

Balance Sheet as at December 31, 2004

	Note	2004 (Rupees in thousand)	2003	2004 (US\$ in thousand)
NON CURRENT ASSETS				
Fixed assets				
Property, plant & equipment	3	49,530,139	29,657,098	830,346
Intangibles	4	74,254	67,038	1,245
Long-term investments	5	334,295	337,345	5,604
Long-term advances and other receivable	6	7,196,914	5,617,524	120,652
Long-term deposits and prepayments	7	1,824,686	416,382	30,590
		58,960,288	36,095,387	988,437
CURRENT ASSETS				
Stores and spares	8	2,416,290	4,695,334	40,508
Trade debts	9	4,314,618	3,414,167	72,332
Advances	10	679,771	964,282	11,396
Trade deposits and prepayments	11	162,762	59,108	2,729
Taxation - advance tax net of provision	26	214,990	-	3,604
Other receivables	12	648,510	874,676	10,872
Short-term investments	13	440,446	372,962	7,384
Cash and bank balances	14	10,838,898	10,089,716	181,708
		19,716,285	20,470,245	330,533
		78,676,573	56,565,632	1,318,970
SHARE CAPITAL AND RESERVES				
Share capital	15	16,529,926	11,514,826	277,115
Reserves	16	4,280,712	4,280,712	71,764
Unrealized gain/(loss) on remeasurement of investments		18,863	(2,876)	316
Accumulated loss		(7,388,309)	(9,119,166)	(123,861)
		13,441,192	6,673,496	225,334
NON CURRENT LIABILITIES				
Long term financing	17	2,431,659	3,371,035	40,765
Term finance certificates	18	14,760,910	15,139,546	247,459
Liabilities against assets subject to finance lease	19	23,724,678	1,303,234	397,731
Long term murabaha	20	1,600,608	2,219,918	26,833
Long term deposits	21	205,260	180,798	3,441
Deferred liabilities	22	3,399,282	4,240,421	56,987
Other liability - airport related charges		122,895	239,299	2,061
		46,245,292	26,694,251	775,277
CURRENT LIABILITIES				
Trade and other payables	23	13,654,457	12,634,267	228,910
Accrued markup/ interest	24	540,570	562,803	9,062
Short term borrowing	25	-	65,000	-
Current portion of:				
- Long term financing	17	1,621,110	1,621,110	27,177
- Term finance certificates	18	378,635	303	6,348
- Liabilities against assets subject to finance lease	19	1,960,217	6,235,314	32,862
- Obligations under hire purchase		-	685,438	-
- Long term murabaha	20	835,100	934,095	14,000
Taxation - provision net of advance tax	26	-	459,555	-
		18,990,089	23,197,885	318,359
CONTINGENCIES AND COMMITMENTS				
	27	78,676,573	56,565,632	1,318,970

The annexed notes 1 to 45 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

Profit and Loss Account for the year ended December 31, 2004

	Note	2004 (Rupees in thousand)	2003	2004 (US\$ in thousand)
TURNOVER - net	28	57,788,078	47,951,816	968,788
COST OF SERVICES	29	(49,053,806)	(36,869,483)	(822,363)
GROSS PROFIT		8,734,272	11,082,333	146,425
OTHER OPERATING INCOME	30	2,187,395	664,150	36,671
MARKETING AND DISTRIBUTION COSTS	31	(2,765,108)	(2,232,393)	(46,356)
ADMINISTRATIVE EXPENSES	32	(4,053,172)	(3,472,351)	(67,949)
		(4,630,885)	(5,040,594)	(77,634)
PROFIT FROM OPERATIONS		4,103,387	6,041,739	68,790
FINANCE COST	33	(2,199,067)	(2,574,342)	(36,866)
OTHER PROVISIONS AND ADJUSTMENTS	34	(1,067,017)	232,703	(17,888)
		(3,266,084)	(2,341,639)	(54,754)
PROFIT BEFORE TAX		837,303	3,700,100	14,037
TAXATION				
- Current		(288,940)	(938,224)	(4,844)
- Prior		698,465	-	11,709
- Deferred		1,059,770	(1,463,224)	17,767
	36	1,469,295	(2,401,448)	24,632
PROFIT AFTER TAX		2,306,598	1,298,652	38,669
EARNINGS PER SHARE	37			
'A' class ordinary shares of Rs.10 each (Rupees/US\$)		1.76	1.57	0.03
'B' class ordinary shares of Rs. 5 each (Rupees/US\$)		0.88	0.78	0.01

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Chairman

Asad Ali Khan
Director

Cash Flow Statement for the year ended December 31, 2004

	Note	2004 (Rupees in thousand)	2003	2004 (US\$ in thousand)
Cash flows from operating activities				
Cash generated from operations	38	7,753,145	5,029,126	129,977
Financial charges paid		(2,221,300)	(2,243,565)	(37,239)
Taxes paid		(247,303)	(438,339)	(4,146)
Dividend paid		(570,486)	-	(9,564)
Repayment of long-term deposits and other liability - net		(91,941)	166,481	(1,541)
Staff retirement benefits paid		(47,000)	(46,000)	(788)
Net cash from operating activities		<u>4,575,115</u>	<u>2,467,703</u>	<u>76,699</u>
Cash flows from investing activities				
Fixed capital expenditure		(2,436,908)	(9,022,282)	(40,854)
Payment for acquisition of intangible assets		(11,892)		(199)
(Payments of)/proceeds from investments		(4,895)	16,703	(82)
Dividend received		-	59,354	-
Proceeds from sale of fixed assets		254,405	30,527	4,265
(Payments of)/proceeds from long-term advances - net		(47,140)	51,295	(790)
Received from associated undertaking		1,239,344	-	20,777
Payments of long-term deposits		(1,408,304)	(99,378)	(23,610)
Net cash used in investing activities		<u>(2,415,390)</u>	<u>(8,963,781)</u>	<u>(40,493)</u>
Cash flows from financing activities				
(Repayment) of/ proceeds from issuance of Term finance certificates		(303)	15,139,849	(5)
Proceeds from issue of share capital		5,015,100	4,844,195	84,076
Redemption of Preference shares		-	(150,000)	-
Repayment of long-term / murahaba financing		(1,657,681)	(1,456,363)	(27,790)
Payment of obligations under hire purchase		(685,438)	(1,548,655)	(11,491)
Proceeds from obligations under finance lease		(4,017,221)	7,499,782	(67,347)
Payment of short-term borrowings		(65,000)	(12,280,333)	(1,090)
Net cash from financing activities		<u>(1,410,543)</u>	<u>12,048,475</u>	<u>(23,647)</u>
Increase in cash and cash equivalents		<u>749,182</u>	<u>5,552,397</u>	<u>12,559</u>
Cash and cash equivalents at beginning of the year		<u>10,089,716</u>	<u>4,537,319</u>	<u>169,149</u>
Cash and cash equivalents at end of the year		<u><u>10,838,898</u></u>	<u><u>10,089,716</u></u>	<u><u>181,708</u></u>

The annexed notes 1 to 45 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

Statement of Changes in Equity for the year ended December 31, 2004

	Paid up capital (note 15)	Capital reserves	Revenue reserves	Unrealized (loss)/gain on re-measurement of investments	Accumulated loss	Total
(Rupees in thousand)						
Balance as at December 31, 2002	6,820,631	2,351,038	1,779,674	(113,538)	(10,267,818)	569,987
Issue of share capital 'A' class ordinary shares	4,844,195	-	-	-	-	4,844,195
Transfer to capital redemption reserve fund	-	150,000	-	-	(150,000)	-
Redemption of preference shares	(150,000)	-	-	-	-	(150,000)
Un realized gain on re-measurement of investments	-	-	-	110,662	-	110,662
Profit after tax	-	-	-	-	1,298,652	1,298,652
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
Un realized 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 after tax	-	-	-	-	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

The annexed notes 1 to 45 form an integral part of these financial statements.

Ahmad Saeed
Chairman

Asad Ali Khan
Director

Notes to the Financial Statements for the year ended December 31, 2004

1. 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, 1956) and its shares are quoted on all stock exchanges of Pakistan. The registered office is situated in Karachi. 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 Government of Pakistan's (GoP) financial assistance is available to the Corporation and GoP has issued guarantees to secure certain long term debts of the Corporation and Term Finance Certificates (TFCs). The GoP has agreed to provide equity contribution to the Corporation equivalent to accumulated losses of the Corporation as at December 31, 2000 to cover interest payments on long term finances and TFCs. As part of the financial package, an amount of Rs. 3,979 million has been provided to the Corporation upto December 31, 2004 against which 397,935,878 number of ordinary shares of Rs. 10 each were issued to GoP up to that date.

GoP had approved a fleet replacement plan. Accordingly, the Corporation has entered into an agreement for purchase of eight new Boeing 777 aircraft. GoP has provided funding of US\$ 150 million - Rs. 8,816 million (2003: US\$ 90 million- Rs. 5,250 million) in the form of equity, and guarantees for the finances raised for acquisition of the said aircraft up to December 31, 2004.

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, 1956, 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 as described in note 2.3. Approved accounting standards comprise such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Where the requirements of 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 Companies Ordinance, 1984 or the requirements of the said directives take precedence. The Corporation has obtained exemption from application of IAS 27 "Consolidated Financial Statements and Accounting for Investment in Subsidiaries" relating to consolidated financial statements from SECP.

