

**STATEMENT UNDER SECTION 281 OF THE COMPANIES ACT, 2017 READ WITH CLAUSE 3(B) OF THE
GUIDELINES ON MERGERS AND AMALGAMATIONS ISSUED BY THE SECP**

WHEREAS it has been proposed by the Privatisation Commission that Pakistan International Airlines Corporation Limited (the “**Company**”) be reorganized as per the Scheme of Arrangement (as presented before the Board of Directors) with PIA Holding Company Limited (“**Holdco**”), the Board of Directors of the Company in its meeting held on March 25, 2024, has decided to enter into an arrangement with Holdco, in terms of the Scheme of Arrangement (“**Scheme**”) under Sections 279 to 283 and 285 of the Companies Act, 2017 (“**Act**”), for the corporate restructuring / reorganization of the Company and Holdco.

I. Brief background of the companies/parties involved in the Scheme of Arrangement (“Scheme”)

Pakistan International Airlines Corporation Limited (“PIA”)

PIA was established on January 10, 1955 as a statutory corporation under the Pakistan International Airlines Corporation Ordinance, 1955, which was subsequently repealed and replaced by the Pakistan International Airlines Corporation Act, 1956. With effect from April 19, 2016, PIA has been converted from a statutory corporation to a public limited company by shares, through Act No. XV of 2016 titled ‘The Pakistan International Airlines Corporation (Conversion) Act, 2016’.

The authorized share capital of PIA is Rs. 54,000,000,000 divided into: (i) 5,349,250,000 class ‘A’ ordinary shares of Rs. 10/- each of which 5,233,761,118 are issued and fully paid; (ii) 1,500,000 class ‘B’ ordinary shares of Rs. 05/- each of which 1,499,999 are issued and fully paid; and (iii) 50,000,000 preference shares of Rs. 10/- each of which nil shares are issued. Government of Pakistan (“**GOP**”) holds approximately 96% shares in the total issued capital of PIA. Other than par value, the terms and conditions of the class ‘A’ and class ‘B’ shares are the same.

PIA Holding Company Limited (“Holdco”)

Holdco was incorporated on March 21, 2024 as a public limited company under the laws of Pakistan. The authorised share capital of Holdco is PKR 53,500,000,000/- divided into: (i) 5,349,250,000 class A shares of Rs. 10/- each; and (ii) 1,500,000/- class B shares of Rs. 05/- each. 100% shares of Holdco are beneficially owned by GOP. Other than par value, the terms and conditions of the class ‘A’ and class ‘B’ shares are the same. Holdco has never traded and has no Assets and Liabilities other than those resulting from its incorporation and issued share capital.

II. Strategic context surrounding the proposal and future strategy being pursued

The strategic context surrounding the GOP’s proposal for restructuring and privatisation of PIA stems from PIA’s recent struggles with various internal and external factors that have impacted PIA’s past financial performance. To address these challenges and set the company on a path to growth and profitability, the GOP, as the largest stakeholder, has initiated a comprehensive restructuring plan.

The GOP, acknowledging their role as the primary stakeholder, has initiated restructuring of PIA to make it a financially viable entity in future. As part of the Scheme, the GOP intends to transfer the bulk of the financial obligations of PIA i.e., commercial debt and GOP debt into Holdco and to

underwrite additional costs associated with retired employee's remuneration and pension-related liabilities by transferring these obligations from PIA to Holdco.

A critical part of this strategic plan involves realigning PIA's business areas, which fall under two primary categories: (i) core aviation activities and allied services; and (ii) owning and developing real estate within the tourism and hospitality industry. Recognizing the distinctly different operations of each category, the Scheme envisages segregating these businesses to encourage independent operations, efficient management and growth of each business area in the different entities.

The restructuring of PIA's operations is being undertaken to ensure financial sustainability. A significant fleet capital expenditure is needed by PIA in the next five (5) years to maintain flight operations.

