

Pakistan International Airlines Corporation

Annual Report 1998

*In the name of Allah, the most gracious,
the most merciful.*

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NOTICE OF 42nd ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 42nd Annual General Meeting of the Shareholders of Pakistan International Airlines Corporation will be held at 0830 hours on Saturday 27th March, 1999, behind Airport Hotel, Quaid-e-Azam International Airport Karachi, to transact the following business:

1. To confirm the minutes of the 41st Annual General Meeting held on 30th December, 1997.
2. To receive and adopt the audited Accounts for 18-month period ended 31st December, 1998, together with the Auditors' and Directors' Reports.
3. To consider and pass with or without modification the following resolution as a resolution under Section 208 of the Companies Ordinance, 1984:

"Resolved that an advance of Rs 2,573.96 million (in US Dollars) to an Associated Company - PIA Investments Limited is hereby approved."

4. To transact any other business which may legally be transacted at any AGM.

By order of the Board

(Ghazanfar Mashkoor)
Secretary-PIAC

Karachi: 5th March, 1999

Notes:

- a) The Share Transfer Books of the Corporation will remain closed from 19th March, 1999 to 2nd April, 1999 both days inclusive. Transfer documents received in order up to 1730 hours by 18th March, 1999 will be in time for registration of transfer of shares.
- b) A Shareholder entitled to attend and vote at the General Meeting is entitled to appoint another Shareholder as Proxy. Proxies and Powers 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 0830 hours 25th March, 1999, unless the Power of Attorney has already been registered in the Corporation books, and must be duly stamped, signed and witnessed.
- c) Shareholders are requested to promptly notify the Corporation of any change in their addresses.
- d) Entry at the Meeting place will start at 0730 hours and close at 0830 hours. Shareholders' cooperation in this regard will be appreciated.

BOARD OF DIRECTORS

Shahid Khaqan Abbasi
Chairman - PIAC

Lt. Gen.(Retd) Iftikhar Ali Khan

Sirdar Zuifiqar Ali Khan Khosa

Sardar Mansoor Hayat Tamman

Adnan Aurangzeb

Air Marshal (Retd) Dilawar Hussain

S. A. Rahman

Syed Yawar Ali

Wasay Jalil

Mohammedmian Soomro

Shaukat Tarin

Ghazanfar Mashkoor
Secretary - PIAC

MANAGEMENT

Shahid Khaqan Abbasi
Chairman - PIAC

Arif Ali Khan Abbasi
Managing Director

Kamaluddin Hussain
Director Corporate Planning

Haider Jalal
Director Marketing

Capt. S Idrees Ahmed
Director Flight Operations

Mushtaq A Qureshi
Director Engineering

L.J. Contractor
Director Finance &
Information Systems

Javed Yusuf
Director Procurement & Logistic

Wasim Bari
Director Customer Services

Zahid Manto
Director Administration

Registered Office

PIA Building
Quaid-e-Azam International Airport
Karachi- Pakistan

DIRECTORS' REPORT

The Directors have pleasure in placing before you their report together with the Audited Accounts for the period ended December 31, 1998.

ACCOUNTS

(Rupees in million)

Profit for the period	2,421
Provision for taxation	(262)
Profit after taxation	2,159
Loss brought forward	(4,127)
Loss carried forward	(1,968)

CHAIRMAN'S REVIEW

The Directors endorse the Chairman's Review.

DIRECTORS

Since the last Annual General Meeting held on 30th December, 1997, changes have occurred in the Board of Directors of the Corporation. Mr. Rafiq M. Habib, Mr. Adnan Aurangzeb and Sirdar Zulfiqar Ali Khan Khosa joined as Directors on the Board. Mr. Asfandyar Wali, Mr. A.Razak Dawood and Mr. Rafiq M. Habib, relinquished charge as Directors. During the period Mr. Mohammedmian Soomro and Mr. Shaukat Tarin were re-elected as Directors. The Board welcomes the new Directors and wishes to place on record its appreciation of the valuable services rendered by the outgoing Directors.

PATTERN OF SHAREHOLDING

The pattern of shareholding is available at Page No.30

For and on behalf of the Board

(Shahid Khaqan Abbasi)
Chairman

HIGHLIGHTS

	DEC-98	JUN-97
Revenue	(Rs. in million) 52,308	32,732
Costs and expenditure	(Rs. in million) 48,454	32,809
Profit/(loss) before taxation	(Rs. in million) 2,421	(4,603)
Net worth	(Rs. in million) 6,047	3,888

Revenue passenger kilometres	(000)	16,470,037	11,660,447
Passenger load factor		66.70%	66.50%
Revenue tonne kilometres	(000)	2,084,938	1,494,808
Revenue load factor		56.40%	56.40%

Chairman's Review

Dear Shareholders

It is both my privilege and pleasure to present the Corporation's Report and Accounts for the 18-month period ended December 31, 1998.

This financial period can be characterized by one word: change.

The most visible being the change of the financial year from July 1 - June 30 to January 1 - December 31 to bring PIA in line with industry practice and as preferred by the financial institutions. This change will allow PIA to better assess and absorb the effects of the annual Federal Government Budget in June, and also enable the Year 2000 issues to be addressed more efficiently.

The change in the financial year has resulted in a long 18-month accounting period from July 1, 1997 to December 31, 1998. The financial results are summarized below:

	1997-98	1996-97
	(18 Months)	(12 Months)
	(Rupees in million)	
Revenue	52,308	32,732
Costs and expenditure	49,887	37,335
Profit/(loss) before taxation	2,421	(4,603)
Provision for taxation	(262)	(192)
Profit/(loss) after taxation	2,159	(4,795)

The accounts show major improvements in PIA's financial health and the record profit of Rs. 2,421 million has reduced the accumulated losses by more than fifty percent to Rs. 1,968 million. This profit includes the write-back of Rs. 1,800 million in compliance with the auditors' qualification in their Report to the members on the 1996-97 accounts, Note 26.3. However, it must be noted that the costs and expenditure include a charge of Rs. 2,425 million in respect of amortization costs for the Mandatory and Voluntary Retirement Schemes, additional interest on debt servicing and advances, wage-award arrears, additional depreciation, and charging of certain capital spares to expenditure.

PIA has achieved this financial turnaround despite severe cash flow and inflationary pressures, devaluation of the Pakistan rupee and South Asian currencies, slow-down of the national and regional economies, effects of international sanctions, adverse and unusual weather conditions in Pakistan during the peak traffic months of November and December, and major changes in the operating environment with the implementation of the new Aviation policy and opening up of the Northern gateways to both international and domestic operators resulting in excess capacity and increased competition. In spite of these factors and planned fleet replacement costs, a profit of over Rs. 2,000 million has been budgeted for the current financial year.

The ambitious three-year restructuring process at PIA was started by aggressively addressing the excess manpower issue. The number of Directors was reduced from 15 to 9 and General Managers from 102 to 57; and all Deputy Managing Director positions were abolished, effectively eliminating one tier in the decision making process. A mandatory retirement scheme and a voluntary golden handshake scheme was implemented under which more than 3600 employees left the company. I would like to express my gratitude' for the individual and collective contribution of the employees, all of whom played a crucial role in PIA's success and growth.

The process of inducting industry best practices into the airline and upgrading the information technology function' was pursued with the highest priority. Two agreements were signed with The Sabre Group, an affiliate of American Airlines, who in partnership with Speedwing, a subsidiary of British Airways, are providing Consultancy services for improving PIA's business processes and have taken over the responsibility for PIA's IT function through long-term hosting and facilities management agreements. PIA now has access to a state-of-the-art IT function, with the same systems as used by most major international airlines, while achieving a substantial savings on its current IT spending and improving its human resource base without major capital costs for hardware and software. Substantial benefits shall also accrue to Pakistan's technological base through these agreements.