2.2 Accounting Convention

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

- Corporation's aircraft fleet and other equipments are stated at revalued amounts less accumulated depreciation referred to in note 3.1.2.
- Investments available for sale are stated at fair values in accordance with requirements of International Accounting Standard "Financial instrument recognition and measurement" (IAS 39) referred to in notes 5.3.1 and 13.

2.3 Consolidation

The consolidated financial statements for the year ended December 31, 2004 have not been prepared as required by IAS 27 and section 237 of the Companies Ordinance, 1984 in view of the exemption granted by the SECP vide their letter No. EMD/233/472/2002-7424 dated March 25, 2005.

2.4 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 it is no longer probable that the related tax benefits will be realised.

2.5 Fixed assets

2.5.1 Operating fixed assets and depreciation

Owned

Leasehold land is stated at cost. Aircraft fleet and other equipment 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 over their expected useful lives. Remaining useful lives of significant assets 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.

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

Repairs and maintenance costs are charged to income as and when incurred.

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 manufacturing credits, if any.

2.5.2 Capital work-in-progress

These are stated at cost and estimated charges incurred thereon. The assets are transferred to operating fixed assets when they are available for use.

2.6 Intangible assets

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 and impairment losses, if any. Intangible assets are amortized on a straight line basis over their estimated useful lives at rates specified in note 4.

2.7 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

Stores and spares are valued at moving average cost except goods-in-transit, which are valued at cost. Fuel and medical inventories are valued on first-in-first-out basis.

2.8 Trade debts and other receivables

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

2.9 Interest bearing borrowings and borrowing costs

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

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

2.10 Foreign currencies

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.

2.11 Employee 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.

2.12 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.

2.13 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 advance against transportation. However, in view of the limitation of the Corporation's revenue accounting system, the value of unutilized tickets 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 and actual travel.

Engineering and other services

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

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 / mark-up on investments held to maturity 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 is established.

2.14 Provisions 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.

2.15 Investments

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. 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.

Subsidiaries and associates

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

2.16 Trade and other payables

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

2.17 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.

2.18 Equity instruments

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

2.19 Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes party to the contractual provisions of the instrument.

2.20 Impairment

The carrying amount of the Corporation's assets other than deferred tax 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.

2.21 Transfer pricing and related parties

Related parties include the Corporation's subsidiaries, associates, directors and the companies under common directorship, key management personnel and employee 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 42.

2.22 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.

3. **PROPERTY, PLANT AND EQUIPMENT**

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

2004
2003
(Rupees in thousand)

43,676,363
5,853,776
49,530,139

17,839,880
11,817,218
29,657,098

3.1 Operating fixed assets

	COST / REVALUED AMOUNT				DEPRECIATION				Book value at December 31, 2004	Annual depreciation rate %
	January 1, 2004	Additions/ (Disposals)	Transfers/ *Adjustment	December 31, 2004	January 1, 2004	For the year/ (on disposal)	Transfers / *Adjustment	December 31, 2004		
(----- Rupees in thousand -----)										
Owned										
Leasehold land	65,548	2,282 (2)	-	67,828	-	-	-	-	67,828	-
Buildings on leasehold land (note 3.1.1)	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 (note 3.1.2 and 3.1.4)	19,437,136	- (1,048,753)	13,199,192 *(1,635,352)	29,952,223	15,208,903	1,635,114 (986,438)	3,683,561	19,993,150	9,959,073	(note 3.1.2)
Operating ground equipment, Catering communication and meteorological equipment	401,473	29,340 (3,179)	- *(865)	426,769	340,514	12,866 (2,290)	- (865)	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
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
Traffic equipment	1,281,411	81,901 (26,617)	97,224 *(3,601)	1,430,318	1,107,921	68,564 (26,568)	7,484 (3,601)	1,153,800	276,518	10-20
Furniture, fixture and fitting	566,052	23,983 (4,336)	- *(466)	585,233	486,888	17,211 (3,161)	(466)	500,472	84,761	10
Office equipment	66,986	6,406	- *(348)	73,044	57,665	3,425	(348)	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	815,671	613,356	23,719	122,500	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 (note 3.1.3)	4,263,744	2,066,158 (157,126)	- *(751,670)	5,421,106	2,710,657	807,680 (157,126)	(751,670)	2,609,541	2,811,565	14.89
	31,066,448	2,584,000 (1,296,903)	13,299,077 (2,217,302)	43,435,320	23,831,750	2,786,131 (1,227,850)	3,694,657 (182,440)	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
Assets subject to finance lease										
Aircraft fleet	8,566,284	28,058,973	(7,437,353) 1,066,550	30,254,454	650,884	1,303,240	(644,679)	1,309,445	28,945,009	(note 3.1.2)
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	30,561,039	4,266,472	1,495,724 (5,112)	(4,339,336)	1,417,748	29,143,291	-
	45,938,101	30,711,010 (1,307,066)	(194,934) (1,150,752)	73,996,359	28,098,222	4,281,855 (1,232,962)	(644,679) (182,440)	30,319,996	43,676,363	
December 31, 2003	55,418,274	11,055,965 (19,904,213)	- (631,925)	45,938,101	38,336,706	3,412,334 (13,109,879)	(540,940)	28,098,221	17,839,880	

3.1.1 It includes Rs. 51.74 million representing the cost of Pirwahai plot No. III, IV, V & VI Islamabad along with its building thereon, the title of which has been transferred in the name of the Corporation subsequent to the year end.

3.1.2 Last valuation and estimation of remaining useful life of aircraft fleet was carried by M/s. Airclaims Limited - UK in 2002. In connection with that analysis, Airclaims Limited did not physically inspect any of the aircraft and had relied on the information provided by the Corporation.

The appraisal had taken into account the age, specification and accrued hours / cycles of the aircraft and produced the Current Market Half-life Values (CMHV). Half life assumes the airframe, engines' gear and all major components are half way between major overhaul. The appraisal has also taken into account the maintenance status of the aircraft provided by the Corporation and adjusted from its Half life value accordingly to produce an Adjusted Current Market Value (Adj.CMV). 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 1-5 % may reasonably apply to the calculated market value.

Based on the lower of Business Plan and estimated useful lives, the lives of aircraft of the Corporation are as follows:

B 747-200	25 Years
B 747-300, B-777, A-310	22 Years
A-300	25 Years
B-737	24 Years

- 3.1.3 During the year, the Corporation has carried out physical verification of floating capital spares. However the differences identified as a result of physical verification have not yet been accounted for in these financial statements due to certain limitations in existing inventory management system and absence of adequate documentation to support the values of floating capital spares identified during physical count (refer note 8).
- 3.1.4 During the year Corporation has made payment to Fly PIA for early settlement of Ijara financing obtained last year. Accordingly the unamortised balance of deferred gain has been adjusted with the respective aircraft.
- 3.1.5 Aircraft fleet represents value subsequent to restatement as at June 30, 1974 and subsequent revaluations upto December 31, 2002. Also, other equipment represent value subsequent to restatement as at June 30, 1974. Had there been no restatement / revaluation, the values would have been as under:

	Cost at Dec 31, 2004	Accumulated depreciation	Book value at Dec 31, 2004
(-----Rupees in thousand-----)			
Aircraft fleet	54,737,029	10,949,087	43,787,942
Aircraft	391,439	332,880	58,559
Other related equipment			
December 31, 2004	55,128,468	11,281,967	43,846,501
December 31, 2003	28,877,321	9,386,171	19,491,150

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

	2004 (Rupees in thousand)	2003
Cost of services (note 29)	4,188,728	3,303,432
Marketing and distribution cost (note 31)	40,581	29,579
Administrative expenses (note 32)	52,547	79,323
	4,281,856	3,412,334

- 3.1.7 Following fixed assets were disposed off during the year:

Description	Sold to	Method of disposal	Cost	Accumulated depreciation	Net book value	Sale/Insurance proceeds
(-----Rupees in thousand-----)						
Aircraft fleet - owned	M/s. National Insurance Corporation	Insurance claim	1,010,842	948,528	62,314	172,260
Building - PIA House	Mr. Khurram Nisar	Through auction	7,008	2,504	4,504	22,500
Motor vehicles						
To employees						
Catering Vans (PIA-601& 604)	Mr. Ahmad Farooq Dogar	As per Corporation's policy	1,975	1,086	889	167
Suzuki Sedan SE 413 (AAG-531)	Mr. S.A. Husnain	As per Corporation's policy	475	356	119	-
Honda Civic (GA-9723)	Mr. AVM Niaz Hussain DMD (E)	As per Corporation's policy	1,238	-	1,238	-
Honda City 1300 cc (GA-9871)	Mr. Saleem Nisar	As per Corporation's policy	795	-	795	-
Honda City Exi (GA-4746)	Mr. Amir Haider - Ex GM Accounting	As per Corporation's policy	735	368	367	-
Honda City Exi (GA-4760)	Mr. Ather Hassan - Ex Director Engineering	As per Corporation's policy	735	368	367	637
Honda City Exi (GA-4743)	Mr. Colonel Mustafa Talat-GM Works	As per Corporation's policy	735	368	367	-
Honda City Exi (GA-4759)	Mr. M. Taj-Chief Engineer	As per Corporation's policy	735	368	367	-
Honda City Exi (GA-8507)	Mr. Ghulam Sarwar	As per Corporation's policy	735	276	459	-
Honda City Exi (GA-8729)	Dr. Parween-CMO	As per Corporation's policy	735	276	459	-
To others						
Suzuki Mehran (GA-8869)	M/s. National Insurance Corporation	Insurance claim	349	87	262	-
Honda City Exi (GA-4745)	M/s. National Insurance Corporation	Insurance claim	735	368	367	650
Furniture, fixture and fitting	Mr. Khurram Nisar	Negotiation	4,337	3,160	1,177	99
Aggregate value of items where WDV is less than Rs. 50,000	Various		274,902	274,849	53	58,150
			1,307,066	1,232,962	74,104	254,463
December 31, 2003			20,536,138	13,650,819	6,885,319	7,272,948

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

3.2 Capital work-in-progress		2004	2003
		(Rupees in thousand)	
Buildings - civil works		18,863	61,734
Other projects / equipments		61,801	43,491
Renovation & improvements		28,661	33,972
Non-refundable deposit against purchase of aircraft		16,906,651	11,797,851
Advance against revenue accounting package		694	694
		17,016,670	11,937,742
Transfer to fixed assets		(11,131,364)	(92,796)
Charged off / adjustment (note 3.2.1)		(31,530)	(27,728)
		5,853,776	11,817,218

3.2.1 This represents balances written off/ adjusted in respect of buildings Rs. 7.706 million (2003: Rs. 3.416 million), other projects Rs. 3.262 million (2003: Rs. 7.722 million), renovation and improvements Rs. 0.963 million (2003: Rs. 7.841 million) and non-refundable deposit against purchase of aircraft Rs. 19.599 million (2003: Rs. 8.749 million).

