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Vision

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

Mission

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

Offering quality customer services and innovative products

Participating in global alliances

Using state-of-the-art technologies

Ensuring cost effective measures in procurement and operations

Achieving adequate returns for all stakeholders.

Being an equal opportunity employer

Providing competitive compensation and a congenial working environment

Adhering to business ethics and zero tolerance for corruption

Linking remote regions of Pakistan, and

Fulfilling our Corporate Social Responsibility (CSR) in all fields.

Values

Customer Expectations: Convenience, Care, and Competitive tariff

Service: (Personalised and Courteous)

Innovation: (Cherishing new ideas, translating into actions)

Reliability: (Loyalty and Consistency)

Safety: (Passengers, Employees, Environment and Health)

Cohesiveness: (Respect for individuals, Team Work and Effective Communication)

Integrity: (Business Ethics, Accountability and Transparency)

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 50th Annual General Meeting of the Shareholders of Pakistan International Airlines Corporation will be held at 10:00 AM on Wednesday, 25th April 2007, at Pearl Continental Hotel, Club Road Karachi to transact the following Business:

To confirm the Minutes of the 49th Annual General Meeting held on 26th April 2006.

To receive and adopt the Audited Accounts for the Financial Year ended 31st December 2006, together with the Auditors' and Directors Reports.

To transact any other business which may legally be transacted at the Annual General Meeting, with the permission of the Chair.

By Order of the Board

GHAZANFAR MASHKOOR

Secretary - PIA

Karachi 3rd April, 2007

Notes:

The Shares Transfer Books of the Corporation will remain closed from 11th April 2007 to 25th April 2007 (both days inclusive). Transfer documents (Physical Scrip Transfers/CDS Transaction IDs) received in order at the Head office of the Corporation up to 05:30 PM by 10th April 2007 will be in time for registration of transfer of Shares.

A Shareholder entitled to attend and vote at the Meeting is entitled to appoint another Shareholder as proxy. Proxy and Power of Attorney in order to be effective, must be deposited at the Head Office of the Corporation not less than 48 hours before the time fixed for holding the Meeting i.e. up to 09:00 AM 23rd April, 2007 unless the Power of Attorney has already been registered in the Corporation books, and must be duly stamped, signed and witnessed.

Any individual Beneficial Owner of CDC, entitled to attend and vote at the Meeting, must bring his/her CNIC or Passport to authenticate his/her identity along with CDC Account Numbers. However, if proxy is granted by such a Shareholder, the same shall also have to be accompanied with an attested copy of CNIC or Passport of the granter. Representatives of corporate Shareholders should bring the usual documents required for such purpose.

Shareholders are requested to promptly notify changes, if any, in their registered addresses and also for the consolidation of folio numbers, if any Shareholder holds more than one folio.

Entry at the Meeting place will start at 09:00 A.M and close at 10:00 A.M Shareholders' co-operation in this regard will be appreciated.

Corporate Profile

Board of Directors

Mr. Tariq Kirmani (Chairman and Chief Executive Officer)

Mr. Kamal Afsar

Mr. Mueen Afzal

Syed Mohammad Fazal Agha

Mr. Nawid Ahsan (Secretary General Finance)

Mr. Shahzad M. Husain

Mr. M. Hidayatulla Khan Khalshgi

Mr. Javed Saifullah Khan

Maj Gen. Mir Halder Ali Khan (Additional Secretary - Ministry of Defence)

Mr. S. Ali Raza

Mr. Farooq Rehmatullah (Director General, Civil Aviation Authority)

Mr. Ghazanfar Mashkoor (Secretary)

Audit Committee

Mr. Kamal Afsar (Chairman)

Mr. Mueen Afzal

Maj Gen. Mir Haider Ali Khan

Mr. Shahzad M. Husain

Mr. S. Ali Raza

Mr. Shehrzad Aminullah (Secretary)

Human Resource & Corporate Governance Committee:

Mr. Tariq Kirmani (Chairman)

Syed Mohammad Fazal Agha

Mr. Javed Saifullah Khan

Mr. M. Hidayatulla Khan Khalshgi

Mr. Farooq Rehmatullah

Mr. Wasim Barl (Secretary)

Registered Office

PIA Building, Jinnah International Airport, Karachi - Pakistan

Web Site:

www.plac.com.pk

Executive Management

Mr. Tariq Kirmani (Chairman and Chief Executive Officer)