Consummation of the Scheme will allow the GOP to restructure PIA and PIA would operate as a subsidiary of Holdco. This would enable GOP to then bring in a strategic partner in PIA through the privatisation process by selling shareholding of PIA owned by Holdco. The investor will be expected to bring in required capital and expertise to improve the service quality and reputation of the airline business, and by extension, strengthen revenue generation. The plan further allows each of PIA and Holdco to focus on its unique identity and implement concentrated strategies towards managing its respective business and customers.

This reorganization aims to streamline operations and management and foster an environment for growth and profitability. This holistic strategy is envisioned to protect PIA's legacy and secure its future as a prominent player in the aviation industry.

III. Summarized operating and financial performance data for the previous five years (unconsolidated and consolidated) and for the current year to the latest quarter (unconsolidated)

PIA's Unconsolidated Income Statement (PKRm)						
	FY18	FY19	FY20	FY21	FY22	9MFY23
Sales	103,490	147,500	94,989	86,185	172,038	186,449
Cost of goods sold	(123,223)	(139,984)	(92,528)	(94,648)	(176,171)	(165,940)
Gross profit/(loss)	(19,732)	7,516	2,461	(8,463)	(4,133)	20,510
Operating & admin expenses	(12,142)	(13,167)	(10,447)	(10,790)	(12,502)	(12,534)
Operating profit/(loss)	(31,874)	(5,650)	(7,986)	(19,253)	(16,635)	7,976
Other expenses	(16,883)	(14,276)	(8,879)	(9,669)	(26,187)	(29,186)
Other income	1,723	2,102	11,235	6,549	6,276	5,180
Profit/(Loss) before finance cost and tax	(47,033)	(17,824)	(5,629)	(22,373)	(36,546)	(16,030)
Finance Cost	(20,385)	(35,537)	(29,725)	(27,390)	(49,971)	(58,289)
Tax	90	760	711	(338)	(1,491)	(1,435)
Profit/(Loss) for the period	(67,328)	(52,602)	(34,643)	(50,101)	(88,008)	(75,755)

PIA's Unconsolidated Balance Sheet (PKRm)						
	FY18	FY19	FY20	FY21	FY22	9MFY23
Non-Current Assets						
Property plant and equipment	78,027	92,670	90,629	91,030	92,599	99,970
Investment Property				244	2,728	2,933
Intangibles	276	390	317	272	284	244

Other Non-current assets	13,162	8,732	7,556	9,726	9,997	14,450
Total Non-Current Assets	91,465	101,792	98,502	101,272	105,608	117,596
Current Assets						
Stores & spares	3,982	3,530	2,949	2,916	3,536	3,931
Trade debts	16,377	18,607	9,976	14,926	20,528	25,950
Advances	2,592	3,796	3,652	3,052	5,452	7,216
Other current assets	11,995	26,984	25,914	24,200	19,850	16,744
Total Current Assets	34,946	52,917	42,491	45,094	49,366	53,842
Total Assets	126,411	154,709	140,993	146,366	154,974	171,438
Non-Current Liabilities						
Long term financing	150,797	191,517	214,645	272,685	289,391	281,176
Lease liabilities	173	15,533	8,316	10,348	16,326	22,973
Long term advances and deposits	5575	6,393	6,590	7,259	9,263	11,472
Other non-current liabilities	38,049	39,234	37,956	39,823	47,075	55,322
Total Non-Current Liabilities	194,594	252,677	267,507	330,115	362,055	370,943
Current Liabilities						
Trade and other payables	164,571	189,856	193,867	192,089	230,195	272,705
Accrued interest	16,531	22,255	25,804	32,378	50,002	73,966
Short term borrowings	34,447	31,580	30,577	30,580	30,388	34,566
Other non-current liabilities	73,020	81,599	72,005	58,667	70,008	78,611
Total Current Liabilities	288,569	325,290	322,253	313,715	380,594	459,848
Total Liabilities	483,163	577,967	589,760	643,830	742,648	830,792
Net equity	(356,752)	(423,258)	(448,767)	(497,464)	(587,674)	(659,354)

PIA's Consolidated Income Statement (PKRm)