A major on-going cost reduction program resulting in a recurring savings of Rs. 1,500 million was initiated. This was achieved by closing down off-line offices, reducing employees at foreign stations, shifting from high-rent offices, out-sourcing functions to agents, renegotiating contracts, increasing employee productivity and reducing operational wastage. The reduction in international fuel prices, implementation of a new efficient fuel policy, more competitive fuel procurement procedures, and phasing out of the inefficient loss-making freighter operation have also contributed to the reduction in costs.

PIA has made substantial improvements in its product with the introduction of Business+Plus, a competitive new business class, to replace first class on international routes; launch of Awards+Plus, PIA's first frequent flyer program; improvement of aircraft interiors, in-flight menus, and check-in facilities; rationalization of capacity and route structures; improved schedules, and better control of seat inventory and reservation systems.

In the current year, PIA will be implementing its fleet replacement plan with a final decision to replace the Boeing 747-200 passenger fleet expected during the first quarter. In addition, new generation aircraft are expected to be inducted into service as an interim replacement for the B-747-200 aircraft in early May 1999. PIA is currently negotiating with several major airlines to acquire these aircraft on a short-term operating dry-lease until the selected new replacement aircraft are phased in. A decision is also expected on the replacement of the F-27 turboprop fleet in the second half of the financial year.

PIA has embarked on a major revenue expansion plan by targeting areas of revenue leakage, optimization of fleet deployment, implementation of latest revenue management techniques, better fare structures and marketing techniques, market-driven schedules, improved operational reliability.

The program of disinvestment from non-core activities could not meet the planned schedule due to the changes in the overall business environment; however, the program will be accelerated in the current year and is expected to yield results in terms of control on operating costs and improved profitability. PIA's equity in its associated company, PIA Investments Limited, is expected to yield planned returns and PIA's financial exposure in the company is to be substantially reduced.

I am pleased to report that better cash management has allowed our cash position to improve despite higher financial charges, payment of employee wage arrears, and payment of CAA arrears. PIA, as per its historical performance, continues to meet all its financial obligations; and all debt servicing for long-term borrowing and rentals for the aircraft hire-purchase agreements are being met from the current cash flows.

The long pending Charter of Demands presented by the CBA has been finalized and approved by the Board of Directors. This comprehensive package of benefits will provide substantial improvement in employee motivation and is expected to yield productivity improvements.

The Board of Directors stands committed to provide PIA with the direction to achieve its Mission Statement of "PIA will be the airline of choice in all its international and domestic markets, consistently exceeding customer expectations by providing quality, reliable and safe air transportation while earning sustainable profits for its shareholders and continuing to be a caring employer".

I would like to thank all our loyal customers and assure them a new and better PIA. Finally, I record my appreciation for the continued support of our shareholders who can look forward to returns on their investment, and expect the employees' contribution to make PIA an institution that will be a source of pride for Pakistan.

Yours sincerely,

(Shahid Khaqan Abbasi)
Chairman

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of PAKISTAN INTERNATIONAL AIRLINES CORPORATION as at 31December 1998 and the related profit and loss account and statement of changes in financial position, together with the notes forming part thereof, for the period then ended and we state that 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 and, after due verification thereof, we report that:

(a) in our opinion, 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;

(b) in our opinion, the balance sheet and profit and loss account together with the notes thereon have been drawn up:

i) in conformity with the Pakistan International Airlines Corporation Act, 1956;

ii) in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change as referred in note 13.5, with which we concur;

c) in our opinion:

i) the expenditure incurred during the period was for the purpose of the Corporation's business; and

ii) the business conducted, investment' made and the expenditure incurred during the period were in accordance with the objects of the Corporation;

(d) 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 and the statement of changes in financial position, together with the notes forming part thereof, give the information required by 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 31 December 1998 and of the profit and the changes in financial position for the period then ended;

(e) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980; and

(f) without qualifying our opinion, we draw attention to note 18.1 of the accounts which explains the reason for amortizing the Mandatory and Voluntary Golden Handshake Scheme costs.

FORD, RHODES, ROBSON, MORROW
Chartered Accountants

SIDAT HYDER QAMAR MAQBOOL & CO.
Chartered Accountants

Karachi: February 24, 1999

BALANCE SHEET AS AT DECEMBER 31, 1998

	Note	DEC-98 (Rupees in thousand)	JUN-97	DEC-98 (US\$ in thousand) (note 33.3)
SHAREHOLDERS' FUNDS				
Share capital	3	3,884,618	3,884,618	84,238
Reserves	4	2,162,681	3,487	46,897
		-----	-----	-----
		6,047,299	3,888,105	131,135
SURPLUS ON REVALUATION OF FIXED ASSETS	5	5,709,640	5,709,640	123,813
REDEEMABLE CAPITAL AND FINANCIAL ARRANGEMENTS	6	1,456,176	2,742,770	31,577
LONG-TERM LOANS	7	627,774	786,410	13,613
OBLIGATIONS UNDER HIRE PURCHASE	8	7,394,466	9,694,109	160,349
LONG-TERM DEPOSITS AND OTHER LIABILITIES	9	1,675,787	1,653,655	36,339
CURRENT LIABILITIES				
Current maturity of long-term debts	6-7-8	3,399,521	1,827,073	73,718
Short-term loans	10	62,372,461	2,870,674	135,254
Creditors, accrued expenses and other liabilities	11	8,717,192	7,467,658	189,032
		-----	-----	-----
		18,353,959	2,165,405	398,004

CONTINGENT LIABILITIES AND COMMITMENTS	12			
		-----	-----	-----
		41,265,101	36,640,094	894,830
		=====	=====	=====
FIXED ASSETS				
Operating assets	13	25,109,750	26,641,858	544,503
Capital work-in-progress	14	49,053	68,426	1,064
		-----	-----	-----
		25,158,803	26,710,284	545,567
LONG-TERM INVESTMENTS	15	281,085	290,969	6,095
LONG-TERM ADVANCES	16	2,038,423	2,413,874	44,203
LONG-TERM DEPOSITS AND OTHER RECEIVABLES	17	253,212	222,389	5,491
DEFERRED COSTS	18	1,942,878	-	42,131
CURRENT ASSETS				
Stores and spares	19	3,710,248	33,202,361	80,456
Trade debts	20	2,578,948	2,487,988	55,924
Advances, deposits and prepayments	21	3,416,000	601,615	74,076
Other receivables	22	1,126,182	4,521,691	24,421
Cash and bank balances	23	759,322	140,570	16,466
		-----	-----	-----
		11,590,700	7,002,578	251,343
		-----	-----	-----
		41,265,101	36,640,094	894,830
		=====	=====	=====

Auditors' report is annexed herewith.

The annexed notes form an integral part of these accounts.

