2. Pakistan International Airlines (PIA)

In its meeting held on 31st March 2020, the Federal Cabinet had directed the Advisor to PM on Institutional Reforms & Austerity to propose reforms/restructuring in respect of, inter-alia, the Pakistan International Airlines. Consequently, series of meetings were held to consult and take the stakeholders on board including Aviation Division, Finance Division, Civil Aviation Authority, members of PIA Board etc. Resultantly, a comprehensive roadmap for organization and financial restructuring of PIA was prepared. The plan was shared with Aviation Division which brought it before Economic Coordination Committee for consideration in its meeting held on 7th April 2021. The details of the proposed plan were as under:

Executive Summary

The PIA has been facing substantial financial difficulties in carrying out its operations since 2008. With a negative equity of Rs.460 billion comprising bank loans of'Rs.326 billion and other payables of Rs.118 billion at its balance sheet, the company neither remained a self-sustained entity commercially nor operationally efficient and sustainable. By the year 2018, once a symbol of national pride, PIA had virtually come to the point of 'belly landing' *interalia* due to multiple policy failures including the high cost of flying an aged fleet of around 30 small and medium sized aircrafts, many of them on unprofitable routes, with a highly politicized and ill-trained workforce of over 14000 or around 500 per aircraft, one of highest HR-Aircraft ratio in the world coupled with undesirable luggage of non-core functions such as ground services, catering and courier service etc. Additionally, the company was put to face stiff competition in the region and beyond through an uneven open-air policy. Frequent change of management, experimentation, undue political interventions, wasteful expenditure, un-checked borrowings and absence of sound internal accountability mechanism may be attributed as other key factors for bringing the national flag carrier to its knees.

1. The incumbent Government was therefore confronted with three options: (i) Closing down (ii) Privatization and (iii) Restructuring. The first option was considered and not found to be feasible as it would create an inconvenience for ethnic Pakistanis who prefer PIA to other carriers. The company possesses some very attractive legacy slots which, in case of closing down, would be lost and regaining them would be extremely difficult for any Pakistani carrier in the future. The second option also found to be unworkable for the time being given the general state of the aviation industry. It is inconceivable that any private sector business or government owned airline would venture to purchase a company with such heavy baggage to lift. Air India has been on the block for sale for the last several years but has not been able to find a buyer although its global network is much wider than that of PIA.

2. The more doable proposition appeared to be restructuring of the entity by way of a surgical operation through which the present company is divided into two distinct entities: (a) a Government-owned 'bad' company that takes away the financial liabilities off the balance sheet of PIA along with some of its non-core assets, and (b) a new company carrying out the core business with right sizing both in HR and business of the organization, retaining profitable routes and on remaining routes code-sharing with other airlines, capitalizing on ethnic Diaspora and religious tourism, modernization of fleet etc. The new PIA aims to have a smart fleet free from dead wood and make a focused attempt to carry out the aviation business in a businesslike manner. However, if the splitting the company in two entities may raise legal complications and delay the process, then the Government of Pakistan (GoP) has to directly assume the liabilities and convert them into equity. Ministry may be consulted for their views on this issue.

3. With a view to rescue the entity from imminent collapse, the Government's timely policy interventions including sizeable cash injection, appointment of new CEO, moratorium on its payables to Civil Aviation Authority and placement of a new board of directors while inducting financial, legal affairs and industry experts eventually halted the organization's

highly likely downfall. It was however, clearly understood both by the government and the new management of PIA that the organization's restructuring was long awaited, which in the last almost a decade remained kept pending for various reasons.

4. The proposal of restructuring is bolstered by the recent evidence of PIA's performance under the new management since 2019. The PIA management has demonstrated that despite the ongoing crisis like situation due to Covid-19, it is still possible to make a recovery in financial terms provided the debt and other outstanding liabilities are stripped off the entity's balance sheet and assumed by the Government of Pakistan. The financial statements of the company for the year 2019 and the first three quarters of 2020 (when Covid-19 effects were in full swing) demonstrate that despite the difficulties, the company was able to make an operating profit. The national flag carrier was placed on the Defaulters list in October 2018 for failure to hold an annual meeting and submit a statement of audited accounts for the year ending December 2017. It is also important to mention that the new management has been able to ensure statutory compliances and complete all pending audits, which has resulted in removal of PIA from the Defaulter List in January, 2020.