	FY18	FY19	FY20	FY21	FY22
Sales	117,979	164,646	99,197	88,089	178,551
Cost of goods sold	(132,979)	(151,998)	(97,977)	(96,552)	(179,307)
Gross profit/(loss)	(15,000)	12,649	1,220	(8,463)	(756)
Operating & admin expenses	(16,815)	(18,632)	(15,326)	(14,277)	(18,307)
Operating profit/(loss)	(31,815)	(14,106)	(22,740)	(19,063)	2,316
Other expenses	(16,854)	(16,177)	(14,474)	(9,927)	(34,493)
Other income	2,014	2,468	11,461	6,899	4,684
Profit/(Loss) before finance cost and tax	(46,655)	(19,692)	(17,119)	(25,769)	(48,873)
Finance Cost	(21,108)	(36,387)	(30,814)	(28,582)	(51,718)
Tax	935	42	4,184	867	3,355
Profit/(Loss) for the period	(66,828)	(56,037)	(43,750)	(53,483)	(97,235)

PIA's Consolidated Balance Sheet (PKRm)

	FY18	FY19	FY20	FY21	FY22
Non-Current Assets					
Property plant and equipment	199,612	231,172	138,955	146,162	161,566
Investment Property	273	272	71,249	78,929	92,795
Intangibles	9,871	6,105	10,226	12,270	12,652

Other Non-current assets	209,755	237,549	220,430	237,361	267,013
Total Non-Current Assets					
Current Assets	4,031	3,584	2,979	2,949	3,579
Stores & spares	17,111	19,370	10,083	15,174	20,960
Trade debts	2,592	3,801	3,652	3,091	5,493
Advances	19,286	34,495	29,336	26,982	24,220
Other current assets	43,020	61,250	46,050	48,196	54,252
Total Current Assets	252,775	298,799	266,480	285,557	321,265
Total Assets					
Non-Current Liabilities	164,562	211,433	235,194	302,573	326,953
Long term financing	173	15,540	8,316	10,348	16,326
Lease liabilities	71,067	73,333	66,885	71,210	81,061
Other non-current liabilities	235,802	300,306	310,395	384,131	424,340
Total Non-Current Liabilities					
Current Liabilities	167,729	193,867	196,305	195,760	236,739
Trade and other payables	15,284	21,208	24,550	30,844	49,112
Accrued interest	107,705	112,991	108,672	89,602	101,070
Other current liabilities	290,718	328,066	329,527	316,206	386,921
Total Current Liabilities	526,520	628,372	639,922	700,337	811,261
Total Liabilities	(273,745)	(329,573)	(373,442)	(414,780)	(489,996)
Net equity	199,612	231,172	138,955	146,162	161,566

IV. Any material interest of the directors including the chief executive of the company in their capacity as such or as member or creditors of the company or otherwise and the effect on those interests, of the compromise or the arrangement if and in so far it is different from the effect on the like interest of other persons

No director of the company has any interest, whether directly or indirectly, except to the extent of their shareholding held by them in the respective company and, for the executive directors, their employment within the respective company¹. The directors are also interested to the extent of remuneration and benefits as per the policy of the respective company. The effect of this Scheme on the interest of these directors does not differ from the respective interests of the shareholders of PIA and Holdco, except to the extent stipulated herein.

The rearrangement of assets and liabilities through the Scheme will not have any impact on the valuation of shares held by existing shareholders of PIA as all assets and liabilities of PIA and its subsidiaries will remain under the umbrella of Holdco as part of the Scheme. The interests of the existing shareholders of PIA will be protected as their equity holding in PIA will be canceled and fresh shares will be issued in Holdco (the “**Holdco Shares**”) in the same proportion as the erstwhile shareholders of PIA held in PIA; simultaneously, PIA will become the wholly-owned subsidiary of Holdco. This restructuring will ensure an equal percentage shareholding in Holdco for the erstwhile PIA shareholders, in accordance with their current shareholding in PIA in the manner described in the Scheme. The allotment of the new Holdco Shares to the erstwhile PIA shareholders as part of the Scheme will be determined based on the proportion of their current shareholding in PIA.

¹ Factual point to be verified at that time prior to issuing this Statement under Section 281 of the Companies Act.

V. Risk factors, so that shareholders can assess the impact on the overall risk profile, consequent to the Scheme in question.