Mr. Umar Ghafoor (Deputy Managing Director)

Mr. Muhammad Abdul Aleem (Chief Financial Officer)

Mr. Muhammad Tariq Farooq (Acting SVP Engineering)

Mr. Arif Majeed (SVP Finance)

Mr. Shahnawaz Rehman (SVP Financial Monitoring & Appraisal)

Capt Syed Furqan Ahmed (SVP Flight Operations)

Capt. Shahnawaz Dara (SVP Flight Safety & HSE)

Mr. Salah Uddin (SVP Flight Services)

Mr. Wasim Bari (SVP Human Resources & Administration)

Mr. Nadeem Ikram (SVP Information Technology)

AVM Muhammad Rafi (SVP Precision Engineering)

Mr. Anwaar Rasul (SVP Procurement Logistics & Coordination)

Capt. Javed Khan (SVP Quality Assurance)

S. Kamran Hassan (SVP Sales)

Board of Directors Details

Mr. Tariq Kirmani:

Took over on 19th April, 2005. Holds a Masters in Business Administration with over 36 years of multi-faceted experience, including senior management positions with a multi-national company in USA, UAE and Australia. Currently serves as a Director/Member on the Boards of Karachi Stock Exchange and several Corporations and charities. He is also Chief Scout of PIA.

Mr. Kamal Afsar:

Elected Director since 24th September, 2004. A Post Graduate in Economics and Business Administration, he is a renowned bureaucrat and corporate leader. He is presently Chairman, State Life Insurance Corporation of Pakistan and a Board Member of various other organizations. He held significant positions, including Commerce Secretary, Government of Pakistan, and Consul General of Pakistan at Hong Kong in the mid-eighties.

Mr. Mueen Afzal:

Former Federal Secretary General Finance, nominated as Director on 14th October, 2006. A renowned civil services officer, he held various important assignments in Provincial and Federal Governments. He remained Chairman Union Bank Limited and is currently on the Board of ICL Pakistan Limited. He is a member of the Adhoc Committee of Pakistan Cricket Board. He also served as Director on PSA Board from January 2000 to November 2002.

Mr. Shahzad M. Husain: Appointed by the Federal Government as Director on 14th October 2006. Holds a Masters degree in International Relations and Law. A banker with over 20 years at Citibank in various Senior Management positions. He was on the Board of Citicorp Investment Bank Limited and Central Depository Company. Presently he is also on the Board of Directors of PICIC Ltd and Dadex Enternit Ltd.

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

Syed Mohammad Fazal Agha: Nominated by the Federal Government as Director on 8th August 2003. Former Governor Balochistan and former Deputy Chairman, Senate of Pakistan. Graduated as a Civil Engineer and holds an LL.B. with distinction. During his Senate Membership, he served as Chairman or Member of various Committees of Senate. He led Senate delegations to various countries in Europe and Asia. He is Chairman of Children Hospital, Quetta, and was a Board Member of Trust for Voluntary Affairs.

Mr. Nawid Ahsan:

Nominated by the Federal Government as Director on 30th November 2002. Holds a Masters of Development Studies (Economic Policy and Planning) from Netherlands. He has an illustrious academic background including Gold Medals in M.A. Economics and Bachelor of Arts. He held various assignments in Provincial & Federal Government and is currently Federal Secretary General Finance. He is also a Board Member of State Bank of Pakistan and Pak Kuwait Investment Company Limited.

Maj. Gen. Mir Halder Ali Khan:

Nominated by the Federal Government as Director on 18th November 2006. He held various important command, staff, and instructional appointments, including tenures at the Pakistan Military Academy Kakul and Command of two offensive Divisions. He is a graduate of the Command and Staff College Quetta, National Defence College, Istanbul. He was Defence Attache of Pakistan at Ankara, Turkey, with accreditation to countries in Eastern Europe and Central Asia. Before joining Ministry of Defence as Additional Secretary, he was Deputy Chief of General Staff at the General Headquarters, involved in modernization and expansion of the Army aviation's combat, service support, maintenance, and training systems.