Shahid Khaqan Abbasi
Chairman

Shaukat Tarin
Director

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM JULY 01, 1997 UPTO DECEMBER 31, 1998

	Note	Jul-97 Dec-98 (Rupees in thousand)	Jul-96 Jun-97 (US\$ in thousand)	Jul-97 Dec-98 (note 33.3)
Revenue	24	52,308,142	32,732,160	1,134,298
Costs and expenditure	25	48,453,695	32,809,054	1,050,715
		-----	-----	-----
		3,854,447	(76,894)	83,583
		-----	-----	-----
Other charges				
Financial charges-net	26	2,696,249	764,186	58,468
Deferred costs	18	465,837	-	10,102

Provision for doubtful debts		3,702	211,262	80
		-----	-----	-----
		3,165,788	975,448	68,650
		-----	-----	-----
Other income				
Interest and other income	27	87,847	73,075	1,905
Gain on disposal of fixed assets	28	35,586	24,231	772
		-----	-----	-----
		123,433	97,306	2,677
		-----	-----	-----
		812,092	(955,036)	17,610
Other provisions and adjustments - net	29	1,608,643	(3,647,801)	34,883
		-----	-----	-----
Profit/(loss) for the period/(year)		2,420,735	(4,602,837)	52,493
Provision for taxation	30	(261,541)	(192,125)	(5,671)
		-----	-----	-----
Profit/(loss) after taxation		2,159,194	(4,794,962)	46,822
Accumulated (loss)/profit brought forward		(4,127,225)	667,737	(89,499)
		-----	-----	-----
Loss carried forward		(1,968,031)	(4,127,225)	(42,677)
		=====	=====	=====

Auditors' report is annexed herewith.

The annexed notes form an integral part of these accounts.

Shahid Khaqan Abbasi
Chairman

Shaukat Tarin
Director

STATEMENT OF CHANGES IN FINANCIAL POSITION

(CASH FLOW STATEMENT)

FOR THE PERIOD FROM JULY 01,1997 UPTO DECEMBER 31, 1998

	Dec-98	Jun-97	Dec-98
	(Rupees in thousand)		(US\$ in thousand)
			(note 33.3)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) for the period/(year)	2,420,735	(4,602,837)	52,493
Adjustments for:			
Depreciation	3,895,573	2,155,001	84,475
Deferred costs	465,837	-	10,102
Capital spares scrappage	104,749	81,851	2,271
Gain on disposal of fixed assets	(35,586)	(24,231)	(772)
Other provisions and adjustments	(1,608,643)	3,647,801	(34,883)
Exchange gain on foreign currency advances	-	(873,242)	-
Operating profit before working capital changes	5,242,665	384,343	113,686
	-----	-----	-----
(Increase) in current assets - adjusted	(3,878,848)	(496,570)	(84,112)
Increase in current liabilities - adjusted	7,094,897	789,964	153,852

(Increase) in long-term deposits and other receivables	(30,823)	(15,218)	(668)
(Increase) in deferred costs	(2,408,715)	-	(52,233)
Increase in long-term deposits and other liabilities	22,132	383,141	480
	-----	-----	-----
Cash generated from operations	6,041,308	1,045,660	131,005
Taxes paid	(340,332)	(229,179)	(7,380)
	-----	-----	-----
Net cash from operating activities	5,700,976	816,481	123,625
	=====	=====	=====
CASH FLOWS FROM INVESTING ACTIVITIES:			
Fixed capital expenditure*	(1,058,181)	(1,422,019)	(22,947)
Sale proceeds on disposal of fixed assets	45,681	29,544	991
Long-term advances	375,451	(203,001)	8,142
Long-term investments	(110,116)	-	(2,388)
	-----	-----	-----
Net cash used in investing activities	(747,165)	(1,595,476)	(16,202)
	=====	=====	=====
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redeemable capital and financial arrangements	(1,286,594)	2,342,770	(27,899)
Repayments of long-term borrowings	(3,048,465)	(1,667,181)	(66,106)
	-----	-----	-----
Net cash used in financing activities	(4,335,059)	675,589	(94,005)
	=====	=====	=====
NET INCREASE/(DECREASE) IN CASH	618,752	(103,406)	13,418
CASH AT BEGINNING OF YEAR	140,570	243,976	3,048
	-----	-----	-----
CASH AT END OF PERIOD/YEAR	759,322	140,570	16,466
	=====	=====	=====

Net of exchange difference on long-term loans (note 2.8 and 13.2)

Shahid Khaqan Abbasi
Chairman

Shaukat Tarin
Director

**NOTES TO THE ACCOUNTS
FOR THE PERIOD FROM JULY 01, 1997 UPTO DECEMBER 31, 1998**

1. STATUS AND ACTIVITY

Pakistan International Airlines Corporation was incorporated on April 18, 1956 under the Pakistan International Airlines Corporation Act, 1956 and its shares are quoted on the stock exchanges in Pakistan. Principal activity of the Corporation is to provide air transport services.

The accounting year of the Corporation was changed from year ending June 30 to December 31, hence these accounts cover a period of eighteen months operations and

the Corporation's accounting period from now ends on December 31.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting Convention

These accounts have been prepared under the historical cost convention as modified by capitalization of exchange differences and revaluation of certain fixed assets as indicated in note 2.3.

2.2 Taxation

Charge for current taxation is based on taxable income. The Corporation accounts for deferred taxation, if any, under the liability method for all major timing differences likely to be reversed in the foreseeable future (note 30).

2.3 Tangible fixed assets and depreciation

Fixed assets except leasehold land are stated at cost or revalued amount less accumulated depreciation. Leasehold land is stated at cost.

Cost in relation to aircraft fleet, workshops, hangars and other equipment signifies historical cost and exchange differences arising on conversion of related long-term loans. Aircraft fleet and other equipment were revalued as described in note 5.

Depreciation is calculated on straight line method to write off the cost or revalued amount of assets including the related net exchange differences over their expected useful lives. Remaining useful lives of significant assets are reviewed periodically and change in estimates arising from such review is accounted for in current and future years (note 13.3). The rates of depreciation are stated in note 13.

In case of aircraft fleet, depreciation is calculated on each aircraft after considering 10 per cent of the cost including the related net exchange differences as the residual value at the expiry of their operational lives.

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

However, in the current period of eighteen months depreciation has been charged for the full period on additions during the first six months, twelve months for additions during the next six months and six months for additions during the last six months.

Gains and losses on disposal of fixed assets are included in income.

Major repairs and renewals incurred on fully depreciated aircraft and costs incurred on upgradation of aircraft/engines are capitalised and are depreciated on remaining estimated useful lives of such assets. Other repairs and maintenance are charged to income as and when incurred.

2.4 Long-term investments

Long-term investments are valued at cost after providing for permanent diminution, if any, in the market/break-up value of such investments. Income from investments is recorded when received.

2.5 Deferred costs

These are amortized over a period of 60 months commencing from the year in which these are incurred.

2.6 Stores and spares

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

2.7 Bad and doubtful debts

Known bad debts are written off and provision is made for debts considered doubtful.

2.8 Foreign currencies

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

Exchange differences on long-term loans and obligations under hire purchase are capitalized to the related loan-bearing assets. All gains/losses on other monetary items are dealt with in the profit and loss account.

2.9 Retirement benefits

The Corporation operates

- A contributory provident fund for all employees.
- Funded pension schemes for all its employees, contribution based on actuarial valuation are charged to profit and loss account.

2.10 Revenue recognition

Revenue is recorded net of discounts.

Passenger ticket sales are recognized as revenue when the transportation is provided. The value of unutilized tickets is determined by the management and is shown as advance against transportation.

All other sales are recognized as and when made.