The overall risk profile of the shareholders will remain unchanged with this Scheme, as it primarily effects a restructuring of assets and liabilities from PIA to Holdco and the overall shareholding in Holdco of the PIA shareholders will remain the same.

Despite the above, there are a few potential risks related to the implementation of the Scheme.

(i) Operational Risk:

The implementation of the Scheme is expected to ensure PIA's continued viability. However, factors such as the pandemics and currency fluctuations could negatively impact the airline's financial performance and progress. Success in implementing these restructuring measures does not guarantee PIA or the group's continued viability.

(ii) Execution Risk:

Successful restructuring hinges on effective execution. Implementation failures or delays could risk the achievement of desired outcomes. Ensuring adherence to local and international aviation regulations during and after restructuring is crucial. Furthermore, relevant approvals from regulatory bodies also pose a risk to the proposal.

(iii) Stakeholder Acceptance:

The restructuring plan requires no objection certificates and approvals from various lessors, fuel suppliers and creditors, and regulatory authorities. Resistance from any of these parties could pose risk to approval.

(iv) Jurisdiction Risk:

The Scheme is designed to transfer PIA's investments in its subsidiaries, which are registered in various foreign jurisdictions. These subsidiaries own and control foreign immovable properties. The transfer of these subsidiaries and their assets is subject to the processes in the foreign jurisdictions in which they were established. Thus, the impact of these laws, likely governed by the jurisdiction where each subsidiary was formed, can be challenging to assess.

VI. Financial statements after giving effect to the proposed Scheme

Please refer to Annexure A attached to this statement.

VII. Accounting and financial reporting policies for recording the Scheme

The accounting and financial reporting policies will be same as those used to prepare statutory accounts. According to the latest audited financial statements of PIA:

“These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards in applicable in Pakistan comprise of:

- (a) International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017.
- (b) Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS standards, the provisions of and directives issued under the Companies Act, 2017 have been followed.”

VIII. Tax consequences of the Scheme

Pursuant to Section 97A of the Income Tax Ordinance, 2001, no gain or loss shall be taken to arise on disposal of assets from one company to another company by virtue of operation of a scheme of arrangement under the relevant provisions of the Companies Act, 2017 on fulfillment of specified conditions.

Similarly, no gain or loss shall be taken to arise on issue, cancellation, exchange or receipt of shares as a result of a scheme of arrangement under the relevant provisions of the Companies Act, 2017.

Therefore, in case the Scheme is duly approved and the conditions listed under Section 97A of the Ordinance are satisfied, then:

- (i) No gain or loss shall be taken to arise on PIA on transfer of its assets to Holdco; and
- (ii) No gain or loss shall be taken to arise on the qualifying PIA shareholders on issue, cancellation, exchange or receipt of Holdco Shares.

Hence, the Scheme is tax neutral for both PIA as well as the qualifying PIA shareholders who will receive Holdco Shares.

IX. Effect, if any, of the proposed arrangement on the claims of various security-holders

All domestic commercial banks that have provided financing to PIA (including in respect of foreign financing provided by National Bank of Pakistan and Habib Bank Limited consortium) have vacated their security interests over the respective assets of PIA. Such financing shall be transferred to Holdco pursuant to the Scheme. Foreign currency loan by a consortium of foreign lenders that have security interest over certain assets of PIA is not being transferred to Holdco, as provided in the Scheme.

There are two (02) creditors whose security interest is registered with the SECP but from whom no objection certificate is not available at this time. However, with regards to such security interests, it is clarified that:

- (a) their security interest is limited to assignment of all rights, title, and interest in insurance proceeds with respect to certain aircrafts;
- (b) their security interest will remain unaffected by the Scheme of Arrangement;
- (c) they will be notified by PIA in writing to invite them to attend and vote at the creditors meeting;
and
- (d) there are currently no insurance proceeds over which such security interest could be attracted. In other words, there is no asset to which such security interest is currently applicable.