Mr. S. All Raza: Elected Director since 22nd September 2001. Holds a Masters Degree in Admin Sciences and Graduation from Business Centre London. He is a renowned banking professional, currently Chairman & President, National Bank of Pakistan. He is also a Board Member of various other organizations and a member of the Pakistan Cricket Board Ad-hoc Committee. He is also a member of the Rotary Club of Karachi Metropolitan/Jinnah Society Jinnah Foundation.

Mr. Farooq Rahmatullah:

DG, CAA, nominated by the Federal Government as Director on 14th October, 2006. Before CAA, he was Chairman and Managing Director, Shell Pakistan Limited. He started his career in 1968 and has wide experience in running multinational corporations.

Executive Management

Standing from left to right: S. Kamran Hassan, Capt Syed Furqan Ahmed, Mr. Wasim Bari, Mr. Tariq Kirmani, Mr. Umar Ghafoor, Mr. Shahnawaz Rehman, Mr. Nadeem Ikram, Mr. Salah Uddin, Mr. Muhammad Tariq Farooq, Mr. Anwaar Rasul.

Sitting from left to right: Capt. Shahnawaz Dara, AVM Muhammad Rafi, Mr. Muhammad Abdul Aleem, Mr. Arif Majeed, Capt. Javed Khan.

Board's Committees

Audit Committee

The Board constituted an Audit Committee to meet Listing Regulations of the Stock Exchanges made in light of the Code of Corporate Governance. The Committee is responsible for considering annual accounts, quarterly accounts, reviewing the approach adopted by the Internal Audit Division, the scope of and relationship with External Auditors, and measures to address internal control & material weaknesses.

The Committee comprises of:

Mr. Kamal Afsar: Chairman

Mr. Mueen Afzal: Member

Maj. Gen. Mir Haider Ali Khan: Member

Mr. Shahzad M. Husain: Member

Mr. S. Ali Raza: Member

Mr. Shehrzad Aminullah: Secretary

Chief Internal Auditor

Human Resource & Corporate Governance Committee (HR & CGC)

PIA Board constituted an HR & CGC Committee to assist PIA Management in reviewing HR policies, procedures, programmes & processes aligned with strategic vision & core objectives and to provide leadership & guidance for organizational transformation to achieve corporate objectives. The Committee also ensures compliance with good governance in line with best corporate practices and regulations of the Securities & Exchange Commission of Pakistan (SECP).

The Committee comprises of:

Mr. Tariq Kirmani: Chairman

Syed Mohammad Fazal Agha: Member

Mr. Javed Saifullah: Member

Mr. M. Hidayatulla Khan Khaishgi: Member

Mr. Farooq Rehmatulla: Member

Mr. Wasim Bari: Secretary SVP (HR&A)

Review Report on Statement of Compliance with Best Practices of Code of Corporate Governance

Ford Rhodes Sidat Hyder & Co. and Anjum Asim Shahid Rahman, Chartered Accountants, reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance, prepared by the Board of Directors of Pakistan International Airlines Corporation. This review was to ensure compliance with Listing Regulations of the Karachi, Lahore, and Islamabad Stock Exchanges. The responsibility for compliance lies with the Board of Directors. The auditors' responsibility is to verify whether the Statement reflects the Corporation's compliance. The review is limited to inquiries of Corporation personnel and document review. No special review of the internal control system was carried out to express an opinion on its effectiveness. Based on their review, nothing indicated that the Statement does not appropriately reflect the Corporation's compliance with the Code for the year ended December 31, 2006.

Statement of Compliance with Best Practices of Code of Corporate Governance

The Corporation, being listed on all three Stock Exchanges in Pakistan, has complied with the Code as follows for the year ended 31st December, 2006:

According to the Pakistan International Airlines Corporation Act, 1956, the Board of Directors consists of a Chairman and ten Directors. The Chairman and eight Directors are nominated by the Federal Government, and two Directors are elected by shareholders other than the Federal Government. All Directors are non-executive except the Chairman, whose terms are determined by the Government of Pakistan (GoP).

None of the Directors serves on more than ten listed companies' Boards, including the Corporation.

All Directors are registered tax payers and have not defaulted on any loan to a banking company, DFI, or NBFIs, nor have they been declared defaulters by a Stock Exchange.

No casual vacancy occurred in the Board during the year ended 31st December 2006.

The Corporation has developed a 'Statement of Ethics and Business Practices', signed by directors and employees, and is in the process of obtaining signatures from the remaining employees.

