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Auditors Review Report

We have reviewed the accompanying balance sheet of Pakistan International Airlines Corporation (the Corporation) as at June 30, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the "financial statements") for the six months period then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our review.

Except for the matter referred in paragraph (a) below, we conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the Corporation's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. The financial statements of the Corporation for the year ended December 31, 2004 were audited by Ford Rhodes Sidat Hyder & Co. and Taseer Hadi Khalid & Co., who expressed a qualified opinion in their report dated April 04, 2005.

- a) as disclosed in notes 4 and 8 to the financial statements, 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. 1,921 million and Rs. 2,767 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 to the financial statements, the Corporation has accrued interest in the previous year amounting to Rs. 2,669 million and Rs. 120 million during the current six months on working capital advances to PIA Investments Limited (PIAIL) @ 5% per annum from the date of original disbursement. In our view, which is contested by the management, there has been no change in the PIAIL's ability to repay the outstanding balance without disposal of its properties and accordingly the above recognition of interest does not meet revenue recognition criteria stipulated in IAS 18: Revenue. Had the recognition of revenue not been made on the outstanding principal the loss for the period would have been higher by Rs. 120 million and the accumulated loss would have been higher and long term advances would have been lower by Rs. 2,789 million.



c) as more fully explained in note 6.1 to the financial statements, 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 does not meet revenue recognition criteria stipulated in International Accounting Standard-18: Revenue. Had the interest not been accrued loss for the period would have been higher by Rs. 42 million and accumulated loss would have been higher and long term advances would have been lower by Rs. 805 million.

Based on our review, except for the effects of the matters described in preceding paragraphs (a) to (c), nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

We draw attention to note 14.1.6 to the financial statements explaining the difference between the amount due as per the Corporation records and amount claimed by Civil Aviation Authority for which a reconciliation and settlement exercise is in progress through Ministry of Defence.

Ford Rhodes Sidat Hyder & Co
Chartered Accountants

Anjum Asim Shahid Rahman
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Karachi: August 25, 2005