3. SHARE CAPITAL

JUN - 97 DEC - 98
(Rupees in thousand)

Authorized

449,250,000 ordinary 'A' class shares of (Rs. 10 each	4,492,500	4,492,500
1,500,000 ordinary 'B' class shares of Rs. 5 each	7,500	7,500
50,000,000 preference shares of Rs. 10 each	500,000	500,000
	-----	-----
	5,000,000	5,000,000
	=====	=====

Issued

372,711,778 ordinary 'A' class shares of Rs. 10 each	3,727,118	3,727,118
1,499,999 ordinary 'B' class shares of Rs. 5 each	7,500	7,500
5,000,000 10% cumulative preference shares of Rs.10 each	50,000	50,000

10,000,000 11-1/2% redeemable cumulative preference shares of Rs. 10 each	100,000	100,000
	-----	-----
	3,884,618	3,884,618
	=====	=====
Subscribed and paid-up ordinary shares		
Issued for consideration in cash		
137,846,268 'A' class shares of Rs. 10 each	1,378,463	1,378,463
1,003,374 'B' class shares of Rs. 5 each	5,017	5,017
	-----	-----
	1,383,480	1,383,480
Issued for consideration other than cash		
931,028 'A' class shares of Rs. 10 each	9,310	9,310
2,625 'B' class shares of Rs. 5 each	13	13
	-----	-----
	9,323	9,323
Issued as bonus shares		
233,934,482 'A' class shares of Rs. 10 each	2,339,345	2,339,345
494,000 'B' class shares of Rs. 5 each	2,470	2,470
	-----	-----
	2,341,815	2,341,815
	-----	-----
	3,734,618	3,734,618
Preference shares		
Issued for consideration in cash		
5,000,000 10% cumulative shares of Rs.10 each	50,000	50,000
10,000,000 11 -1/2% redeemable cumulative shares of Rs. 10 each redeemable at the option of the holders (note 3.1)	100,000	100,000
	-----	-----
	3,884,618	3,884,618
	=====	=====

3.1 Refer to note 12.2.

4. RESERVES

(Rupees in thousand)

	Capital		Revenue		
	Reserve for replacement of fixed assets	Capital redemption reserve fund	Others	General	Total
At July 1, 1997	1,966,779	100,000	284,259	1,779,674	4,130,712
Accumulated (loss)	-	-	-	(1,968,031)	(1,968,031)
At December 31, 1998	1,966,779	100,000	284,259	(188,357)	2,162,681

1997	1,966,779	100,000	284,259	1,779,674	4,130,712
=====					
Accumulated (loss)	-	-	-	(4,127,225)	(4,127,225)

	1,966,779	100,000	284,259	(2,347,551)	3,487
=====					

4.1 In previous years i.e. upto June 1988 depreciation on fully depreciated aircraft was charged and credited to the Reserve for replacement of fixed assets and excess of sales 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.

5. SURPLUS ON REVALUATION OF FIXED ASSETS

Consequent to rupee devaluation in 1972, it was considered appropriate to restate the aircraft fleet and other equipment at June 30, 1974 at their historical written down dollar values at the then prevailing exchange rates.

An amount of Rs. 127.6 million arising as a result of this restatement was transferred to surplus on restatement of fixed assets account. In 1986 the balance of Rs. 38.29 million relating to the then existing aircraft fleet and other equipment was transferred to surplus on revaluation of fixed assets account to comply with the Companies Ordinance, 1984. Since 1986, Rs. 27.65 million has been credited from the above amount to the profit and loss account, as the relevant assets have been sold/disposed off.

A revaluation study in respect of aircraft fleet was carried out as of June 30, 1997 and a surplus of Rs. 5,699 million arising on such revaluation was accounted for in the accounts of June 30, 1997. Such revaluation was carried out by M/s Airclaims, U. K.

6. REDEEMABLE CAPITAL AND FINANCIAL ARRANGEMENTS

	DEC - 98	JUN - 97
	(Rupees in thousand)	
Redeemable Capital-secured	-	400,000
Demand Finances-secured (note 6.1)	2,056,176	2,342,770
Less: current maturity	600,000	-
	-----	-----
	1,456,176	2,742,770
	=====	=====

6.1 The finances have been arranged from a Pakistani Bank and are available uptill December 31,2003 against hypothecation of assets and lien on sale receipts of five major stations and is payable in installments of Rs. 40 million per month. The rate of mark-up is 18 % p.a.

7. LONG-TERM LOANS

7.1 All the long-term loans summarized below are foreign currency denominated:

Aircraft loans - secured

(a) One B737-300 (VVIP configuration aircraft) maturing 2004-05

Agent: National Westminster Bank Ltd. London	619,643	681,272
--	---------	---------

Other loans - secured

(b) Airbus A310-300 spares maturing 2000-01

Agent: Banque Nationale De Paris and others	185,674	261,299
---	---------	---------

-----	-----
805,317	942,571

Less: current maturity	177,543	156,161
------------------------	---------	---------

-----	-----
627,774	786,410
=====	=====

7.2 The Government of Pakistan has guaranteed the repayment of the above loans. Aircraft loans are also secured by charge on the aircraft and other related assets.

7.3 Individual interest rates as required under the Companies Ordinance, 1984 have not been indicated in view of syndicated loans, varying base rates and the margins over the base rates. However, the rates of interest range from 5.42 % to 9.63% p.a. (1997: 5.42% to 9.63% p.a.).

7.4 The above loans are repayable in semi-annual installments.

8. OBLIGATIONS UNDER HIRE PURCHASE

DEC - 98	JUN - 97
(Rupees in thousand)	

Present value of future rental obligations	10,016,444	11,365,021
--	------------	------------

Less: current maturity	2,621,978	1,670,912
------------------------	-----------	-----------

-----	-----
7,394,466	9,694,109
=====	=====

8.1 Six A310-300 aircraft have been acquired under the hire purchase agreements. These aircraft were acquired during the period from June 1991 to May 1994.

8.2 The aggregate amount of the present value of the future rental payments, made up of the amounts payable towards the reduction of the purchase price and additional consideration for hire in the period in which they become due, are as follows:

Year ending	DEC	JUN
1998	-	2,522,644
1999	3,143,087	2,671,387

2000	2,859,262	2,697,878
2001	2,439,491	2,331,937
2002 - 2005	3,496,009	4,054,690
	-----	-----
Aggregate future rental payments	11,937,849	14,278,536
Less: consideration for hire	1,921,405	2,913,515
	-----	-----
Present value of future rental obligations	10,016,444	11,365,021
	=====	=====

8.3 Individual discount rates as required under the Companies Ordinance, 1984 have not been indicated in view of multiplicity of rental payment tranches. However, the rates of discount range from 6.05% to 9.25% p.a. (1997: 6.05% to 9.25% p.a.).

8.4 Under the hire purchase financing structure, all or part of the down-payment amounting to 15% of the initial aircraft price, has been financed by the owners through a non-recourse commercial loan secured on PIA owned aircraft.

For the first three A310-300 aircraft, the whole of the 15% down-payment has been secured through a mortgage on one B747-200 aircraft. For the 4th A310-300 aircraft 9% and for the 5th and 6th A310-300 aircraft 15% each of the down payment has been secured through a mortgage on one A300-B4 aircraft respectively.

8.5 At the expiry of the hire term, the Corporation has an option to purchase each of the A310-300 aircraft at nil price.

9. LONG-TERM DEPOSITS AND OTHER LIABILITIES

DEC - 98 JUN - 97
(Rupees in thousand)

Deposits (note 9.1)

From suppliers	47,618	27,829
Other deposits and retention money	125,299	91,623
	-----	-----
	172,917	119,452

Other liabilities

Airport related charges	1,283,615	1,292,378
Deferred credit (note 9.2)	219,255	241,825
	-----	-----
	1,502,870	1,534,203
	-----	-----
	1,675,787	1,653,655
	=====	=====

9.1 The above non-interest bearing deposits are repayable/adjustable in more than one and upto five years.

9.2 Represents receipts being amortized over the remaining contracted period consequent

upon an agreement.