The Board has developed Vision, Mission, and Values Statements, overall corporate strategy, and significant policies, with records available.

The Corporation will file a Secretarial Compliance Certificate and meet annual return requirements within the permissible period after the Annual General Meeting.

Pattern of Shareholding as at December 31, 2006

The document includes a table detailing the pattern of shareholding, showing various ranges of shares held and corresponding figures.

Six-Year Summary Operation (2001-2006)

This section provides a summary of key operational statistics for PIA from 2001 to 2006:

Route Kilometers: 446,570 (2006), 343,525 (2005), 354,664 (2004), 290,129 (2003), 257,858 (2002), 265,643 (2001)

Revenue Kilometers Flown (000): 88,302 (2006), 82,550 (2005), 80,087 (2004), 68,851 (2003), 61,921 (2002), 70,958 (2001)

Revenue Hours Flown: 141,479 (2006), 134,039 (2005), 130,977 (2004), 115,017 (2003), 105,553 (2002), 121,860 (2001)

Available Tonne Kilometers (000): 3,369,288 (2006), 3,102,805 (2005), 2,973,437 (2004), 2,475,904 (2003), 2,242,157 (2002), 2,540,547 (2001)

Available Seat Kilometers (000): 22,092,475 (2006), 20,816,469 (2005), 20,353,863 (2004), 17,259,080 (2003), 15,775,960 (2002), 17,755,558 (2001)

Traffic (2001-2006)

Revenue Passengers Carried (000): 5,732 (2006), 5,499 (2005), 5,120 (2004), 4,556 (2003), 4,166 (2002), 4,877 (2001)

Revenue Passengers Kilometers (000): 15,124,413 (2006), 14,506,683 (2005), 13,519,847 (2004), 12,009,419 (2003), 10,779,496 (2002), 11,652,295 (2001)

Passenger Load Factor (%): 68.5 (2006), 69.7 (2005), 66.4 (2004), 69.6 (2003), 68.3 (2002), 65.6 (2001)

Revenue Freight Tonne Kilometers (000): 427,006 (2006), 410,991 (2005), 402,359 (2004), 350,713 (2003), 346,944 (2002), 371,304 (2001)

Kgs. of Excess Baggage & Cargo (000): 121,174 (2006), 124,852 (2005), 118,151 (2004), 102,180 (2003), 100,717 (2002), 111,526 (2001)

Kgs. of Mail (000): 1,410 (2006), 1,433 (2005), 1,649 (2004)

Balance Sheet as at December 31, 2006

Assets

Non-Current Assets:

Property, plant and equipment: 78,964,162 (2006), 51,263,914 (2005) (Rupees in thousand)

Intangibles: 98,275 (2006), 112,421 (2005) (Rupees in thousand)

Long term investments: 4,528,198 (2006), 310,015 (2005) (Rupees in thousand)

Long term advances and other receivable: 1,684,000 (2006), 6,635,933 (2005) (Rupees in thousand)

Long term deposits and prepayments: 3,263,699 (2006), 1,804,977 (2005) (Rupees in thousand)

Total non-current assets: 88,538,334 (2006), 60,127,260 (2005) (Rupees in thousand)

Current Assets:

Stores and spares: 3,371,040 (2006), 2,790,137 (2005) (Rupees in thousand)

Trade debts: 6,129,673 (2006), 5,222,534 (2005) (Rupees in thousand)

Advances: 592,068 (2006), 513,917 (2005) (Rupees in thousand)

Trade deposits and prepayments: 1,229,333 (2006), 581,175 (2005) (Rupees in thousand)

Accrued interest: 51,010 (2006), 39,708 (2005) (Rupees in thousand)

Other receivables: 865,255 (2006), 481,449 (2005) (Rupees in thousand)

Short term investments: 421,394 (2006), 377,545 (2005) (Rupees in thousand)

Taxation - net: 233,738 (2006), 149,087 (2005) (Rupees in thousand)

Cash and bank balances: 5,459,924 (2006), 2,614,691 (2005) (Rupees in thousand)

Total current assets: 18,353,435 (2006), 12,770,243 (2005) (Rupees in thousand)

Total assets: 106,891,769 (2006), 72,897,503 (2005) (Rupees in thousand)

Equity and Liabilities

Share Capital and Reserves:

Share capital: 19,473,631 (2006), 17,980,659 (2005) (Rupees in thousand)