4. INTANGIBLES

Softwares

Cost

Opening	99,336	99,336
Additions	11,892	-
Deletions	-	-
Closing	111,228	99,336

Accumulated amortization

Opening	32,298	12,790
Charge for the year	4,676	19,508
Deletions	-	-
Closing	36,974	32,298

Written down value

	74,254	67,038
Amortization rate	5 years	5 years

5. LONG-TERM INVESTMENTS

Investments in related parties

Subsidiary companies (note 5.1)	-	-
Associated companies (note 5.2)	214,567	214,567
Other investments (note 5.3)	119,728	122,778
	334,295	337,345

5.1 SUBSIDIARIES - unquoted- at cost	Break-up value		Percentage of shareholding	2004	2003
	(Rupees in thousand)				
Midway House (Private) Limited (under winding-up)					
2,960,000 shares of Rs 10 each	(130,893)	(129,190)	100	28,520	28,520
Advance against equity				73,074	73,074
				101,594	101,594
Sky Rooms (Private) Limited					
4,000,000 shares of Rs 10 each	(19,896)	(19,895)	100	40,000	40,000
Advance against equity				37,042	37,042
				77,042	77,042
PIA Holdings (Private) Limited (note 5.1.1)					
750,000 shares of Rs 10 each	-	(1,558)	100	-	75,000
Advance against equity				-	376
				-	75,376
PIA Shaver Poultry Breeding Farms (Private) Limited (note 5.1.1) 293,000 shares of Rs 10 each	-	(102,264)	100	-	28,481
PIA Hotels Limited (note 5.1.1) 72,502 shares of Rs 10 each	-	(24,743)	100	-	-
International Advertising (Private) Limited (note 5.1.2)					
250,000 shares of Rs 10 each	-	(7,709)	100	-	850
				178,636	283,343
Less: provision for diminution in value of investments				178,636	283,343
				-	-

5.1.1 During the year these subsidiaries have applied under the "Easy Exit Scheme" announced by the Securities and Exchange Commission of Pakistan (SECP) for voluntarily winding up. Assets and liabilities of these companies were taken over by the Corporation.

5.1.2 International Advertising (Pvt.) Limited was privatized during the year.

5.1.3 All the subsidiaries are incorporated in Pakistan. Financial statements of Skyrooms (Pvt.) Limited for the year ended June 30, 2003 and 2004 were not available. Accordingly, the break-up value as at June 30, 2002 has been used.

5.2 ASSOCIATED COMPANIES - unquoted- at cost

	Break-up value		Percentage of shareholding	2004		2003	
	2004	2003		(Rupees in thousand)	(Rupees in thousand)		
Minhal Incorporated - Sharjah 1,600 shares of DH 100 each (note 5.2.1)	-	-	40.00	396		396	
PIA Investments Limited - British Virgin Islands 400,000 shares of DH 100 each (note 5.2.1) Advance against shares pending allotment	2,415,004	2,415,004	50.00	99,000 114,902 213,902		99,000 114,902 213,902	
Duty Free Shops (Private) Limited - Pakistan 87,512 shares of Rs 100 each (note 5.2.1)	-	-	26.95	269		269	
				214,567		214,567	

5.2.1 Minhal Incorporated and PIA Investments Limited are incorporated in Sharjah and British Virgin Islands respectively where as Duty Free Shops (Private) Limited is incorporated in Pakistan.

5.2.2 The financial statements for the year ended December 31, 2004 have not been finalized and accordingly break-up value as at December 31, 2003 have been used, where financial statements were not available.

5.3 OTHER INVESTMENTS

Available for sale (note 5.3.1)
Held to maturity (note 5.3.2)

27,930	18,963
91,798	103,815
119,728	122,778

5.3.1 AVAILABLE-FOR-SALE

QUOTED

Pakistan Services Limited (172,913 shares of Rs. 10 each) - (Market value of Rs. 160.95 each)

27,830	18,863
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UNQUOTED

Pakistan Tourism Development Corporation Limited (10,000 shares of Rs. 10 each)

100	100
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27,930	18,963
---------------	---------------

5.3.2 HELD TO MATURITY

Promissory notes issued by the Nigerian Government

91,798	103,815
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This represents two promissory notes issued by Nigerian Government on May 8, 1988 amounting to US\$ 1.317 million and US\$ 2.935 million. These were issued in consideration of bank balance of the Corporation in Central Bank of Nigeria which was ceased by the Government at the time of coup and civil war in Nigeria. These notes are redeemable in fixed quarterly instalments during the period starting from April 5, 1990 to January 5, 2010. These notes carry fixed interest instalments of US\$ 26,325 each. The discount rate used to calculate the carrying value of the promissory notes is 5.2% per annum.

6. LONG TERM ADVANCES AND OTHER RECEIVABLE

	2004	2003
	(Rupees in thousand)	
Long term advances - unsecured (note 6.1)	5,284,914	3,686,524
Other receivable - pension fund (note 39.1)	1,912,000	1,931,000
	<u>7,196,914</u>	<u>5,617,524</u>
6.1 Long term advances - unsecured		
Related parties		
Subsidiaries - considered doubtful		
Non interest bearing		
Midway House (Private) Limited	9,402	9,402
PIA Holdings (Private) Limited (note 5.1.1)	-	16,614
PIA Shaver Poultry Breeding Farms (Private) Limited (note 5.1.1)	-	77,413
	<u>9,402</u>	<u>103,429</u>
Less:		
Provision for doubtful advances at the beginning of the year	103,429	100,004
(Reversal)/provision for doubtful advances during the year	(94,027)	3,425
	<u>9,402</u>	<u>103,429</u>
	-	-
Associated company - considered good		
PIA Investments Limited (PIAIL)		
Advances for working capital requirements (note 6.1.2)	1,852,240	1,786,100
Accumulated interest on loan for renovation of a Hotel (note 6.1.3)	763,584	1,900,424
Accumulated interest on advances for working capital requirements (note 6.1.2 and 6.1.4)	2,669,090	-
	<u>5,284,914</u>	<u>3,686,524</u>
	<u>5,284,914</u>	<u>3,686,524</u>

6.1.1 These advances do not have a fixed repayment schedule. Aggregate maximum amount due from subsidiaries and an associated company at any month end was Rs. 9.40 million and Rs. 5,284.91 million respectively (2003: Rs. 103.43 million and Rs. 3,686.52 million).

6.1.2 These advances were disbursed to PIAIL for working capital requirements. At a meeting of the representatives of the two shareholders held in April 2001 it was agreed that the advances would continue to accrue interest at the rate of 5% per annum to the Corporation from the date of first disbursement of these advances. This position was reflected by the shareholders in an Agreement executed between them on June 29, 2001 in relation to the proposed sale of the Roosevelt Hotel, New York.

6.1.3 This represents accumulated interest on loan disbursed to PIAIL at the rate of 10% per annum for renovation of Roosevelt Hotel owned by PIAIL. The loan to which this interest relates was paid back on October 13, 2000. Although this rate of interest was agreed between the shareholders of PIAIL and correspondingly confirmed and approved by the Board of PIAIL, when the sale process of Roosevelt Hotel was suspended the other shareholder made a request for reducing the rate from 10% to 7.74% and for freezing interest accrual as at the date of repayment of principal i.e. October 13, 2000. Thereafter, a Committee was constituted comprising the Managing Director of PIAIL and the members of the Roosevelt Task Force specifically to negotiate a package deal for the sale / swap of the PIAIL's assets. Although this Committee had no authority to deliberate on the accepted interest rate or for that matter to bind the Corporation to any reduction of interest or freezing of the same it recommended reduction and freezing as requested by the other shareholder. This recommendation was brought before the Honorable Prime Minister who directed only acceptance of the Committee's recommendation on the interest rate. The recommendation for freezing the interest as of October 13, 2000 was however not considered. In any event, GoP referred the matter for approval by the Board of the Corporation but the Board did not approve and decided that the matter be referred back to the GoP for reconsideration. In response thereto, GoP modified its earlier directive by letter dated September 27, 2004 to the effect that the reduction in the interest rate would only be applicable in case of disinvestment or an over all settlement with the other shareholder regarding asset distribution. Therefore, the management of the Corporation believes that reduction in interest rate, if any, shall only be used as a yardstick for computing the premium / incentive to be given to the other shareholder in the event of a satisfactory overall settlement of the disinvestment process, without in any manner affecting the rights of the Corporation to receive from PIAIL the full interest at 10% until payment thereof on an accruing basis.