10. SHORT-TERM LOANS-unsecured

From banks (note 10.1)	6,237,246	2,675,674
From financial institution	-	195,000
	-----	-----
	6,237,246	2,870,674
	=====	=====

10.1 Credit facilities available under short-term finance arrangements and not availed as at December 31, 1998 amounted to Rs. 499 million (1997: Rs. 2,070 million). Interest rates range from 3.75% to 18.00% p.a.

11. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES

	DEC - 98	JUN - 97
	(Rupees in thousand)	
Creditors	2,137,964	842,116
Accrued expenses (note 11.1)	3,652,910	4,235,591
Advances received	24,742	8,348
Interest accrued-secured loan	159,025	185,776
Collection on behalf of others	447,835	253,347
Mark-up on short-term finances	260,186	21,883
Custom and central excise duty	138,301	135,925
Taxation	14,404	93,195
Advance against transportation	1,725,793	1,541,357
Dividend-preference shares	19,797	19,797
Others	136,235	130,323
	-----	-----
	8,717,192	7,467,658
	=====	=====

11.1 The Corporation operates defined benefits pension schemes for both Cockpit and Non-Cockpit employees namely PALPA/FENA Pension Fund and Employees Pension Fund. Contributions are made monthly to the funds on the basis of actuarial recommendations at the rate of 15% and 18% of pensionable salaries respectively. In accordance with the actuarial valuation carried out as on June 30, 1998 the fair value of funds' assets and liabilities for the past services of the employees at the latest valuation date were Rs. 3,369 million and Rs. 4,249 million respectively for Employees Pension Fund and Rs. 1,027 million and Rs. 1,108 million respectively for Cockpit Pension Fund. Aggregate Method, using the following significant assumptions is used for the valuation of the schemes:

- expected rate of return on assets - 8 percent per annum
- expected rate of increase in salary level - 6 percent per annum

12. CONTINGENT LIABILITIES AND COMMITMENTS

12.1 Contingent liabilities

Contingent liabilities in respect of claims lodged but not acknowledged by the Corporation amount-

ed to Rs. 1,027.02 million (1997: Rs. 1,454.15 million). The said amount includes claims of various aviation authorities amounting to Rs. 740 million (1997: Rs. 1,246.5 million). The Corporation does not expect these contingencies to materialize.

Outstanding guarantees Rs. 222.95 million (1997: Rs. 877.64 million).

12.2 Commitments

Capital commitments as at December 31, 1998 amounted to Rs. 68.63 million (1997: Rs. 41.10 million).

Outstanding letters of credit Rs. 50.79 million (1997: Rs. 299.91 million).

Dividend on cumulative preference shares for 1995-96, 1996-97 and 1997-98 Rs. 57.75 million.

Redemption of 5,000,000 11-1/2% redeemable cumulative preference shares of Rs. 10 each valuing Rs. 50 million during 1999.

13. FIXED ASSETS - tangible

	Cost as at July 1, 1997	Additions/ (Disposals/ adjustments)	Cost as at December 31, 1998	Accumulated depreciation as at July 1, 1997	Additions/ (Disposals/ adjustments)	Accumulated depreciation as at December 31 1998	Book value as at December 31, 1998	Annual depreciation rate %
Rupees in thousand)								
Land and buildings								
Leasehold land	43,327	-	43,327	-	-	43,327	-	-
Buildings on leasehold land	528,479	15,852	544,331	157,530	20,765	178,295	366,036	2.5
Workshops and hangars	698,964	13,911	712,875	479,629	49,624	529,253	183,622	5
Renovation and improvements	261,050	14,919 (11,241)	264,728	248,609	16,827 (10,461)	254,975	9,753	20
Aircraft fleet (note 13.1, 13.4 & 13.6)	26,647,264	405,788 (291,626)	26,761,426	13,291,091	2,286,940 (182,110)	15,395,921	11,365,505	3.61-5
Aircraft fleet - under hire purchase (note 13.4)	12,718,045	1,458,772	14,176,817	3,713,469	674,927	4,388,396	9,788,421	4
Operating ground equipment Catering, communication and meteorological equipment	327,367	16,266	343,633	223,800	30,421	254,221	89,412	10
Engineering equipment & tools	877,647	12,165	889,812	697,893	52,283	750,176	139,636	10-20
Motor transport	385,195	879 (51,914)	334,160	299,981	53,514 (42,659)	310,836	23,324	25
Traffic equipment	1,029,837	147,490	1,177,327	641,122	107,729	748,851	428,476	10-20
Furniture, fixture and fittings	477,412	16,917 (23)	494,306	366,865	34,182 (10)	401,037	93,269	10

Office equipment	64,757	2,493 (86)	67,164	55,930	4,626 (39)	60,517	6,647	15
Computer and office automation	611,565	9,931	621,496	477,154	52,076	529,230	92,266	10-20
Precision engineering equipment	795,397	41,560	836,957	580,732	67,607	648,339	188,618	10
Printing press equipment	14,244	-	14,244	14,243	-	14,243	1	20
Reservation equipment	12,619	-	12,619	11,917	404	12,321	298	10
Other equipment (note 13.4)	396,163	2,011	398,174	238,662	36,226	274,888	123,286	10
Capital spares (note 13.5 & 13.6)	3,180,218	481,234 (394,147)	3,267,305	929,065	407,422 (237,035)	1,099,452	2,167,853	8.33-10
	49,069,550	2,640,188 (749,037)	50,960,701	22,427,692	3,895,573 (472,314)	25,850,951	25,109,750	
1997	40,381,197	11,803,846 (3,115,493)	49,069,550	20,394,020	2,155,001 (121,329)	22,427,692	26,641,858	

13.1 Includes a B 737 - 300 aircraft acquired in 1992 which is on lease to GOP.

13.2 Additions to aircraft fleet include exchange differences of Rs. 1,562.634 million (1997: Rs. 1,796.358 million) arising on translation of long-term loans and obligations under hire purchase (note 2.8).

13.3 Had there been no revaluation of aircraft fleet and revision of remaining useful lives of the fleet, the charge of depreciation for the period would have decreased and the profit for the period increased by Rs. 558 million.

13.4 Aircraft fleet and other equipment represent values subsequent to restatement as at June 30, 1974 and revaluation as at June 30, 1997 with additions thereafter stated at cost. Had there been no restatement/revaluation, the values would have been as under:

	Cost as at Dec 31, 1998	Accumulated Depreciation	Book value as at Dec 31, 1998
Aircraft fleet	35,212,967	18,281,204	16,931,763
Other equipment	394,553	273,563	120,990
	35,607,520	18,554,767	17,052,753
1997	33,640,033	16,986,628	16,653,405

13.5 Certain categories of capital spares have been charged to income while previously these had been capitalized and depreciated over the remaining useful lives of the aircraft, resulting in decrease of current period profit by Rs. 911 million. This change has been made in view of the proposed fleet rationalization plan.

13.6 The following fixed assets were disposed off/adjusted/exchanged during the period:

Cost	Accumulated depreciation	Net book value	Sale/ Insurance proceeds
------	-----------------------------	-------------------	--------------------------------

	Rupees in thousand			
Aircraft fleet-Adjustment*	291,626	182,111	109,515	-
Operating ground equipment				
Auction	28,863	27,796	1,067	30,666
Negotiation/exchange	23,051	14,863	8,188	7,882
	51,914	42,659	9,255	38,548
Other ground equipment				
Negotiation/exchange	11,350	10,510	840	7,133
Capital spares				
scrappage	215,303	110,554	104,749	-
Adjustment*	178,844	126,480	52,364	-
	394,147	237,034	157,113	
	749,037	472,314	276,723	45,681
1997	208,493	121,329	87,164	29,544

* Two B707 aircraft have been grounded since May 1998. The value of such aircraft alongwith their respective spares has been transferred to stores & spares at the lower of book value and net realisable value.