5. After due consideration by the Board, it was not insisted on a medium-to-long term business plan which is usually a pre-requisite for any kind of financial restructuring. The reason is that the aviation industry is in a state of flux, lay-offs are taking place, mergers and acquisitions are possible and the aircraft manufacturing and leasing industries are in a recessionary state. Under the confluence of these uncertainties, imponderables and unknowns, any business plan would be highly tentative, with room for a large degree of deviations from the assumptions underpinning the plan.

6. The PIA Management was accordingly tasked to come up with an interim 3-year plan of business reorganization which lays out the foundation for financial turnaround and profitability for the new company. The key success indicator of this plan upon its completion is that PIA would not approach the Government of Pakistan for any grants, loans, guarantees, underwritings or financial support. PIA would use its restructured balance sheet, stripped of its present financial liabilities, to raise its debt capital by obtaining a credit rating from S&P, Moody's or Fitch. The Government of Pakistan may choose to inject equity from time to time as a shareholder in order to earn dividends under any future capital mobilization arrangements.

7. It may be argued quite understandably that such a large commitment of financial resources should take place once the long-term Business Plan is developed and approved. In normal circumstances, we would have also taken the same route but this might not be feasible under the prevailing situation described below:

i) PIA may come to a standstill in its operations as it has exhausted its commercial borrowing capacity and the decision to restructure its finances has been delayed inordinately.
ii) The financing costs accruing on the balance sheet would add and amplify negative equity of the company thus further weakening its financial health to be able to obtain essential supplies from vendors on competitive rates.
iii) The turbulence in the global aviation industry arising from Covid-19 hiatus in international travel does not permit us to make realistic and robust assumptions about the parameters that normally underpin the Business Plan.
iv) The suspension of PIA flights to European routes and the delayed resumption of flights to the U.S. market for the reasons beyond control of PIA do not convince us that we should further delay this three-year restructuring plan for revival of financial health of the company and allow creeping deterioration in its financial capacity.

v) We have, however, put in place some safeguards and conditions under which the GoP would assume these liabilities and enable PIA to clean up its balance sheet. To this end, blue print of the 'good' and 'bad' PIA is as under:

vi) A special purpose vehicle (SPV) will be formed as 'bad' PIA with 100% GoP equity to take care of the debt stock and properties belonging to PIA and its subsidiaries. Creation of SPV, its management, business and income stream for debt servicing are to be provided in the roadmap of the plan.

vii) PIA with necessary approvals in place will submit a comprehensive plan with revised balance sheet of the 'Good' PIA keeping in view the core business, desired workforce as per international best practices, rationalized routes and key elements of open-air policy suitable to PIA. The proposal will also cater payables to CAA and other liabilities.

viii) The Board of PIA would authorize an agreement to be signed between PIA and the GoP laying down the specific milestones and timelines to be achieved by the company.

ix) As the Management has proposed that with the aforesaid restructuring plan approval there would be no further demand for loans, guarantees, concessions, subsidies or any other financial relief to PIA in the future from the state exchequer. The concept of keeping PIA airborne at the cost of the tax payer's money needs to discouraged, subsequent to this last lifeline.

x) In case of failure, the entire plan will be reviewed afresh including possibility of withdrawal of GoP support etc.