6.1.4 This represents interest at the rate of 5% per annum on the advances disbursed by the Corporation to PIAIL for working capital requirements (note 6.1.2) from the date of disbursement of those advances and upto December 31, 2004, which has been recognised during the current year. This amount has been recognised on the grounds set out in note 6.1.5.

6.1.5 The amounts due from PIAIL as referred to in notes 6.1.2, 6.1.3 and 6.1.4 above are considered good and the management of the Corporation believes that it has become evident that these amounts will now be recovered by PIAC on the following grounds:

- Operating cash flows of PIAIL may make it possible for it to repay the Corporation partly from profits and partly from borrowings without recourse to sale of any of its assets. PIAIL has repaid US\$ 22 million (Rs 1,263 million) to the Corporation during the current year.
- The aggregate values of the assets of PIAIL determined through recent independent valuations are adequate to cover the liabilities of PIAIL, in the eventuality that those assets are required to be liquidated to settle those obligations.
- During the year ended December 31, 2004 the other shareholder of PIAIL and the Corporation (i.e. the two shareholders of PIAIL) have started the process of finalizing a proposed sale/swap arrangement of PIAIL's assets and the two shareholders and the Government of Pakistan are actively moving forward to complete the sale/swap process.

7. LONG-TERM DEPOSITS AND PREPAYMENTS

	2004	2003
	(Rupees in thousand)	
Rent	36,587	49,338
Aircraft fuel	4,894	6,430
Utilities	10,300	3,845
Postage and telephone	657	625
Guarantee deposit	3,170	2,977
Aircraft fleet lease deposit (note 19.3 and 19.4)	759,010	173,423
Engine maintenance	220,705	160,509
Prepaid exposure fee on Ex-im Bank supported financing (note 7.1)	745,669	-
Miscellaneous	43,694	19,235
	<u>1,824,686</u>	<u>416,382</u>

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 amortised over the period of lease term i.e 12 years.

8. STORES AND SPARES

	2004	2003
	(Rupees in thousand)	
Stores (note 8.1, 8.2 and 8.3)	735,827	711,660
Inventory held for disposal		
Cost	1,241,491	1,266,171
Less: adjustment to write down surplus inventory to net realisable value	1,012,936	1,012,936
	228,555	253,235
Spares (note 8.1, 8.2, 8.3 and 8.4)	3,814,580	3,777,820
Goods-in-transit	283,058	829,528
	5,062,020	5,572,243
Less:		
Provision for slow moving stores and spares		
Provision at beginning of the year	1,889,845	1,799,712
Add: provision made during the year (note 34)	1,768,821	90,133
	3,658,666	1,889,845
Adjustment to write down surplus inventory to net realizable value	1,012,936	1,012,936
	2,645,730	876,909
	2,416,290	4,695,334

8.1 The Corporation had undertaken revamping of its aircraft spares and the exercise was completed last year. Following completion of revamping exercise, a programmed cyclic count of the aircraft 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.

8.2 Following completion of the revamping of aircraft spares, items of an aggregate net book value of Rs. 1,241.49 million were considered as surplus and have been stated at their expected net realizable value of Rs. 228.56 million.

8.3 Upto December 31, 2003 provision against slow moving aircraft spares was being made following a systematic approach whereby the book value of aircraft spares at the end of each year was being charged to the profit as provision for slow moving spares on a prospective basis over the remaining estimated average useful lives of the relevant category of aircraft and according to expected usage of spares relating to certain aircraft.

Effective January 1, 2004, the provision against slow moving aircraft spares is being made in a manner whereby the book value of aircraft spares at the end of each year shall be charged to the profit as provision for slow moving spares on a 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 aircraft attained upto the balance sheet date. Had there been no change in the estimate as stated above, the provision made during the year against slow moving stores and spares would have been over by Rs. 1,235 million with a corresponding effect on the profits before tax for the year ended December 31, 2004. 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. However, an exercise for reconciliation of differences between inventory management system (subsidiary records) and general ledger commenced during the year is in progress as at December 31, 2004. The management is considering to implement new inventory management system to replace its old system.

8.4 It includes inventory of Rs. 26.92 million (2003: Rs. 41.42 million) held with foreign third party for repairing and overhauling of aircraft engines.

9. TRADE DEBTS

Considered good	4,314,618	3,414,167
Considered doubtful	587,853	743,853
Less: provision for doubtful debts		
Provision at beginning of the year	743,853	743,853
Reversal made during the year (note 34)	(156,000)	-
	587,853	743,853
	-	-
	4,314,618	3,414,167

9.1 Trade debts include debts due from Government agencies, other airlines and IATA approved agents. Certain portion of trade debts is secured by bank guarantees received from agents but due to very large number of agents all over the world the amount of secured debts is not determinable.

10. ADVANCES

	2004	2003
	(Rupees in thousand)	
Considered good		
Advances to:		
Associated company - non interest bearing (note 10.1)	14,297	12,205
Executives (note 10.2)	19,743	17,142
Employees	85,154	74,714
Suppliers	553,912	499,977
Employees' fund	-	350,553
Others	6,665	9,691
	665,474	952,077
Considered doubtful	20,777	20,777
Less: provision for doubtful advances		
Provision at beginning of the year	20,777	20,038
Add: provision made during the year	-	739
	20,777	20,777
	-	-
	679,771	964,282

10.1 Maximum aggregate amount due from this company at any month end was Rs.14.30 million (2003: Rs. 12.20 million).

10.2 This represents due from executives in respect of advances for expenses and furniture etc. in accordance with the terms of employment. The maximum aggregate amount of advances due from executives at the end of any month during the year was Rs. 19.74 million (2003: Rs. 17.14 million).

11. TRADE DEPOSITS AND PREPAYMENTS

Trade deposits	41,443	43,848
Prepayments (note 11.1)	121,319	15,260
	162,762	59,108
11.1 Prepayments		
Prepaid insurance	84,039	8,797
Prepaid interest on leased aircraft	23,882	-
Others	13,398	6,463
	121,319	15,260

12. OTHER RECEIVABLES

Considered Good		
Insurance and other claims	246,036	338,054
Excise duty (note 27.1.5)	100,000	100,000
Others	302,474	436,622
	648,510	874,676
Considered Doubtful	30,257	30,257
Others		
Less: provision for doubtful receivables		
Provision at beginning of the year	30,257	28,574
Add: provision made during the year	-	1,683
	30,257	30,257
	-	-
	648,510	874,676

13. SHORT-TERM INVESTMENTS

	2004	2003
Available for sale		(Rupees in thousand)
Quoted		
220,853 shares in France Telecom, France (note 13.1)	425,336	358,392
Unquoted		
385,718 shares in SITA INC N.V. the Netherlands (note 13.2)	22,777	22,777
Less: diminution in value of investments	7,667	8,207
	<u>15,110</u>	<u>14,570</u>
	<u>440,446</u>	<u>372,962</u>

13.1 These shares are currently in the custody of Citibank N.A. London.

13.2 These shares are held by SITA Inc. Foundation on behalf of the Corporation and are transferable subject to certain specified conditions. These shares are yet to be traded on the Stock Exchanges.

14. CASH AND BANK BALANCES

	2004	2003
	(Rupees in thousand)	
With banks		
In current accounts		
Collection (note 14.1)	3,476,988	4,224,954
Overdrawn bank balances	(693,048)	(1,070,882)
	<u>2,783,940</u>	<u>3,154,072</u>
In short-term deposit accounts	7,962,043	6,881,032
In hand	15,088	8,557
In transit	77,827	46,055
	<u>10,838,898</u>	<u>10,089,716</u>

14.1 Includes Rs. 10.295 million (2003: Rs. 17.86 million) held in Corporation's bank account with a Libyan bank which is not currently repatriable due to certain Foreign Government restrictions.

15. SHARE CAPITAL

	2004	2003			
	No. of Shares				
			Authorized capital		
			Ordinary share capital		
<u>2,949,250,000</u>	2,949,250,000		A' class shares of Rs.10 each	29,492,500	29,492,500
<u>1,500,000</u>	1,500,000		B' class shares of Rs.5 each	7,500	7,500
				<u>29,500,000</u>	<u>29,500,000</u>
			Preference share capital		
<u>50,000,000</u>	50,000,000		Preference shares of Rs. 10 each	500,000	500,000
				<u>30,000,000</u>	<u>30,000,000</u>
			Issued, subscribed and paid up share capital		
			Ordinary share capital		
			A' class ordinary shares of Rs.10 each		
1,417,377,146	915,867,073		Issued for consideration in cash (note 15.1)	14,173,771	9,158,671
931,028	931,028		Issued for consideration other than cash	9,310	9,310
<u>233,934,482</u>	233,934,482		Issued as bonus shares	2,339,345	2,339,345
<u>1,652,242,656</u>	1,150,732,583			<u>16,522,426</u>	<u>11,507,326</u>
			B' class ordinary 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
<u>494,000</u>	494,000		Issued as bonus shares	2,470	2,470
<u>1,499,999</u>	1,499,999			<u>7,500</u>	<u>7,500</u>
				<u>16,529,926</u>	<u>11,514,826</u>

15.1 Under the terms of financial package as stated in note 1.2, an amount of Rs. 1,449 million (2003: Rs. 1,364 million) has been received from GoP as GoP's equity contributions. Accordingly, 144,915,073 ordinary shares of Rs. 10 each (2003: 136,419,440 ordinary shares of Rs. 10 each) have been issued to GoP during the year. Further, during the year, an amount of Rs. 3,566 million (US\$ 60 million) (2003: Rs. 3,480 million {US\$ 60 million}) has been received from GoP towards equity contribution under aircraft fleet replacement plan. The Corporation is utilising the proceeds of shares for purchasing eight Boeing 777 aircraft. Accordingly, 356,595,000 ordinary shares of Rs. 10 each (2003: 348,000,000 ordinary shares of Rs. 10 each) have been issued to GoP during the year in respect of GoP's contribution for fleet replacement plan.

