66,942)

*Un-audited



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