Reserves: 4,280,712 (2006), 4,280,712 (2005) (Rupees in thousand)

Unrealized gain / (loss) on remeasurement of investments - net: 21,013 (2006), (15,107) (2005) (Rupees in thousand)

Accumulated losses: (24,563,386) (2006), (11,799,966) (2005) (Rupees in thousand)

Total equity: (788,030) (2006), 10,446,298 (2005) (Rupees in thousand)

Surplus on revaluation of fixed assets - net: 926,318 (2006), - (2005) (Rupees in thousand)

Non-Current Liabilities:

Long term financing: 6,900,478 (2006), 1,621,099 (2005) (Rupees in thousand)

Term finance certificates: 13,246,970 (2006), 14,003,940 (2005) (Rupees in thousand)

Liabilities against assets subject to finance lease: 42,503,444 (2006), 21,706,064 (2005) (Rupees in thousand)

Long term murabaha: - (2006), 768,075 (2005) (Rupees in thousand)

Long term deposits: 261,711 (2006), 290,236 (2005) (Rupees in thousand)

Deferred liabilities: 2,815,588 (2006), 2,824,690 (2005) (Rupees in thousand)

Total non-current liabilities: 65,728,191 (2006), 41,214,104 (2005) (Rupees in thousand)

Current Liabilities:

Trade and other payables: 16,617,024 (2006), 14,983,921 (2005) (Rupees in thousand)

Accrued interest / mark-up / profit: 812,278 (2006), 607,769 (2005) (Rupees in thousand)

Short term borrowings: 15,543,446 (2006), 362,075 (2005) (Rupees in thousand)

Current portion of: Long term financing: 2,599,916 (2006), 1,621,103 (2005) (Rupees in thousand)

Term finance certificates: 756,970 (2006), 756,970 (2005) (Rupees in thousand)

Liabilities against assets subject to finance lease: 3,914,491 (2006), 2,067,363 (2005) (Rupees in thousand)

Long term murabaha: 781,165 (2006), 837,900 (2005) (Rupees in thousand)

Total current liabilities: 41,025,290 (2006), 21,237,101 (2005) (Rupees in thousand)

Total liabilities and equity: 106,891,769 (2006), 72,897,503 (2005) (Rupees in thousand)

Notes to the Financial Statements for the Year Ended December 31, 2006

Foreign Currency Translation: Monetary assets and liabilities are translated at the balance sheet date rate based on the preceding month's average rate. Foreign currency transactions are translated into local currency at the last week of the preceding month's average rate. Gains/losses on monetary items are recognized in the profit and loss account.

Employee Benefits:

Provident Fund: The Corporation operates a defined contribution provident fund scheme for all permanent employees, with equal monthly contributions from both the Corporation and employees.

Pension Funds: The Corporation operates a funded defined benefit pension scheme for permanent employees, a final salary pension scheme invested through three funds (PALPA, FENA, and Employees' Pension Funds) for cockpit and non-cockpit employees. Contributions are based on annual actuarial valuation, and actuarial gains and losses are recognized immediately.

Property, Plant and Equipment

Operating fixed assets: 72,326,396 (2006), 41,024,467 (2005) (Rupees in thousand)

Capital work-in-progress: 6,637,766 (2006), 10,239,447 (2005) (Rupees in thousand)

Total: 78,964,162 (2006), 51,263,914 (2005) (Rupees in thousand)

Operating fixed assets details:

Leasehold land: 67,824 (2006)

Buildings on leasehold land: 909,766 (2006)

Workshops and hangars: 802,264 (2006)

Renovation and improvements: 448,374 (2006)

Aircraft fleet: 24,445,800 (2006)

Operating ground equipment, catering, communication and meteorological equipment: 512,744 (2006)

Engineering equipment and tools: 989,059 (2006)

Aircraft Fleet Valuation: During the year, the aircraft fleet was valued by Airclaims Limited - UK based on professional assessment of current market values as of December 31, 2006. This valuation considers market activity, demand, availability, age, specification, accrued hours, and cycles of the aircraft.

Leasehold Land Acquisitions:

Mr. Manzoor Hussain (Rawalpindi) acquired leasehold land through auction.

M/s. Ambala Sweet & Nimco acquired leasehold land through auction.