15.2 At December 31, 2004 GoP held 1,442,089,122 and 1,462,515 ordinary 'A' class shares and ordinary 'B' class shares respectively. (2003: 1,001,257,048 and 1,462,515 ordinary 'A' class shares and ordinary 'B' class shares respectively.)

16. RESERVES

	2004	2003
	(Rupees in thousand)	
Capital		
Reserve for replacement of fixed assets (note 16.1)	1,966,779	1,966,779
Capital redemption reserves fund	250,000	250,000
Other	284,259	284,259
	2,501,038	2,501,038
Revenue - General	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 International Accounting Standards and the excess proceeds over cost of relevant assets are credited to the profit and loss account.

17. LONG-TERM FINANCING - secured

Long-term finance under mark-up arrangements - (non participatory) (note 17.1)	2,431,659	3,242,220
Long-term loans - National Westminster Bank London	-	128,815
	2,431,659	3,371,035

Above finance has 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.

17.1 Long-term finance under mark-up arrangements:

Financier	Type of Facility	Limit (Rupees in million)	Repayment Period	Half Yearly Instalments	Mark-up %		
United Bank Limited & 17.1.2	17.1.1, Syndicate	1,045	2004-2006	6	6 months T-Bills + 2.5%	696,667	1,045,000
Habib Bank Limited	17.1.3 Demand Finance	2,135	2004-2006	6	6 months T-Bills + 2.5%	1,423,333	2,135,000
National Bank of Pakistan	17.1.4 Demand Finance	1,683	2004-2006	6	6 months T-Bills + 2.5%	1,122,220	1,683,330
United Bank Limited & 17.1.6	17.1.5 Syndicate	1,650	2005-2009	10	6 months Kibor+0.79%	810,549	-
						4,052,769	4,863,330
Less: current portion						1,621,110	1,621,110
						2,431,659	3,242,220

It carries mark-up rate which is higher of prevailing interest rate on T-Bills plus 2.5 percent and floor rate of 5 percent.

17.1.1 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

- 17.1.2 The finance is secured by way of hypothecation of current assets including stores and spares and book debts, and lien on sale proceeds of Karachi and Lahore booking offices.
- 17.1.3 The finance is secured by first ranking pari passu charge by way of hypothecation on stores and spares of aircraft, and lien on sale proceeds of Peshawar, Islamabad and Rawalpindi booking offices.
- 17.1.4 The finance is secured by way of hypothecation of present and future current assets including stores and spares and book debts.
- 17.1.5 Following are the participating banks:
 United Bank Limited
 National Bank of Pakistan
 Habib Bank Limited
- 17.1.6 The finance is secured by way of hypothecation of capital spares and traffic equipment.
- 17.1.7 All the aforementioned charges are unregistered.
- 17.1.8 Average rate prevailed during the year was 5.48% (2003: 7.23%).

18. TERM FINANCE CERTIFICATES	2004	2003
	(Rupees in thousand)	
Term Finance Certificates - secured (non participatory) (note 18.1)	15,139,545	15,139,849
Less: current portion	<u>378,635</u>	<u>303</u>
	<u>14,760,910</u>	<u>15,139,546</u>

Above finance has been obtained 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.

- 18.1 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 principal amount of TFCs is to be repaid in twelve semi-annual instalments in arrears.

Instalment payable	Semi - annually
Repayment period	2003-2011
Rate of Profit	50 basis 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%.

*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 the 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 percent of the outstanding amount at the time of the exercise of call option.

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2004	2003
	(Rupees in thousand)	
Present value of future rental obligations - vehicles & technical ground support equipment (note 19.2)	233,398	179,002
Present value of future rental obligations - aircraft	-	6,098,305
Present value of future rental obligations - A310 (note 19.3)	6,167,690	1,261,241
Present value of future rental obligations - B777 (note 19.4)	19,283,807	-
	<u>25,684,895</u>	<u>7,538,548</u>
Less: current portion	1,960,217	6,235,314
	<u>23,724,678</u>	<u>1,303,234</u>

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

	2004			2003		
	Payment	Interest	Principal	Payment	Interest	Principal
	(----- Rupees in thousand -----)					
Less than one year	2,520,664	560,447	1,960,217	6,276,116	40,802	6,235,314
Between one and five year	11,382,168	2,556,911	8,825,257	672,942	106,478	566,464
Over five year	16,472,912	1,573,491	14,899,421	788,456	51,686	736,770
	<u>30,375,744</u>	<u>4,690,849</u>	<u>25,684,895</u>	<u>7,737,514</u>	<u>198,966</u>	<u>7,538,548</u>

19.2 The salient features of the lease are as follows:

Discounting factor	7.71% to 13.32%	7.71% to 16.46%
Lease term	48 to 60 months	48 to 60 months
Security deposit (Rupees in thousand)	1,039	1,924

Bargain purchase option can be exercised at the end of the lease term.

19.3 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 five aircraft have been acquired during this year. The salient features of the aircraft lease are as follow:

Discount rate	5.2%	2.11%
Lease period	144 months	144 months
Security deposits (Rupees in thousand)	193,266	31,492

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

19.4 During the year, the Corporation entered into an agreement for Ex-im Bank supported financing for US\$ 345 million to acquire three Boeing 777-200 aircraft and General Electric (GE) spare engines, from Taxila Limited, a special purpose entity (SPE) incorporated in Cayman Islands. The guaranteed lender of the financing is Citibank and Govco (an entity administered by Citibank) The salient features of the arrangement are as follow:

Discount rate	3 months LIBOR
Lease period - aircraft	144 months
Lease period - spare engine	96 months
Security deposits (Rupees in thousand)	565,744

Title of the aircraft and engines will be transferred to PIA at the end of the respective lease term at the exercise of bargain purchase option.

20. LONG-TERM MURABAHA - secured

Financier	Type and purpose of facility	Facility amount in million US Dollars	Repayment period	Instalment period	Mark-up %		
Syndicate facility (note 20.1 & 20.2)	Syndicated Murabaha financing for purchase of six B747-300 aircraft and spares	70	2002-2007	Monthly	1-month LIBOR plus 2.70%	2,435,708	3,154,013
Less: current portion						<u>835,100</u>	<u>934,095</u>
						<u>1,600,608</u>	<u>2,219,918</u>

20.1 Following are the participating banks:

National Bank of Pakistan
Habib Bank Limited, Bahrain
United Bank Limited, UAE (facility agent)

20.2 The facility is secured by way of first ranking charge over present and future receivables of the Corporation from passenger and cargo sales agents in UAE and lien over UBL collection account which is specified for the related receipts. The facility is also secured by first ranking pari passu charge by way of hypothecation of stores. The aforementioned charges are not registered.

21. LONG-TERM DEPOSITS

	2004	2003
	(Rupees in thousand)	
Deposits from agents	107,500	95,000
Other deposits and retention money	97,760	85,798
	<u>205,260</u>	<u>180,798</u>

22. DEFERRED LIABILITIES

Deferred taxation (note 22.1)	440,242	1,482,295
Deferred custom duties	573,040	148,497
Obligations for compensated absences (note 22.2 and 22.3)	1,461,000	1,435,000
Post retirement medical benefits (note 39.2)	925,000	771,000
Deferred gain on sale and lease back transactions (note 3.1.7)	-	403,629
	<u>3,399,282</u>	<u>4,240,421</u>

22.1 Deferred taxation

Deferred tax credits arising in respect of accelerated tax depreciation	9,069,346	-
Deferred tax credits arising in respect of un-realized gain on remeasurement of investments	17,716	-
Deferred tax credits arising in respect of temporary taxable differences due to:		
Difference in written down value and tax base of fixed assets	-	3,371,522
Deferred tax debits arising in respect of temporary deductible differences due to:		
Unused tax losses	(6,250,080)	-
Provisions for liabilities and to write down other assets	(2,396,740)	(1,889,227)
	<u>440,242</u>	<u>1,482,295</u>

22.2 At December 31, 2004 an actuarial valuation of liability for compensated absences has been carried out. The valuation has been carried out using Projected Unit Credit Method and following assumptions have been used:

Discount rate	9.46% (2003: 8%)
Level of increase in salaries	7.38% (2003: 5.94%)
Utilisation of leave	As leave prior to retirement

22.3 Provision at beginning of the year	1,435,000	1,131,000
Less: reversal made during the year (note 29, 31 and 32)	522,000	436,000
	<u>913,000</u>	695,000
Provision made during the year (note 29, 31 and 32)	548,000	740,000
	<u>1,461,000</u>	<u>1,435,000</u>