8. It is a usual practice that the Business Plans are prepared by external consultants or specialist firms but get seldom implemented faithfully as the Executives of the company do not have ownership of the plan. The downside risk was that the management could easily extricate itself by insisting that the externally prepared Business plan was flawed or unrealistic can be minimized or ruled out in this case. In this case, the plan has been prepared by the management itself and they can be held accountable for the results they have promised. It is preferable to pinpoint the responsibility for the soundness of the plan and its implementation upon those who formulated it. For these reasons we have accepted their three-year restructuring plan as the basis for the agreement to be reached between the GoP and PIA. A review should take place in 2023 and if things do not improve the way they are planned other possible options such as Joint venture with an operating airline with their management control or bringing in private equity funds bringing in their own management or GOP keeping ownership but outsourcing management should be explored. The present restructuring plan, if fully implemented, may possibly reignite such interest.

9. The remaining part of this report outlines the background, the factors responsible for the losses in the past and the salient features of the restructuring plan. An attempt has been made to highlight the measures that have already been undertaken, as well as the measures that are underway, with milestones and timelines included. Summary of the balance sheet restructuring proposal as submitted by PIA to the Committee headed by Finance Secretary has been given which will be considered by ECC and Cabinet. Finally, on the basis of the expected outcomes of the proposed restructuring, financial projections for the years 2021 to 2023 are presented. The assumptions underlying these projections are also stated as these have been tested during discussions to assess their robustness.

10. The risks and challenges in implementing this plan have been outlined in the later part of the report and their mitigation would require concerted 'whole of the Government's approach' in which the Aviation Division, Civil Aviation Authority and Finance Division have to work together to closely monitor the situation and take corrective measures when required

expeditiously. If the present culture of 'blame game', 'passing the buck' and 'clash of egos' is allowed to perpetuate among different stakeholders, it would worsen the situation.

11. We have, however, put in place some safeguards and conditions under which the GoP would assume these liabilities and enable PIA to clean up its balance sheet. These have been spelt out as part of the key contours of the plan. In case of violation of financial clauses of the agreement or non-achievement of revenue targets, cost containments and operating profits, the GoP would have the unfettered right to claw back the amount of equity injected, restore the situation ex-ante and convert the equity into loans to be serviced by PIA. The amortization schedule attached to the Restructuring Plan under which PIA had to replace the loan amounts with equity would become null and void. The clauses pertaining to waiving or writing off or adjusting the amounts payable to Civil Aviation Authority, Pakistan State Oil and to the Federal Board of Revenue would be revoked and no longer valid.

12. It also needs to be emphasized that the European Union Aviation Safety Agency (EASA) ban on PIA flights to Europe linked with the pilot licenses cancellation episode and the State Safety Program in line with the International Civil Aviation Organization (ICAO) requirements has to be resolved by Civil Aviation Authority (CAA) and Aviation Division, immediately. The overall licensing issue needs a comprehensive response from Civil Aviation Authority (CAA), failing this PIA would continue to be deprived of earnings from some remunerative routes.

13. Going forward, next steps in this restructuring process include approval of the Restructuring Plan by the PIA's Board of Directors, broad based consultations with relevant stakeholders interalia PM office, Law, Finance, Aviation Divisions, FBR, SECP and, approval of the competent forum i.e. ECC/Cabinet. Following the necessary approvals, The Cabinet Committee on Institutional Reforms may be tasked to review the progress on implementation, performance of organization (Board oversight and management delivery) and submit a report to the Cabinet every quarter.

14. Aviation Division will lead the restructuring process interalia in the following manners:

i) The Restructuring plan, although approved by the Board has to be endorsed by the Board of Directors of PIA in form of a performance agreement with the Govt. of Pakistan, shared with stakeholders including Law, Finance, Aviation Divisions and PM office for their comments, reviewed by the ECC and approved by the Cabinet for implementation. The key decision is the assumption of financial liabilities of PIA by the Government of Pakistan.
ii) CAA, PSO and FBR may be directed, once the Cabinet approval is obtained, to consider waive off/write off, adjust the amounts outstanding against PIA in a manner consistent with their legal requirements and practices.

15. We owe a debt of gratitude to the PIA Board of Directors, Co-opted eminent Financial and Industry experts for their valuable input and very useful advice throughout the process. Due credit goes to Finance and Aviation Divisions to help finalize this plan by the PIA management.