Aircraft Fleet Acquisitions:

DH-6(AP-BCG) and DH-6(AP-BCH) were acquired from M/s. F & M Aviation USA through negotiation.

F-27 (AP-BAL) was acquired via an insurance claim from National Insurance.

Computer Software

Cost: 199,601 (2006), 182,741 (2005) (Rupees in thousand)

Accumulated amortization: 101,326 (2006), 70,320 (2005) (Rupees in thousand)

Net: 98,275 (2006), 112,421 (2005) (Rupees in thousand)

Useful life: 5 - 10 years

Long Term Investments

Investments in related parties - at cost:

Subsidiaries: 4,415,712 (2006), 213,902 (2005) (Rupees in thousand)

Associates: 396 (2006), 396 (2005) (Rupees in thousand)

Joint venture: 1 (2006), - (2005) (Rupees in thousand)

Other investments: 112,089 (2006), 95,717 (2005) (Rupees in thousand)

Total: 4,528,198 (2006), 310,015 (2005) (Rupees in thousand)

Subsidiaries - unquoted:

PIA Investments Limited (PIAIL): 8,384,398 (2006), 2,247,553 (2005) (Rupees in thousand)

Advance against shares pending allotment: 2,170,557 (2006), 114,902 (2005) (Rupees in thousand)

Held to maturity investments:

Promissory notes issued by the Nigerian Government: 61,570 (2006), 77,914 (2005) (Rupees in thousand)

These represent two promissory notes issued by the Nigerian Government on May 8, 1988, for US\$ 1.32 million and US\$ 2.94 million, as consideration for bank balances seized during a coup and civil war. These notes and interest are redeemable in fixed quarterly installments until January 5, 2010.

Long Term Advances and Other Receivable

Long term advances: - (2006), 4,674,933 (2005) (Rupees in thousand)

Trade Debts

Considered good: 6,129,673 (2006), 5,222,534 (2005) (Rupees in thousand)

Considered doubtful: 455,000 (2006), 407,888 (2005) (Rupees in thousand)

Less: provision for doubtful debts: 455,000 (2006), 407,888 (2005) (Rupees in thousand)

Net: 6,129,673 (2006), 5,222,534 (2005) (Rupees in thousand)

Movement in provision for doubtful debts:

Balance at beginning of year: 407,888 (2006), 587,853 (2005)

Written off during the year: (198) (2006), (13,612) (2005)

Provision / (Reversal) made during the year: 47,310 (2006), (166,353) (2005)

Balance at end of year: 455,000 (2006), 407,888 (2005)

Trade debts include amounts due from Government agencies, other airlines, and IATA approved agents. Some are secured by bank guarantees from agents, but the total secured amount is not determinable due to the large number of agents globally.

Advances

Considered good:

Subsidiaries:

PIA Investments Limited: - (2006), 16,704 (2005) (Rupees in thousand)

Sky Rooms (Private) Limited: 62,915 (2006), 129,122 (2005) (Rupees in thousand)

Others:

Executives: 54,942 (2006), 22,752 (2005) (Rupees in thousand)

Employees: 85,534 (2006), 97,075 (2005) (Rupees in thousand)

Suppliers: 383,070 (2006), 241,872 (2005) (Rupees in thousand)

Others: 5,607 (2006), 6,392 (2005) (Rupees in thousand)

Considered doubtful: 28,985 (2006), 25,048 (2005) (Rupees in thousand)

Movement in provision for doubtful advances:

Balance at beginning of year: 25,048 (2006), 20,777 (2005)

Provision made during the year: 3,937 (2006), 4,271 (2005)

Balance at end of year: 28,985 (2006), 25,048 (2005)

Maximum aggregate amount due from subsidiaries at any month-end was Rs. 165 million (2005: Rs. 146 million).

Advances from executives relate to expenses and furniture as per terms of employment. The maximum aggregate amount of advances due from executives at any month-end was Rs. 54.94 million (2005: Rs. 22.75 million).

Trade Deposits and Prepayments

Trade deposits: 280,954 (2006), 37,640 (2005) (Rupees in thousand)

Prepayments: 948,379 (2006), 543,535 (2005) (Rupees in thousand)

Total: 1,229,333 (2006), 581,175 (2005) (Rupees in thousand)

Current portion of long term prepayment: 149,119 (2006), 70,023 (2005) (Rupees in thousand)

Commission: 425,367 (2006), 348 (2005) (Rupees in thousand)

Long Term Financing

Participating banks: United Bank Limited, National Bank of Pakistan, Habib Bank Limited.