23. TRADE AND OTHER PAYABLES

	2004	2003
	(Rupees in thousand)	
Trade creditors		
Goods	1,673,024	1,080,893
Services	1,146,691	755,027
Airport related charges	<u>685,697</u>	<u>758,815</u>
	3,505,412	2,594,735
Accrued liabilities	1,825,995	2,223,427
Advances received		
Advance against transportation		
-Normal	4,168,174	3,108,695
-Haj	<u>2,087,728</u>	<u>1,293,041</u>
	6,255,902	4,401,736
Others	378,912	354,797
Payable to employee provident fund	114,095	1,654,292
Unclaimed dividend		
Ordinary shares	5,255	-
Preference shares	<u>3,297</u>	<u>3,297</u>
	8,552	3,297
Collection on behalf of others	582,148	883,556
Short term deposits	111,735	76,840
Custom and central excise duty	741,009	379,037
Income tax deducted	49,482	16,868
Stamp duties	13,310	13,878
Capital value tax	33,505	25,197
Liabilities acquired from subsidiaries	19,594	-
Others	<u>14,806</u>	<u>6,607</u>
	13,654,457	12,634,267

24. ACCRUED MARK-UP / INTEREST

Long-term financing	56,810	57,713
Term finance certificates	441,328	444,655
Liabilities against assets subject to finance lease	-	12,430
Obligation under hire purchase-secured	-	5,294
Long term murabaha	7,921	8,854
Short-term borrowings-secured	<u>34,511</u>	<u>33,857</u>
	540,570	562,803

25. SHORT TERM BORROWINGS - secured

Loan was arranged by Employees' Pension Fund and Provident Fund "the Funds" of the Corporation from Indus Bank Limited by pledging securities of the Funds under Repo arrangements. Mark-up rate was 12.25% (2003: 12.25%) per annum. During the year, this amount has been settled / paid to the Funds as the Corporation could not get back the securities of the Funds pledged with Indus Bank due to its liquidation.

26. TAXATION - net

Provision for taxation	3,431,865	3,142,925
Less: advance tax	<u>3,646,855</u>	<u>2,683,370</u>
	(214,990)	459,555

27. CONTINGENCIES AND COMMITMENTS

27.1 Contingencies

- 27.1.1 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, disputes over throughput charges on international deplaned cargo and claims for arrears of salaries and pension. 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. 1,104 million (2003: Rs. 914 million).
- 27.1.2 Civil Aviation Authority, Pakistan (CAA) has claimed additional amounts aggregating to Rs. 3,110 million (2003: Rs. 3,101 million) in respect of rent and allied charges, landing and housing charges, aviation security and bay charges, interest/surcharge etc. The matter has been referred to Ministry of Defence through which a reconciliation and settlement exercise is currently in progress. The management considers that no additional liability of material amount is likely to arise as a result of such exercise. Accordingly, no provision in this respect has been made in these financial statements.
- 27.1.3 The Corporation is contesting litigations relating to suits filed against it on dispute over throughput charges aggregating to Rs. 92 million against which it has filed appeals with the High Court 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.
- 27.1.4 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 can not be determined and consequently, no provision has been made in these financial statements.
- 27.1.5 The Collector Central Excise had raised demand of Rs. 1,059 million (2003: Rs. 1,051 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.
- 27.1.6 Outstanding guarantees amounted to Rs. 184 million (2003: Rs. 475 million). The Corporation has given bank guarantees amounting to Rs. 21 million in respect of cases pending in respective courts.
- 27.1.7 Contingencies relating to income tax matters are referred in note 36.3 of the financial statements.
- 27.2 The contingencies of the Corporation's subsidiaries, taken over during the year, as at December 31, 2004 are as follows:

27.2.1 PIA Holdings (Private) Limited

- 27.2.1.1 The company has filed appeals before the Commissioner of Income Tax (Appeals) [CIT(A)] against the order of the assessing officer.
- 27.2.1.2 Assessment years 1992-1993 and 1993-1994 aggregating liabilities of Rs. 3.8 million. The main ground in the above tax appeals relates to the disallowance of advances to PIA Hotels Limited written off against the provisions amounting to Rs. 29 million which had been added back in the total income in earlier years. Upon appeal the CIT(A) has set aside this and some other issues while maintaining some other disallowances.
- 27.2.1.3 Assessment years 1994-1995, 1995-1996, 1996-1997 and 1997-1998 aggregating liabilities of Rs. 2 million. The main grounds in the above appeals for four assessment years relates to taxing of financial income without allowing any expenditure against such income. Upon appeals for the above assessment years the CIT (A) has set aside the matter to be framed denovo in accordance with the law.

27.2.2 PIA Shaver Poultry Breeding Farms (Private) Limited

A case is pending in the Civil Court Lahore against the company filed by M/s. Anjum Agencies, Lahore. The said suit pertains to the recovery of Rs. 5.4 million (2003: Rs. 5.4 million) from the company. The management of the company anticipates favourable outcome of such appeal, hence no provision there against has been made in these financial statements.

27.3 Commitments

27.3.1 Outstanding commitments for the purchase of aircraft as at December 31, 2004 amount to Rs. 59,945 million (2003: Rs. 72,314 million).

27.3.2 Capital commitments for assets other than aircraft as at December 31, 2004 amounted to Rs. 13.340 million (2003: Rs. 17.518 million).

27.3.3 Outstanding letters of credit amounted to Rs. 309 million (2003: Rs. 57.88 million).

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

	2004	2003
	(Rupees in thousand)	
2004	-	29
2005	-	-
	<u>-</u>	<u>29</u>

28. TURNOVER - net

	2004	2003
	(Rupees in thousand)	
Passenger	49,206,908	40,612,588
Excess baggage	938,590	951,093
Freight	4,554,098	3,961,828
Mail	267,404	201,032
Charters	622,897	696,373
Others	2,198,181	1,528,902
	<u>57,788,078</u>	<u>47,951,816</u>

29. COST OF SERVICES

Salaries, wages and allowances	5,359,743	5,064,259
Welfare & social security costs	68,641	27,078
Provident fund	152,273	151,547
Pension funds (note 39.1)	81,797	174,000
Post retirement medical benefits - net (note 39.2)	132,660	7,128
Provision for/(write back of) employees' compensated absences - net (note 22.3)	17,160	196,992
Legal and professional charges	5,492	23,147
Aircraft fuel and oil	17,913,327	11,604,964
Stores and spares consumed	2,847,462	2,726,359
Maintenance and overhaul	3,842,275	2,751,900
Flight equipment rental	1,493,764	592,681
Landing and handling	6,874,919	4,983,832
Passenger services	2,061,270	1,576,561
Insurance	1,295,663	1,224,237
Rent, rates and taxes	170,764	150,259
Depreciation (note 3.1.5)	4,188,728	3,303,432
Others	2,547,868	2,311,107
	<u>49,053,806</u>	<u>36,869,483</u>

30. OTHER OPERATING INCOME

Dividend income	-	59,354
Interest income on advance to an associated company (note 6.1)	2,771,594	183,616
Exchange (loss)/gain	(957,194)	140,909
Interest income on advance to pension and provident fund	9,641	107,176
Markup on short-term deposits	143,105	131,004
Gain/(loss) on disposal of fixed assets	212,458	(30,555)
Deferred gain realized on sale and lease back	-	72,646
Profit on takeover of subsidiaries assets and liabilities	7,791	-
	<u>2,187,395</u>	<u>664,150</u>

31. MARKETING AND DISTRIBUTION COSTS

	2004	2003
	(Rupees in thousand)	
Salaries, wages and allowances	1,255,628	1,225,271
Welfare & social security costs	134,590	125,701
Provident fund	29,402	28,568
Pension funds (note 39.1)	16,416	(380,000)
Post retirement medical benefits - net (note 39.2)	31,115	1,727
Provision for/(write back of) employees' compensated absences-net (note 22.3)	4,160	47,728
Legal and professional charges	21,117	32,094
Insurance	16,227	13,966
Advertising and selling	704,558	671,201
Rent, rates and taxes	227,536	232,061
Depreciation (note 3.1.5)	40,581	29,579
Others	283,778	204,497
	<u>2,765,108</u>	<u>2,232,393</u>

32. ADMINISTRATIVE EXPENSES

Salaries, wages and allowances	1,497,302	1,528,190
Welfare & social security costs	548,476	480,540
Provident fund	53,359	53,156
Pension funds (note 39.1)	19,580	(473,000)
Post retirement medical benefits - net (note 39.2)	37,225	2,145
Provision for/(write back of) employees' compensated absences-net (note 22.3)	4,680	59,280
Legal and professional charges	263,050	207,289
Retirement under Mandatory/VGHS Scheme	-	31,770
Insurance	36,379	26,067
Rent, rates and taxes	98,579	135,918
Auditors' remuneration (note 32.1 and 32.2)	8,204	8,204
Amortisation of intangible assets	4,676	19,508
Depreciation (note 3.1.5)	52,547	79,323
Others (note 32.3)	1,429,115	1,313,961
	<u>4,053,172</u>	<u>3,472,351</u>

32.1 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
	<u>8,204</u>	<u>8,204</u>

32.2 Auditors' remuneration is shared equally by the two firms of auditors.

32.3 This includes donation of Rs. 5.38 million (2003: Rs. 3.25 million). Directors including Chief Executive / Chairman and their spouses do not have any interest in the donee.

