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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan International Airlines Corporation (the Corporation) as at December 31, 2004 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) as more fully explained in notes 3.1.3 and 8, due to lack of adequate audit trail to support the carrying value of inventories as a result of problems with the inventory management system, we could not verify the valuation of consumable stores and spares and capital spares with carrying value of Rs. 1,905 million and Rs. 2,811 million respectively and we consider that there were no alternative procedures that we could apply to confirm the valuation of such inventories.

b) as more fully explained in note 6.1, during the year the Corporation has recorded interest on working capital advances to PIA Investments Limited (PIAIL) @ 5% per annum from the date of original disbursement. In previous years, the Corporation had decided that the 5% interest on working capital loans will be recorded as and when realised. In our view, which is contested by the management,there has been no change in the PIAIL's ability to repay the outstanding debt and interest thereon without disposal of its properties and accordingly, the above recognition of interest does not meet revenue recognition criteria stipulated in International Accounting Standard-18: Revenue. Had the interest on working capital loan not been recorded until its recoverability is assured, long term advances and profit before tax would have been lower by approximately Rs. 2,669 million;

c) as more fully explained in note 6.1, the Corporation has continued to accrue interest on the unpaid interest component of renovation loan at 10% per annum. In view of the recommendations of the committee of shareholders of PIAIL and the decision of the Government that reduction in interest rates shall only be applicable in case of disinvestment or an overall settlement with the other shareholder of PIAIL regarding assets distribution, 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. However, in our view, which is contested by the management, the above recognition of interest differential as explained in note 6.1 and para (b) above does not meet revenue recognition criteria stipulated in International Accounting Standard-18: Revenue. Had the interest differential not been recorded, long term advances and profit before tax would have been lower by approximately Rs. 1,015 million;

d) in our opinion, except for the effect of matters stated in paragraphs (a), (b) and (c) above, proper books of account have been kept by the Corporation as required by the Pakistan International Airlines Corporation Act, 1956 and rules made thereunder and the Companies Ordinance, 1984;

e) in our opinion:

   i) except for the effect of the matters reported in paragraphs (a), (b) and (c) 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;

f) except for the effect on the financial statements of the matters stated in paragraphs (a), if any, and (b) and (c) above, 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, 2004 and of the profit, its cash flows and changes in equity for the year then ended; and

g) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the Corporation and was deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Without qualifying our opinion, we draw attention to note 27.1.2 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.

During the year, the Corporation has paid an interim dividend of Rs. 576 million on 27 May 2004 based on management's estimates of profit for the year then available after taking into account the effect of qualification. The profit for the year, after taking consequential effect of the matters relating to PIAIL referred to above, would not be sufficient to meet the dividend payment.

Previous year's financial statements were audited by M. Yousuf Adil Saleem & Co. and Taseer Hadi Khalid & Co.

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Taseer Hadi Khalid & Co.
Chartered Accountants

Karachi: April 04, 2005