Secured by hypothecation of capital spares and traffic equipment.

Mandated lead arrangers: Citigroup, DVB Bank AG (DVB).

Secured by first charge in the assignment of purchase contracts for three new B 777 aircraft. Repayment is at delivery of each aircraft.

Secured by hypothecation charge lien on receivables of Peshawar, Islamabad, and Rawalpindi booking offices and sinking fund account amounting to Rs. 267 million.

Lenders: Citibank International Plc. - Paris, Citibank, N.A. - London.

The Corporation entered into a financing agreement of US\$ 81.90 million.

Trade and Other Payables

Trade creditors:

Goods: 2,809,858 (2006), 2,305,947 (2005) (Rupees in thousand)

Services: 2,170,524 (2006), 1,459,791 (2005) (Rupees in thousand)

Airport related charges: 626,551 (2006), 629,747 (2005) (Rupees in thousand)

Accrued liabilities: 2,125,058 (2006), 2,031,198 (2005) (Rupees in thousand)

Advance against transportation (unearned revenue):

Normal: 5,290,835 (2006), 4,686,980 (2005) (Rupees in thousand)

Hajj: 1,222,732 (2006), 1,476,107 (2005) (Rupees in thousand)

Advance from customers: 268,192 (2006), 390,521 (2005) (Rupees in thousand)

Payable to employees' provident fund: 136,796 (2006), 91,052 (2005) (Rupees in thousand)

Unclaimed dividend - Preference shares: 3,297 (2006), 3,297 (2005) (Rupees in thousand)

Collection on behalf of others: 827,416 (2006), 785,719 (2005) (Rupees in thousand)

Contingencies and Commitments

Contingencies:

Claims against the Corporation amounting to Rs. 2,549 million (2005: Rs. 1,392 million) for breach of stipulations due to negligence or otherwise. Management believes these cases lack sound legal footing and do not expect them to materialize, thus no provision has been made.

Claims from ex-employees for dues relating to re-instatements. The potential liability cannot be determined, so no provision has been made.

Contingencies relating to income tax matters are referred to in note 35.1.

Contingencies for tax matters relating to subsidiaries (PIA Holdings (Private) Limited and PIA Shaver Poultry Breeding Farms (Private) Limited) amounted to Rs. 11.2 million for both 2006 and 2005.

Commitments:

Purchase of aircraft: Rs. 23,842 million (2006), Rs. 60,613 million (2005).

Capital expenditure: Rs. 10.6 million (2006), Rs. 1.1 million (2005).

Outstanding letters of credit: Rs. 141 million (2006), Rs. 127 million (2005).

Outstanding letters of guarantee: Rs. 141 million (2006), Rs. 145 million (2005).

Rentals under operating lease commitments: Rs. 962.7 million (2006), Rs. 758.89 million (2005).

Profit and Loss Account for the Year Ended December 31, 2006

Turnover - net: 70,587,146 (2006), 64,074,470 (2005) (Rupees in thousand)

Passenger: 60,901,468 (2006), 55,019,895 (2005) (Rupees in thousand)

Cargo: 5,741,014 (2006), 4,914,588 (2005) (Rupees in thousand)

Excess baggage: 808,259 (2006), 833,173 (2005) (Rupees in thousand)

Charter: 388,272 (2006), 664,064 (2005) (Rupees in thousand)

Engineering services: 1,043,635 (2006), 845,515 (2005) (Rupees in thousand)

Handling and related services: 634,143 (2006), 635,034 (2005) (Rupees in thousand)

Mail: 305,552 (2006), 302,785 (2005) (Rupees in thousand)

Others: 764,803 (2006), 859,416 (2005) (Rupees in thousand)

Cost of services - others:

Aircraft fuel: 33,370,101 (2006), 26,462,721 (2005) (Rupees in thousand)

Salaries, wages and allowances: 5,788,545 (2006), 5,352,545 (2005) (Rupees in thousand)

Welfare and social security costs: 64,735 (2006), 46,229 (2005) (Rupees in thousand)

Retirement benefits: 331,545 (2006), 299,569 (2005) (Rupees in thousand)

Compensated absences: 7,149 (2006), (8,030) (2005) (Rupees in thousand)