33. FINANCE COST

Arrangement, agency and commitment fee	81,856	190,588
Interest on long-term finance	119,307	172,362
Interest on short-term finance	2,074	168,882
Profit on term finance certificates	1,214,492	1,045,278
Mark-up on redeemable capital	231,573	351,893
Interest on obligation under hire purchase	11,595	85,876
Interest on obligation under finance leases	484,870	131,915
Interest to Pension / Provident Funds	18,658	288,676
Dividend on preference shares	-	16,500
Bank charges, guarantee commission, and other related charges	34,642	122,372
	<u>2,199,067</u>	<u>2,574,342</u>

34. OTHER PROVISIONS AND ADJUSTMENTS

	2004	2003
	(Rupees in thousand)	
Reversal of provision for doubtful trade debts (note 9)	(156,000)	-
Net provision for doubtful advances	-	4,164
Reversal of liabilities no longer payable	(493,289)	(355,630)
Re-instatement of certain assets	(52,515)	-
Provision against stores and spares (note 8)	1,768,821	90,133
Write back of provision against goods in transit	-	(8,460)
Provision for doubtful receivables	-	1,638
Advances against CWIP written off	-	6,069
Bank balances written off	-	1,966
Capital spares' scrappage	-	27,417
	<u>1,067,017</u>	<u>(232,703)</u>

35. Remuneration of Chief Executive / Chairman and Executives

	Chief Executive/ Chairman		Executives	
	(----- Rupees in thousand -----)			
	2004	2003	2004	2003
Managerial remuneration	-	-	105,288	93,885
Corporation's contribution to provident fund	-	-	6,303	8,231
Reimbursement of perquisites	-	-	3,961	3,586
Other perquisites	-	-	82,690	67,524
	<u>-</u>	<u>-</u>	<u>198,242</u>	<u>173,226</u>
Numbers	1	1	126	127

35.1 Directors other than Chief Executive / Chairman are non-executive directors and these directors are not paid director fee. Executives are provided with the Corporation maintained cars and facilities as per the Corporation rules.

35.2 Due to amendment in fourth schedule of Companies Ordinance 1984, number of executives in corresponding figure, has changed from 14,351 to 127 and their remuneration from Rs. 5,758 million to Rs. 173 million.

36. TAXATION

36.1 Prior years taxation

During the year an exercise was undertaken to organise the records relating to pending income tax assessments of the Corporation and a detailed tax position of the Corporation's open assessments was prepared. This has resulted in revision to provision for taxation made for the year ended December 31, 2003 and adjustment to deferred tax liability as explained in the proforma information given below.

	As reported		Proforma	
	2004	2003	2004	2003
Extracts from the profit and loss account				
Profit before tax	837,303	3,700,100	837,303	3,700,100
Taxation				
- Current	(288,940)	(938,224)	(288,940)	(239,758)
- Prior	698,465	-	-	-
- Deferred	1,059,770	(1,463,224)	(648,211)	(298,571)
	<u>1,469,295</u>	<u>(2,401,448)</u>	<u>(937,151)</u>	<u>(538,329)</u>
Profit / (loss) after tax	<u>2,306,598</u>	<u>1,298,652</u>	<u>(99,848)</u>	<u>3,161,771</u>
Extracts from the the statement of changes in equity				
Accumulated losses as previously reported	(9,119,166)	(10,267,818)	(9,119,166)	(10,267,818)
Effect of correction in carry forward losses	-	-	2,406,446	543,327
Accumulated losses - restated	(9,119,166)	(10,267,818)	(6,712,720)	(9,724,491)
Net profit	2,306,598	1,298,652	(99,848)	3,161,771
	<u>(6,812,568)</u>	<u>(8,969,166)</u>	<u>(6,812,568)</u>	<u>(6,562,220)</u>
Appropriations:				
Transferred to capital redemption reserve fund	-	(150,000)	-	(150,000)
Dividend	(575,741)	-	(575,741)	-
	<u>(575,741)</u>	<u>(150,000)</u>	<u>(575,741)</u>	<u>(150,000)</u>
Accumulated loss carried forward	<u>(7,388,309)</u>	<u>(9,119,166)</u>	<u>(7,388,309)</u>	<u>(6,712,720)</u>

	2004 (Rupees in thousand)	2003
36.2 Reconciliation of tax expense with accounting profit		
Accounting profit	837,303	3,700,100
Tax on above profit @ 35% (applicable rate of tax)	293,056	1,295,035
Effect of minimum tax under section 113 of Income Tax Ordinance, 2001	288,940	-
Tax effect of inadmissible expenses	80,066	232,167
Tax effect of change in the estimation of carry forward losses	(1,072,400)	909,422
Prior year reversal	(698,465)	-
Tax effect of dividend income for separate consideration	-	(17,806)
Effect of adjustments in opening balance of temporary differences	(360,492)	-
Others	-	(17,370)
Tax charge for the year	(1,469,295)	2,401,448

36.3 Assessments of the Corporation have been finalized upto and including assessment year 2000-2001. The Corporation has filed appeals before the Income Tax Appellate Tribunal (ITAT) for the assessment years 1991-1992, 1992-1993, and 1997-1998 to 2000-2001 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 (now Income Tax Ordinance, 2001). The minimum tax liability under section 80D (now section 113 under income Tax Ordinance, 2001). The minimum tax liability under section 80D (now section 113 under Income Tax Ordinance, 2001) has been assessed by the department upto the assessment year 2000-01 after adding 10% of net turnover on estimated basis.

The Corporation had filed appeals against application of Section 25(c) and increase of turnover by 10% on estimated basis for the assessment years 1991-92, 92-93 and 1997-98 to 2000-2001 before Commissioner of Income Tax (Appeals) which are pending adjudication, while the appeals filed before Income Tax Appellate Tribunal (ITAT) 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 made a representation to Secretary, Ministry of Law, GoP for resolving the issue of addition made in net turnover of 10% of net turnover on estimated basis for levy of minimum tax under section 80D, whose decision will be considered as final. The department has imposed the penalty on the Corporation amounting to Rs. 238.14 million (2003: Rs. 238.14 million) under section 88 and 89 of the Income Tax Ordinance, 1979 respectively.

However, the provision of Rs. 352 million (2003: Rs. 323 million) on account of additional tax liability under section 80D of Income Tax Ordinance, 1979 (113 of Income Tax Ordinance, 2001) on amounts added to revenue on estimated basis and penalties, which may arise, have not been made in these financial statements, as management is confident of favourable outcome.

37. EARNINGS PER SHARE

Profit for the year (Rupees in thousand)	2,306,598	1,298,652
Weighted average number of ordinary shares outstanding	1,309,084,005	828,675,807
Earnings per 'A' class ordinary share of Rupees 10 each (Rupees)	1.76	1.57
Earnings per 'B' class ordinary share of Rupees 5 each (Rupees)	0.88	0.78

37.1 Basic earning per share has no dilution effect.

38. CASH GENERATED FROM OPERATIONS

	2004	2003
	(Rupees in thousand)	
Profit before tax	837,303	3,700,100
Adjustments for:		
Depreciation	4,281,855	3,412,334
Amortization of deferred cost	-	31,770
Capital spares scrappage	-	27,417
Amortization of intangible assets (note 4)	4,676	19,508
Reversal against provision for doubtful trade debts (note 9)	(156,000)	-
Provision for staff retirement medical benefits (note 39)	201,000	11,000
Provision for staff compensated absences - net (note 22.3)	26,000	304,000
Write off of advance against CWIP	-	6,069
Provision for deferred custom duties	424,543	28,643
Write back of provision for doubtful advances	-	(2,658)
Reversal of liabilities no longer payable	(493,289)	(355,630)
Provision against stores and spares (note 8)	1,768,821	90,133
Finance cost	2,199,067	2,574,342
Interest income on advances to an associated company	(2,771,594)	(183,616)
(Gain)/loss on disposal of fixed assets	(180,301)	30,555
Realization of deferred gain on sale and lease back	(32,157)	(72,646)
Unrealized exchange gain on investment	(37,800)	(38,043)
Dividend income	-	(59,354)
Operating profit before working capital changes	<u>6,072,124</u>	<u>9,523,924</u>
Changes in operating assets and liabilities		
Decrease/(increase) in stores and spares	510,223	(1,228,267)
Increase in trade debts	(744,451)	(46,459)
Decrease/(increase) in advances	284,511	(34,970)
Decrease/(increase) in trade deposits and prepayments	(103,654)	-
Decrease/(increase) in other receivables	226,167	(801,521)
Increase/(decrease) in trade and other payables	1,508,225	(2,383,581)
Cash generated from operations	<u>7,753,145</u>	<u>5,029,126</u>

39. POST RETIREMENT BENEFITS

The actuarial valuation of both pension and post retirement medical benefit schemes was carried out at December 31, 2004. The projected unit credit method, using the following significant financial assumptions has been used for the actuarial valuation:

	% age	% age
Discount rate	9.46% per annum	8.00% per annum
Expected long-term rate of increase in salary level	7.38% per annum	5.94% per annum
Expected rate of increase in pension cost	1.35% per annum	0.00% per annum
Expected rate of medical cost trend	4.25% per annum	2.86% per annum
Expected rate of return on investments	9.46% per annum	8.00% per annum

39.1 Pension Funds

Number of employees covered by the scheme as on December 31, 2004 was 14,125 (2003: 14,645). The funds' assets, liabilities, costs and actuarial gains as determined by the actuary are as follows:

	2004	2003
	(Rupees in million)	
Asset recognized in the balance sheet		
Present value of defined benefit obligation	8,998	8,979
Less: fair value of plan assets	<u>10,910</u>	<u>10,910</u>
Net asset recognized	<u>1,912</u>	<u>1,931</u>
Expense/ (income) recognized in profit and loss account		
Current service cost	252	249
Interest cost	693	681
Expected return on plan assets	(851)	(778)
Actuarial loss/(gain) recognized	<u>24</u>	<u>(831)</u>
	<u>118</u>	<u>(679)</u>
Movement in asset during the year		
Asset at the beginning of the year	1,931	1,154
Income credited to profit and loss account	(118)	679
Contribution	<u>99</u>	<u>98</u>
Asset at the end of the year	<u>1,912</u>	<u>1,931</u>
Actual return on plan assets	<u>558</u>	<u>1,427</u>

39.1.1 The fair value of plan assets includes securities of Rs. 9.3 million (2003: Rs. 34 million) of other funds and investments in the Corporation's shares amounting to Rs. 7.77 million (2003: Rs. 11.66 million).