Sales of fixed assets are made through disposal committee in accordance with the laid down procedures. In view of large number of purchasers, the management considers it impractical to disclose the particulars of individual disposals, as required under the Companies Ordinance, 1984.

14. CAPITAL WORK-IN-PROGRESS

	DEC-98	JUN-97
	(Rupees in thousand)	
Buildings	27,285	32,406
Other projects/equipment	9,172	27,603
Renovation & improvements	12,596	8,417
	49,053	68,426

15. LONG-TERM INVESTMENTS

Market value/ break-up value	Percentage of shareholding	Fully paid ordinary shares
------------------------------------	----------------------------------	----------------------------------

DEC-98 JUN-97
(Rupees in thousand)

SUBSIDIARIES-unlisted

PIA Holdings (Pvt.) Limited (under voluntary winding-up) Shares of Rs. 100 each	30,028	33,819	100	750,000	75,000	75,000
Advance against equity					376	376
					-----	-----
(note 16.1)					75,376	75,376
Advance against equity to other subsidiaries					-----	-----
					110,116	-

ASSOCIATED COMPANIES-unlisted

OVERSEAS-Sharjah Minhal Incorporated Shares of DH 100 each	14,653	14,653	40	1,600	396	396
PIA Investments Limited Shares of DH 100 each (note 15.1)	1,066,665	1,057,628	50	400,000	99,000	99,000
Advance against shares pending allotment	-	-	-	-	114,902	114,902
					-----	-----
					213,902	213,902
					-----	-----
					214,298	214,298

OTHERS**PAKISTAN**

Pakistan Services Ltd.-listed Shares of Rs. 10 each	3,858	7,002	-	142,904	1,195	1,195
Pakistan Tourism Development Corporation Limited - unlisted Shares of Rs. 10 each	-	-	-	10,000	100	100
					-----	-----
					1,295	1,295
					-----	-----
					401,085	290,969
Less: Diminution in value of investments	-	-	-	-	(120,000)	-
	-----	-----			-----	-----
	1,115,204	1,113,102			281,085	290,969
	=====	=====			=====	=====

15.1 The calculation of break-up value includes revaluation reserves of Rs. 2,915 million (i997:Rs.2,555 million).

16. LONG-TERM ADVANCES - unsecured-considered good

DEC - 98 JUN - 97
(Rupees in thousand)

Subsidiary:
PIA Holdings (Pvt.) Limited (under

voluntary winding-up) - (note 16.1 &16.2)	109,264	108,636
---	---------	---------

Associated:

PIA Investments Limited - (note 16.2)	1,929,159	2,305,238
	-----	-----
	2,038,423	2,413,874
	=====	=====

16.1 No provision against investment and advance against equity of Rs. 75.38 million and balance due of Rs. 109.26 million from PIA Holdings (Pvt.) Limited (under voluntary winding-up) has been made as the management believes that the value of land owned/occupied by the subsidiary of PIA Holdings (Pvt.) Limited (under voluntary winding-up) carries significantly higher market value as assessed by an independent valuer, compared to the aggregate investment made by the Corporation.

16.2 Maximum amount due from a subsidiary and an associated company at any month-end was Rs. 2,038.42 million (1997: Rs. 2,413.87 million).

17. LONG-TERM DEPOSITS AND OTHER RECEIVABLES

Deposits

Rent	43,951	48,556
Aircraft fuel	5,645	14,669
Utilities	6,006	5,243
Postage and telephone	2,713	2,771
Guarantee deposit	39,936	720
Miscellaneous	52,252	46,867
	-----	-----
	150,503	118,826

Other receivables

Promissory notes issued by the Nigerian Govt.	102,709	103,563
	-----	-----
	253,212	222,389
	=====	=====

DEC - 98 JUN - 97
(Rupees in thousand)

18. DEFERRED COSTS

Mandatory/VGHS schemes cost (note 18.1)	2,408,715	-
Less: amortized	465,837	-
	-----	-----
	1,942,878	-
	=====	=====

18.1 During the period certain employees retired under the Voluntary and Mandatory Golden Handshake Schemes introduced by the Corporation and benefits amounting to Rs. 2,409 million were paid to these employees. As permitted by Technical Release (TR-28) issued by the Institute of Chartered Accountants of Pakistan the total cost is being amor-

tized over a period of 60 months from the effective dates, as the management is of the view that future economic benefits of the schemes will continue to accrue during that period.

19. STORES AND SPARES

Stores	794,039	507,615
Spares	2,718,164	2,727,608
Goods-in-transit	198,045	85,013
	-----	-----
	3,710,248	3,320,236
	=====	=====

20. TRADE DEBTS

Considered good	2,578,948	2,487,988
Considered doubtful	331,322	327,620
Less: provision for doubtful debts	331,322	327,620
	-----	-----
	-	-
	-----	-----
	2,578,948	2,487,988
	=====	=====

20.1 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.

21. ADVANCES, DEPOSITS AND PREPAYMENTS - considered good

	DEC - 98	JUN - 97
	(Rupees in thousand)	
Advances to		
Associated company (note 21.1)	2,814,903	9,794
Employees (note 21.2)	118,104	117,279
Suppliers	284,533	202,675
Others	78,446	53,654
	-----	-----
	3,295,986	383,402
Trade deposits	76,586	61,836
Prepayments	43,428	156,377
	-----	-----
	3,416,000	601,615
	=====	=====

21.1 This includes an unsecured advance of Rs. 2,804.54 million (US\$ 60.82 million) to PIA Investments Limited, an associated company for renovation of its Roosevelt Hotel New York project, bearing interest at 10% p.a.

Maximum amount due from this company at any month-end was Rs. 2,814.90 million (1997: Rs. 9.79 million).

21.2 This includes Rs. 23.70 million (1997: Rs. 23.45 million) due from executives in respect of advances for expenses and furniture etc. in accordance with terms of employment. The maximum aggregate amount of advances due from the executives at the end of any month during the period was Rs. 23.70 million (1997: Rs. 23.45 million).

22. OTHER RECEIVABLES

Engineering services	219,110	19,867
Insurance and other claims	326,953	239,136
Accrued interest	412,638	-
Others	167,481	193,166
	-----	-----
	1,126,182	452,169
	=====	=====

23. CASH AND BANK BALANCES

With banks		
On current accounts		
Collection (note 23.1)	1,665,492	1,340,580
Imprest (including book overdraft)	(937,495)	(1,217,763)
	-----	-----
	727,997	122,817
On short-term deposit accounts	20,334	2,968
In hand	3,239	1,640
In transit	7,752	13,145
	-----	-----
	759,322	140,570
	=====	=====

23.1 Includes Rs. 125.18 million held in PIA bank accounts in Iraqi and Libyan banks which are not currently repatriable due to United Nations sanctions.