X. Effect of the proposed arrangement on shareholding/ownership structure, including on promoters and other principal shareholders

The effect of the proposed arrangement on shareholding ownership structure is as summarized below:

- (i) re-organization of PIA through cancellation of its current paid-up capital;
- (ii) Holdco to own 100% of the paid-up capital of PIA;
- (iii) division of PIA by separating the Non-Core Undertaking (as defined in the Scheme) from PIA and vesting the whole of the Non-Core Undertaking in Holdco, with the intent that (and subject to and as may be otherwise provided in this Scheme), the aviation business and the businesses ancillary to aviation are retained in PIA and the other businesses are transferred to Holdco; and
- (iv) simultaneous issuance and allotment of fully paid ordinary shares by Holdco to the erstwhile shareholders of PIA.

Promptly following the sanction of Scheme by SECP, in terms provided by the Scheme, Holdco shall apply to the Pakistan Stock Exchange for listing of its issued and paid-up shares on Pakistan Stock Exchange – therefore the erstwhile PIA shareholders will hold listed shares in Holdco on a proportionate basis.

XI. The number of shares to be issued consequent to the Scheme under various possible valuation methods

Not applicable.

XII. Valuation report and fairness opinion justifying the proposed exchange ratio

Please see Annexure B to this statement.

XIII. Explicit reporting as to whether the companies concerned plan to make any fresh issue before the completion of the Scheme, and if so, the method of adjusting the previously announced exchange ratio consequent to the said plan [*We understand this is not going to happen*]

Not applicable.

XIV. Intention of possible purchase of shares of one or more companies involved in the Scheme, by the other company or companies, the maximum number of shares to be purchased and the maximum amount to be utilized for the purpose and the treatment of the consequent shareholding in the arrangement [*We understand this is not going to happen*]

Not applicable.

PKRm	Total PIA	PIA (Core Undertaking)	To be transferred to HoldCo (Non-Core Undertaking)			Note reference for other non- core balances
			PEC	Other non- core balances	HoldCo	
Property, plant & equipment	100,213	92,622	199	7,392	7,592	
Investment properties	2,933	601	-	2,332	2,332	
Long-term investments	4,538	-	-	4,538	4,538	Note 1
Long-term loan to subsidiaries	3,920	-	-	3,920	3,920	
Long-term deposits	5,992	5,992	-	-	-	
Stores and spares	3,931	3,777	154	-	154	
Trade debts	25,950	22,355	501	3,094	3,595	Note 2
Advances, deposits, prepayments and other receivables	19,476	16,831	241	2,403	2,644	Note 3
Cash and bank balances	4,485	4,393	93	-	93	
Total assets	171,438	146,570	1,188	23,679	24,868	
Long term financing	394,762	15,637	-	379,125	379,125	Note 4
Lease liabilities	30,031	30,031	-	-	-	
Employee liabilities	65,987	27,269	1,090	37,628	38,718	Note 5
Contingent liabilities	8,211	8,211	-	-	-	
Trade and other payables	266,607	121,031	1,822	143,753	145,575	Note 6
Accrued interest	65,194	95	-	65,100	65,100	Note 4
Total liabilities	830,792	202,274	2,912	625,605	628,518	
Net equity	(659,354)	(55,704)	(1,724)	(601,926)	(603,650)	

The aforesaid financial statements shall be updated on account of changes between September 30, 2023 and the Effective Date (as defined in the Scheme). It is clarified that the actual balances of assets and liabilities being transferred to Holdco pursuant to the Scheme will be as at the Effective Date.

Notes:

Note 1: Long term investments	
	PKRm
Subsidiaries	
PIA Investments Limited	4,416
Skyrooms (Private) Limited	40
Midway House (Private) Limited	29
Sabre Travel Network Pakistan (Private) Limited	0.002
Provision for diminution in value of investments	(69)
	4,416
Other investments	
Minhal Incorporated	0.4
Pakistan Services Limited	121
Pakistan Tourism Development Corporation Limited	0.1
Duty Free Shops Limited	0.3
Total long-term investments	4,538

Note 2: Trade debts	
	PKRm
Due from Government	4,855
Due from other customers	5,642
	10,497
Considered doubtful	
Government related	(3,492)
Other customers	(3,911)
Provision for impairment against doubtful debts	(7,404)
Total trade debts	3,094