39.2 Post retirement medical benefits

Obligation, costs and actuarial gains as determined by the actuary are as follows:

Liability recognized in the balance sheet		
Present value of defined benefit obligation	925	771
Unrecognized transitional liability	-	-
Recognized net liability	<u>925</u>	<u>771</u>
Expense recognized in profit and loss account		
Current service cost	17	16
Interest cost	60	63
Transitional cost	-	-
Net actuarial (gain)/loss recognized	<u>124</u>	<u>(68)</u>
	<u>201</u>	<u>11</u>
Movement in liability during the year		
Liability on January 1	771	806
Expense charged to profit and loss account	201	11
Benefits paid during the year	(47)	(46)
Liability on December 31	<u>925</u>	<u>771</u>

39.3 Employees' funds investments

The value of investments made by the employees' provident fund and pension funds based on their financial statements are as follows:

PIAC Provident Fund	<u>6,696</u>	<u>6,057</u>
PIAC Cockpit Crew Pension Fund	<u>416</u>	<u>416</u>
PIAC Flight Engineers' Pension Fund	<u>160</u>	<u>160</u>
PIAC Employees' Pension Fund	<u>2,291</u>	<u>2,295</u>

40. GEOGRAPHICAL SEGMENTS

40.1 Revenue analysis	2004	2003
	(Rupees in thousand)	
The analysis of material accounts of traffic revenue is as follows:		
USA/Canada	5,757,857	4,255,376
Europe	12,947,554	11,826,142
Middle East/Africa	8,562,300	7,127,169
Asia (excluding Pakistan)	2,585,978	1,122,069
Pakistan	27,934,389	23,621,060
	<u>57,788,078</u>	<u>47,951,816</u>

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

Geographical analysis of net assets

The major revenue earning assets comprise the aircraft fleet, all of which are registered in Pakistan. Since the fleet of the Corporation is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

41. RISK MANAGEMENT

41.1 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.

41.2 Fair value of financial assets and liabilities

	2004		2003	
	Book value	Fair value	Book value	Fair value
	(----- Rupees in thousand-----)			
Financial assets				
Long-term investments	119,728	119,728	122,778	122,778
Long-term advances and other receivables	7,196,914	7,196,914	5,617,524	5,617,524
Long-term deposits	773,137	773,137	180,870	180,870
Trade debts	4,314,618	4,314,618	3,414,167	3,414,167
Advances	14,297	14,297	12,205	12,205
Trade deposits	41,443	41,443	43,848	43,848
Other receivables	548,510	548,510	774,676	774,676
Short-term investments	440,446	440,446	372,962	372,962
Cash and bank balances	10,838,898	10,838,898	10,089,716	10,089,716
	<u>24,287,991</u>	<u>24,287,991</u>	<u>20,628,746</u>	<u>20,628,746</u>
Financial liabilities				
Long term financing-secured	4,052,769	4,052,769	4,992,145	4,992,145
Term finance certificates	15,139,545	15,139,545	15,139,849	15,139,849
Liabilities against assets subject to finance lease	25,684,895	25,684,895	7,538,548	7,538,548
Obligations under hire purchase	-	-	685,438	685,438
Long term murabaha	2,435,707	2,435,707	3,154,013	3,154,013
Long term deposits	205,260	205,260	180,798	180,798
Deferred liabilities	925,000	925,000	771,000	771,000
Other liability	122,896	122,896	239,299	239,299
Trade and other payables	6,259,041	6,259,041	7,498,697	7,498,697
Accrued markup/interest	540,570	540,570	562,803	562,803
Short term borrowing	-	-	65,000	65,000
	<u>55,365,683</u>	<u>55,365,683</u>	<u>40,827,590</u>	<u>40,827,590</u>

The fair values of investments are stated at their market/breakup values at relevant dates. The fair values of remaining financial assets and liabilities except advances to associated companies, liabilities against lease and hire purchase, and long-term loans for aircraft purchases, are estimated to approximate their carrying values as these instruments are short-term in nature or frequently re-priced. The fair values of advances to associated companies, liabilities against lease and hire purchase and long-term loans cannot be estimated reliably due to their specific nature.

41.3 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.

41.4 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 certain long-term debts and TFCs. Further, GoP has agreed to provide equity contribution as mentioned in note 1.2.

41.5 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, 2004 are summarized as follows:

	2 0 0 4								Total
	Interest bearing				Non-Interest bearing				
	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 -----)									
a) Financial assets									
Long-term investments	15,765	71,870	4,163	91,798	27,930	-	-	27,930	119,728
Long-term advances and other receivables	-	7,196,914	-	7,196,914	-	-	-	-	7,196,914
Long-term deposits	-	-	-	-	-	-	773,137	773,137	773,137
Trade debts	-	-	-	-	4,314,618	-	-	4,314,618	4,314,618
Advances	14,297	-	-	14,297	-	-	-	-	14,297
Trade deposits	20,356	-	-	20,356	21,087	-	-	21,087	41,443
Other receivables	-	-	-	-	548,510	-	-	548,510	548,510
Short-term investments	-	-	-	-	440,446	-	-	440,446	440,446
Cash and bank balances	7,962,043	-	-	7,962,043	2,876,855	-	-	2,876,855	10,838,898
	8,012,461	7,268,784	4,163	15,285,408	8,229,446	-	773,137	9,002,583	24,287,991
b) Financial liabilities									
Long term financing-secured	1,621,110	2,431,659	-	4,052,769	-	-	-	-	4,052,769
Term finance certificates	378,635	12,616,162	2,144,748	15,139,545	-	-	-	-	15,139,545
Liabilities against assets	1,960,217	8,825,257	14,899,421	25,684,895	-	-	-	-	25,684,895
Long term murabaha	835,099	1,600,608	-	2,435,707	-	-	-	-	2,435,707
Long term deposits	-	-	-	-	-	205,260	-	205,260	205,260
Deferred liabilities	-	-	-	-	-	925,000	-	925,000	925,000
Other liability	-	-	-	-	122,896	-	-	122,896	122,896
Trade and other payables	-	-	-	-	6,259,041	-	-	6,259,041	6,259,041
Accrued markup/ interest	540,570	-	-	540,570	-	-	-	-	540,570
Short term borrowing	-	-	-	-	-	-	-	-	-
	5,335,631	25,473,686	17,044,169	47,853,486	6,381,937	1,130,260	-	7,512,197	55,365,683
c) Off balance sheet items									
Guarantees outstanding	-	-	-	-	-	184,000	-	184,000	184,000
Letters of credit	-	-	-	-	-	309,000	-	309,000	309,000
	-	-	-	-	-	493,000	-	493,000	493,000
December 2003	-	-	-	-	-	532,880	-	532,880	532,880
Effective interest rates (a)									
Long-term investments		5.20%							
Advances	5.00%	& 10.00%							
Trade deposits		5.71%							
Cash and bank balances	0.70%	to 5.50%							
Effective interest rates (b)									
Long term financing-secured	4.34%	to 6.34%							
Term finance certificates		8.00%							
Long term murabaha	3.79%	to 5.42%							
Liabilities against assets	5.20%	to 10.00%							
Accrued markup/ interest	2.50%	to 16.00%							

42. 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:

	2004	2003
	(Rupees in thousand)	
Catering services from Sky Rooms (Private) Limited	<u>33,531</u>	<u>79,000</u>
Advertising services from International Advertising (Private) Limited	<u>38,439</u>	<u>42,590</u>
Interest on advances to PIA Investments Limited	<u>2,771,594</u>	<u>183,616</u>
Interest on advance to pension fund	<u>6,427</u>	<u>64,451</u>
Interest on advance to provident fund	<u>3,214</u>	<u>42,705</u>
Charge/contribution to pension fund	<u>358,018</u>	<u>465,029</u>
Charge/contribution to provident fund	<u>234,947</u>	<u>233,457</u>

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

43. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorized for issue in the Board of Directors Meeting held on April 04, 2005.

44. COMPARATIVES

The comparatives have been rearranged where necessary due to revisions in Fourth Schedule to the Companies Ordinance, 1984.

45. GENERAL

- 45.1 The information as to the available capacity and utilization thereof during the period has been disclosed in the statistics annexed to the financial statements.
- 45.2 The US Dollars amounts in Balance Sheet, Profit and Loss Account and Cash Flow Statement have been translated into US Dollars at the rate of Rs. 59.65 = US\$ 1 solely for convenience purposes.
- 45.3 Number of the Corporation employees as at December 31, 2004 was 19,615 (2003: 19,623).