DEC-98 JUN-97
(Rupees in thousand)

24. REVENUE

Operating		
Passenger	42,541,171	26,502,251
Excess baggage	1,467,774	968,151
Freight	5,109,171	3,442,932
Mail	156,847	121,528
Charters	96,465	131,068
Engineering services	149,372	61,201
	-----	-----
	49,520,800	31,227,131

Others		
Aircraft lease earnings	474,272	274,920
Other revenue	2,313,070	1,230,109
	-----	-----
	2,787,342	1,505,029
	-----	-----
	52,308,142	32,732,160
	=====	=====

25. COSTS AND EXPENDITURE

Staff (note 25.1)	15,005,816	9,769,320
Aircraft fuel and oil	9,559,057	8,042,377
Maintenance and overhaul	5,760,439	2,894,250
Landing and handling	6,815,238	4,693,787
Passenger services	2,626,709	1,769,653
Insurance	652,942	567,066
Advertising and selling	650,025	495,042
Rent, rates and taxes	621,499	398,508
General administration and others	2,866,387	2,024,001
Bad debts written off	10	49
	-----	-----
	44,558,122	30,654,053
Depreciation	3,895,573	2,155,001
	-----	-----
	48,453,695	32,809,054
	=====	=====

25.1 REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive		Executives	
	DEC-98	JUN-97	DEC-98	JUN-97
	Rupees in thousand			
Managerial remuneration	-	272	1,100,972	1,282,970
Corporation's contribution to provident fund	-	22	41,085	50,772
Reimbursement of entertainment and transport expenses	-	30	2,876	2,892
Rent and other facilities	-	226	74,869	404,750
	-----	-----	-----	-----
	-	550	1,219,602	1,741,384
	=====	=====	=====	=====
Number of executives	1	1	3,390	4,131

The directors other than the Chief Executive are non-executive directors and these directors are not paid the director's fees. In addition to above, some other executives are provided with Corporation maintained cars and facilities as per Corporation rules.

DEC - 98 JUN - 97
(Rupees in thousand)

25.2 AUDITORS' REMUNERATION

Statutory audit	240	240
Other accounting related services	1,850	600
Expenses	120	120
	-----	-----
	2,210	960
	=====	=====

The audit fee is equally shared by the auditors.

26. FINANCIAL CHARGES

Interest on long-term loans	86,829	118,181
Interest on short-term loans (net of interest income of Rs. 412.64 million from an associated company)	1,060,158	217,927
Mark-up on redeemable capital	104,734	76,600
Consideration for hire purchase	1,292,370	925,295
Bank charges, guarantee commission, commitment fee and other related charges	85,832	40,262
	-----	-----
	2,629,923	1,378,265
Exchange loss/(gain)	66,326	(614,079)
	-----	-----
	2,696,249	764,186
	=====	=====

27. INTEREST AND OTHER INCOME

From subsidiary company	37,522	47,249
On short-term deposits	50,325	25,826
	-----	-----
	87,847	73,075
	=====	=====

28. GAIN ON DISPOSAL OF FIXED ASSETS

Gain as per disposal of fixed assets note 13.6 (excluding book value of scrapped spares charged off to repair and maintenance)	35,586	24,231
	-----	-----
	35,586	24,231
	=====	=====

29. OTHER PROVISIONS AND ADJUSTMENTS

Provision for obsolescence/slow moving aircraft spares	71,357	160,000
Provision for other receivables considered doubtful	-	860,000
Aeronautical charges	-	585,976
Reinstatement of liability	-	241,825
Provision for pension liability	-	1,800,000
Diminution in value of investments	120,000	-

	-----	-----
	(191,357)	(3,647,801)
Provision for pension liability no longer required	1,800,000	-
	-----	-----
	1,608,643	(3,647,801)
	=====	=====

29.1 The Corporation had made provision of Rs. 1,800 million in respect of impact on Corporation's fully funded pension scheme anticipated under the Mandatory and Voluntary Golden Handshake Schemes. However, in the light of Auditors' qualification on this provision in their previous year's report and keeping in view the actual retirement payments, a fresh study was undertaken by Corporation's Actuary. The results reflect that the existing rates of contribution to the respective funds are sufficient to meet its liabilities. Therefore, the earlier provision of Rs. 1,800 million is being reversed.

30. TAXATION

30.1 The Corporation's income tax assessments have been finalized upto and including assessment year 1997-98. In view of the available tax losses for set off, no provision for taxation has been made in these accounts. However, provision of Rs. 261.54 million (1997: Rs.163.66 million) has been made for taxation in accordance with section 80D of the Income Tax Ordinance, 1979 for minimum tax based on the turnover of the Corporation.

30.2 Deferred taxation arising from significant timing differences after adjustment of tax losses works out to Rs. 2,226 million (1997: Rs. 1,691 million).

31. GEOGRAPHICAL SEGMENTS

The analysis of material accounts of traffic revenue is as follows:

	DEC - 98	JUN - 97
	(Rupees in thousand)	
International		
USA/Canada	4,315,106	2,292,182
Europe	8,136,796	5,103,527
Middle East/Africa	13,939,239	8,610,617
Asia (excluding Pakistan)	5,966,984	4,573,146
Domestic		
Pakistan	17,013,303	10,586,458
	-----	-----
	49,371,428	31,165,930
	=====	=====

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 networks, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

32. CREDIT AND INTEREST RATE RISK EXPOSURE

32.1 Credit Risk Exposure

Corporation's exposure to credit risk is indicated by the carrying amount of its receivables. The Corporation minimizes concentration of credit risk by diversifying business with IATA approved, ARC, BSP, CASS agents and by obtaining bank guarantees from other agents.

32.2 Interest/mark-up rate risk exposure

The Corporation is exposed to interest/mark-up rate risk on some of the financial obligations. Material financial liabilities which are exposed to various rates of interest are as mentioned in the respective notes to the accounts and are as follows:

	DEC-98	JUN-97
	(Rupees in thousand)	
Redeemable capital/long-term loans	2,861,493	3,685,341
Obligations under hire-purchase	10,016,444	11,365,021
Short-term loans	6,237,246	2,870,674
	-----	-----
	19,115,183	17,921,036
	=====	=====

32.3 Fair value of financial assets and liabilities

The Corporation's financial assets and liabilities on the balance sheet are carried at approximate fair values.

33. GENERAL

33.1 The Corporation purchased from subsidiaries and associated companies, goods, materials and services in the aggregate sum of Rs. 273.53 million (1997: Rs. 188.73 million). The Corporation's sales to subsidiaries and associated companies are not determinable. However, all such sales are in the normal course of business.

33.2 The information as to the available capacity and utilization thereof during the period has been disclosed in the statistics annexed to the accounts.

33.3 The US Dollar amounts shown in the financial statements are solely stated for convenience and do not represent Pakistan Rupees that could be converted into US Dollar. These amounts have been arrived at by converting rupee amounts at the rate of Rs. 46.115=US\$1.

33.4 Corresponding figures have been rearranged wherever necessary.

Shahid Khaqan Abbasi
Chairman

Shaukat Tarin
Director

PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 1998**TOTAL SHARES HELD**

No. of Shareholders	Shareholding		TOTAL SHARES HELD		
	From	To	Ordinary 'A' class shares of Rs. 10/- each	Ordinary B' class shares of Rs. 5/- each	Preference shares of Rs. 10/- each
10,985	1	100	248,759	8,232	-
27,180	101	500	5,610,391	7,184	-
3,858	501	1000	2,655,058	4,909	-
4,547	1001	5000	9,011,270	4,477	-
544	5001	10000	3,449,709	2	-
115	10001	15000	1,333,002	2	-
55	15001	20000	897,872	11,322	-
15	20001	25000	334,258	-	-
14	25001	30000	377,034	-	-
6	30001	35000	180,333	-	-
5	35001	40000	185,578	-	-
8	40001	45000	340,196	-	-
3	45001	50000	136,478	100	-
5	50001	55000	265,998	-	-
1	55001	60000	58,740	-	-
1	60001	65000	60,403	-	-
4	65001	70000	267,887	-	-
1	70001	75000	72,313	-	-
2	75001	80000	154,534	-	-
2	85001	90000	177,010	-	-
2	95001	100000	192,856	-	-
2	100001	105000	207,516	-	-
1	105001	110000	108,393	-	-
1	110001	115000	112,800	-	-
1	115001	120000	119,310	-	-
1	120001	125000	120,477	-	-
1	135001	140000	135,036	-	-
1	145001	150000	149,438	-	-
1	160001	165000	162,685	-	-
1	165001	170000	167,600	-	-
2	185001	190000	379,381	1,206	-
1	220001	225000	224,300	-	-
1	230001	235000	230,587	-	-
1	245001	250000	245,905	-	-
1	300001	305000	300,512	-	-
1	355001	360000	358,169	-	-
1	360001	365000	361,022	-	-
1	365001	370000	365,001	-	-
1	370001	375000	372,446	-	-
1	375001	380000	377,576	-	-
1	380001	385000	383,537	-	-
1	385001	390000	386,937	-	-