Note 3: Advances, deposits, prepayments and other receivables	
	PKRm
Interest receivable from PIA Investments Limited	990
Receivable from GoP	557
Other receivables	856
Total advances, deposits, prepayments and other receivables	2,403

Note 4: Long term financing and accrued interest			
PKRm	Loan outstanding	Accrued Interest	Total
Loan from GoP (Note 4.1)	112,953	48,115	161,068
Loan from banks (Note 4.2)	229,893	11,811	241,704
Foreign currency loan (Note 4.3)	24,807	1,697	26,504
Loan from subsidiaries (Note 4.4)	11,472	3,474	14,946
Accrued interest on dormant non-fleet loan	-	3	3
Total long term financing and accrued interest	379,125	65,100	444,225

Note 4.1: Loan from GoP			
PKRm	Loan outstanding	Accrued Interest	Total
GoP loan	8,000	11,298	19,298
Loan from GOP against Markup	100,953	36,816	137,769
CAA Bridge Finance Facility	4,000	-	4,000
Total loan from GoP	112,953	48,114	161,067

Note 4.2: Finance from Banks			
PKRm	Principal Outstanding	Accrued Markup/Profit	Total
The Bank of Punjab	55,765	3,317	59,082
Askari Bank Limited	35,512	864	36,376
Habib Bank Limited	27,662	1,905	29,567
Faysal Bank Limited	24,433	365	24,798
JS Bank Limited	17,895	2,358	20,253
National Bank of Pakistan	13,000	114	13,114
Bank Islami Pakistan Limited	10,725	59	10,784
Al Barka Bank Limited	6,556	582	7,138
Soneri Bank Limited	2,222	230	2,452
Short term loans	30,566	1,917	32,483
Sukuk	5,557	100	5,657
Total loan from banks	229,893	11,811	241,704

Note 4.3: Foreign currency Finance from Banks			
PKRm	Principal Outstanding	Accrued Markup/Profit	Total
National Bank of Pakistan and Habib Bank Limited consortium	24,807	1,697	26,504

Note 4.4: Finance from subsidiaries			
PKRm	Advance outstanding	Accrued Markup/Profit	Total
PIA Investments Limited	11,297	3,474	14,771
Sabre Travel Network (Private) Limited	175	-	175
Total loan from subsidiaries	11,472	3,474	14,946

Note 5: Deferred liabilities		PKRm
Post Retirement Medical Benefits – unfunded		10,193
Pension Obligation – Actuarial Assessment		19,590
Obligation for compensated absences		163
Accrued mark-up on Provident Fund		8,771

Total deferred liabilities	38,717
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Note 6: Trade and other payables (payables to state owned entities)	
	PKRm
Civil Aviation Authority	120,904
Pakistan State Oil Company Limited	20,181
National Insurance Company Limited	2,668
Total trade and other payables	143,753

**ANNEXURE B - TO STATEMENT UNDER SECTION 281 OF THE COMPANIES ACT, 2017 READ WITH
CLAUSE 3(B) OF THE GUIDELINES ON MERGERS AND AMALGAMATIONS ISSUED BY THE SECP**



BAS/C462/24/0326

26 March 2024

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APPLICATION OF IFRS 3

Dear Sir

We wish to inform you that we have carried out an audit of the special purpose financial statements of the Company for the nine months period ended 30 September 2023 and draw your attention to note 1.3 to the above financial statements which states that the Company is in the process of restructuring its business under the direction of Privatization Commission of Pakistan and in this respect, a scheme of arrangement has been approved by the Federal Cabinet.

Under the scheme, a Holding Company will be formed which will be owned by the same shareholders and certain assets and liabilities of the Company will be transferred to the Holding Company. Under IFRS 3 'Business Combinations' such transactions are required to be measured at acquisition-date fair values of the respective assets and liabilities. However, IFRS 3 does not apply to business combinations of entities or businesses under common control. Accordingly, in case of the Company's restructuring plan, the requirements of IFRS 3 will not be applicable due to common control transaction.

Yours sincerely

A handwritten signature in black ink, appearing to read "Anjum Rahman".