Mandatory retirement: 30,988 (2006), 234,624 (2005) (Rupees in thousand)

Legal and professional charges: 10,378 (2006), 9,105 (2005) (Rupees in thousand)

Stores and spares consumed: 2,193,063 (2006), 2,409,663 (2005) (Rupees in thousand)

Maintenance and overhaul: 6,377,874 (2006), 4,821,345 (2005) (Rupees in thousand)

Flight equipment rental: 3,431,059 (2006), 2,530,872 (2005) (Rupees in thousand)

Landing and handling: 8,343,403 (2006), 7,249,119 (2005) (Rupees in thousand)

Passenger services: 2,838,218 (2006), 2,270,619 (2005) (Rupees in thousand)

Crew layover: 2,011,703 (2006), 1,730,719 (2005) (Rupees in thousand)

Staff training: 87,157 (2006), 80,784 (2005) (Rupees in thousand)

Utilities: 4,067 (2006), 3,015 (2005) (Rupees in thousand)

Communication: 63,311 (2006), 60,001 (2005) (Rupees in thousand)

Insurance: 1,039,338 (2006), 1,240,655 (2005) (Rupees in thousand)

Rent, rates and taxes: 302,783 (2006), 315,225 (2005) (Rupees in thousand)

Printing and stationery: 108,964 (2006), 98,686 (2005) (Rupees in thousand)

Amortization: 2,568 (2006), 3,061 (2005) (Rupees in thousand)

Depreciation: 3,252,078 (2006), 3,621,290 (2005) (Rupees in thousand)

Others: 223,190 (2006), 109,019 (2005) (Rupees in thousand)

Total cost of services - others: 36,512,116 (2006), 32,478,115 (2005) (Rupees in thousand)

Distribution Costs

Salaries, wages and allowances: 1,370,247 (2006), 1,321,765 (2005) (Rupees in thousand)

Welfare and social security costs: 167,512 (2006), 155,829 (2005) (Rupees in thousand)

Retirement benefits: 170,092 (2006), 111,918 (2005) (Rupees in thousand)

Compensated absences: 2,264 (2006), (3,122) (2005) (Rupees in thousand)

Mandatory retirement: 9,813 (2006), 57,669 (2005) (Rupees in thousand)

Distribution and advertising expenses: 1,737,797 (2006), 1,309,953 (2005) (Rupees in thousand)

Legal and professional charges: 19,632 (2006), 16,467 (2005) (Rupees in thousand)

Repairs and maintenance: 51,586 (2006), 41,299 (2005) (Rupees in thousand)

Insurance: 12,279 (2006), 13,543 (2005) (Rupees in thousand)

Printing and stationery: 10,757 (2006), 12,832 (2005) (Rupees in thousand)

Related Party Relationships

The Corporation has related party relationships with the following undertakings:

Sky Rooms (Private) Limited: Subsidiary

Midway House (Private) Limited (under winding-up): Subsidiary

PIA Investments Limited (PIAIL): Subsidiary/Associate

Abacus Distribution Systems Pakistan (Pvt) Ltd.: Joint Venture

Minhal Incorporated - Sharjah: Associate

Duty Free Shops (Private) Limited: Associate

Corresponding Figures

Prior year's figures have been reclassified for better presentation.

Transactions with Related Party

Transactions with related parties, other than those for concessional tickets to employees and directors, and those not mentioned elsewhere in these financial statements, are as follows:

PIA Investments Limited:

Recovery of advances: 5,055,045 (2006), 921,690 (2005) (Rupees in thousand)

Recovery of interest on advances: 185,876 (2006), 292,915 (2005) (Rupees in thousand)

Sky Rooms (Private) Limited:

Catering services: 31,497 (2006), 43,434 (2005) (Rupees in thousand)

Retirement funds:

Contribution: 689,590 (2006), 323,036 (2005) (Rupees in thousand)

Interest on advances: 24,013 (2006), 10,445 (2005) (Rupees in thousand)

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

Authorization of Financial Statements

These financial statements were authorized for issue in the Board of Directors meeting held on March 29, 2007.

General

Information on available capacity and utilization during the year is disclosed on page 40.

US\$ amounts in balance sheet, profit and loss account, and cash flow statement have been translated into US\$ at Rs. 60.87 = US\$1 solely for convenience purposes.