2	395001	400000	795,643	-	-
1	405001	410000	408,390	-	-
1	470001	475000	473,902	-	-
1	495001	500000	496,467	-	-
1	565001	570000	567,504	-	-
1	580001	585000	581,295	50	-
1	630001	635000	630,067	-	-
1	710001	715000	713,488	-	-
1	970001	975000	974,108	-	-
1	1175001	1180000	1,177,525	-	-
1	1375001	1380000	1,378,508	-	-
1	1715001	1720000	1,716,187	-	-
1	2220001	2225000	2,220,952	-	-
1	2495001	2500020	2,497,778	-	-
1	2780001	2785000	2,783,733	-	-
1	3180001	3185000	3,181,057	-	-
1	3825001	3830000	3,826,209	-	-
1	5975001	5980000	5,977,673	-	-
2	20260001	25265000	40,521,527	-	5,000,000
1	47275001	57280000	47,275,215	-	10,000,000
1	223235001	22324000	223,236,243	1,462,515	-
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47,399			372,711,778	1,499,999	15,000,000
=====			=====	=====	=====

CATEGORIES OF SHAREHOLDERS

	NOS.	SHARES HELD			PERCENTAGE	
		ORDINARY 'A' CLASS SHARES OF Rs. 5/- EACH	ORDINARY B' CLASS SHARES OF Rs. 5/- EACH	PREFERENCE SHARES OF Rs. 10/- EACH		
Government of Pakistan	1	223,236,243	1,462,515	-	57.66	
Financial Institutions	15	96,676,669	-	15,000,000	28.75	
Individuals	47,234	26,057,200	33,488	-	6.71	
Investment Companies	20	8,950,486	3,535	-	2.30	
Insurance Companies	11	5,131,853	-	-	1.32	
Foreign Companies	38	10,178,713	150	-	2.62	
Joint Stock Companies	69	1,999,308	8	-	0.51	
Modarabas	10	291,604	-	-	0.08	
Others	1	189,702	303	-	0.05	
Total		47,399	372,711,778	1,499,999	15,000,000	100.00
		=====	=====	=====	=====	=====

**STATEMENT UNDER SECTION 237
OF THE COMPANIES ORDINANCE, 1984**

(Rupees in thousand)

PIA Holdings (Pvt) Ltd (under voluntary winding-up)	Midway House (Pvt) Ltd	PIA Shaver Poultry Breeding Farms (Pvt) Ltd	PIA Hotels Ltd.	International Advertising (Pvt) Ltd	Duty Free Shops Ltd	Skydoms (Pvt) Ltd
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BASED ON AUDITED ACCOUNTS

STATEMENT UNDER SUB-SECTION I (e).

(a) Extent of the interest of PIAC (the holding Company) in the equity of its subsidiaries at the end of the last of the financial years of the subsidiaries.

100%	100%	100%	100%	100%	55%	100%
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(b) The net aggregate amount of revenue profits less losses of the subsidiary companies so far as these concern members of the holding company and has not been dealt with in the accounts of the holding company for the year ended June 30, 1998, are

(i) for the last of the financial year of the subsidiaries.

(3,791)	(11,706)	(3,547)	(44)	551	47,050	(584)
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(ii) for the previous years upto June 30, 1998 but subsequent to the acquisition of the controlling interest by the holding company.

(45,348)	(144,854)	(134,560)	(25,083)	(5,367)	5,982	(73,848)
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(c) The net aggregate amount of profits less losses of the subsidiary companies so far as these have been dealt with or provision made for losses in the account of the holding company for the year ended June 30, 1998.

(i) for the last of the financial years of the subsidiaries.

NIL	NIL	NIL	NIL	NIL	NIL	NIL
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(ii) for the previous years upto June 30, 1998 but subsequent to the acquisition of the controlling interest by the holding

company.

NIL

NIL

NIL

NIL

NIL

NIL

NIL

Shahid Khaqan Abbasi

Chairman

Shaukat Tarin

Director

FIVE-YEAR SUMMARY

	1998	1997	1996	1995	1994
OPERATION					
Route Kilometres	359,608	336,230	310,205	353,221	303,321
Revenue Kilometres Flown (000)	109,403	78,796	74,288	72,544	69,024
Revenue Hours Flown	199,699	143,686	138,014	134,683	131,122
Available Tonne Kilometres (000)	3,694,655	2,648,842	2,525,900	2,452,504	2,347,245
Available Seat Kilometres (000)	24,682,856	17,528,336	16,572,919	15,847,693	15,159,016
TRAFFIC					
Revenue Passengers Carried (000)	8,102	5,883	5,399	5,517	5,645
Revenue Passengers Kilometres (000)	16,470,037	11,660,447	10,592,323	10,382,398	10,108,486
Passenger Load Factor	66.70%	66.50%	63.90%	65.50%	66.70%
Revenue Freight Tonne Kilometres (000)	574,318	425,758	430,027	453,135	432,687
Kgs. of Excess Baggage & Cargo (000)	171,878	121,209	121,151	127,082	124,981
Kgs. of Mail (000)	2,212	1,602	1,709	1,814	2,227
Revenue Tonne Kilometres (000)	2,084,938	1,494,808	1,402,311	1,408,345	1,365,011
Revenue Load Factor	56.40%	56.40%	55.50%	57.40%	58.20%
Avg. Pax Stage Distance (Statute Kilometres)	2,033	1,982	1,962	1,882	1,791
FINANCIAL					
Operating Revenue (Rs. in million)	52,308.14	32,732.16	27,504.68	25,417.36	23,839.04
Operating Expenses (Rs. in million)	48,453.69	32,809.05	27,150.39	24,198.74	23,024.35
Operating Income (Rs. in million)	3,854.45	(76.89)	354.29	1,218.62	814.69
Cost per A. T. K. (Rs.)	13.11	12.38	10.75	9.87	9.81
Fixed Assets (Rs. in million)	25,158.80	26,710.28	20,035.07	19,536.61	19,803.50
Current Assets (Rs. in million)	11,590.70	7,002.58	7,629.41	7,439.27	8,778.82
Current Liabilities (Rs. in million)	18,353.96	12,165.40	9,286.71	7,366.56	7,846.61
Long-Term Debts (Rs. in million)	9,478.42	13,223.29	11,077.12	11,159.34	12,717.02
Net Worth (Rs. in million)	6,047.30	3,888.10	8,683.07	8,617.89	8,340.93
PERSONNEL					
Average No. of Employees	18,946	21,671	21,181	20,688	20,382
Revenue per Employee (Rs.)	2,760,907	1,510,413	1,298,554	1,228,604	1,169,612
A. T. K. per Employee	195,010	122,230	119,253	118,547	115,163

* Figures are for Jul 97-Dec 98