Background

16. Since 2008, PIA is continuously making heavy losses resulting in huge negative equity and the Government of Pakistan has met these losses by providing guaranteed loans and loans for markup payments. For now, the situation has reached a point, where the company is no longer in a position to carry out its own routine commercial operations, such as the leasing of

aircrafts. The financial position has become so untenable that unless a major surgical operation is carried out, PIA would no longer be a going concern.

17. Table 1 (below) shows that total losses incurred over the last decade reached Rs.405 billion. An analysis of the factors that have contributed to financial losses during this period transpired as operating losses to the tune of (45% of the total losses), while financial costs to service the debt accounts for another 38%. The cash flows do not permit the company to make actual payments due.

Table 1: Factors Contributing to Financial Losses (2010 – 2019)1

(Amounts in Million Rs.)					
Year	**Operating Profit / (Loss)**	**Exchange Gain / (Loss)**	**Finance Cost**	**Taxes**	**Total Losses**
	A	**B**	**D**	**E**	**F = C + D + E**
2019	(7,723)	(11,693)	(35,537)	(498)	(55,451)
2018	(32,080)	(14,953)	(20,385)	91	(67,327)
2017	(33,622)	(2,188)	(15,246)	50	(51,006)
2016	(31,341)	(295)	(13,159)	(105)	(44,900)
2015	(14,370)	(2,066)	(13,517)	(2,577)	(32,530)
2014	(18,043)	3,105	(14,373)	(2,433)	(31,744)
2013	(25,716)	(6,407)	(12,588)	389	(44,322)
2012	(11,699)	(6,697)	(11,380)	(810)	(30,586)
2011	(13,707)	(4,219)	(10,099)	1,258	(26,767)
2010	2,812	(2,092)	(9,299)	(12,207)	(20,786)
Total	**(185,489)**	**(47,505)**	**(155,583)**	**(16,842)**	**(405,419)**

18. Several other external and internal factors have contributed to this poor performance in the past and recent times. Some of such organizational Issues were:

i) Frequent changes in management (14 CEOs/Chairmen were changed in 10 years)
ii) Undue influence exerted by unions and associations. In 2015, the government made an effort through proposed Pakistan International Airlines Corporation (Conversion) Ordinance, 2015 to introduce some reforms in PIA, however due to countrywide strikes of the PIA employees (Joint Action Committee), Pakistan Air

[1]These amounts are shown as receivables on the books of Government of Pakistan with markup being capitalized.

Lines Pilots Association (PALPA), the government shied away from the process, and it was called off in February, 2016[2]

iii) A general lack of accountability culture in the company
iv) Operations on non-profitable routes
v) 10-year audit conducted on the orders of Supreme Court revealed issues like overstaffing; employees inducted on fake degrees, and extensive malpractices/leakages in medical, ERP, spares procurement, hotels booking, Hajj and Umrah groups and foreign postings etc.

19. In addition to above, a number of policies, regulatory and compliance issues have also hindered the performance of PIA. Examples include:

i) Under the Air Service Agreements globally, slots are allocated to foreign airlines on the basis of organic growth of the market and commercial reciprocity. However, previous National Aviation Policy allowed extensive rights to the foreign airlines. Resultantly, as many as 555 slots were allocated to foreign (especially gulf) carriers as against the 239 slots which ought to have been allowed as per the benchmarks of commercial reciprocity and market growth. This has eroded the competitive edge which PIA vis-à-vis its resource rich competitors.
ii) The PIA being a corporate entity was as such expected to compete with domestic and international airlines and show performance. However, at times, the company has to resort to public sector procedures. A case in point is the procurements which are made as per PPRA Rules. Undoubtedly, this lends transparency to the process, the procedures involved are relatively more time consuming, which puts PIA in a disadvantageous position compared to its competitors.
iii) More recently, serious compliance and regulatory issues have emerged since the end of 2018. The external auditors had issued a 'Disclaimer' on the June 2017 financial statements of PIA and annual audits of two years were still pending. Moreover, PIA was put on Defaulters Counter of PSX in October 2018. The pilot licensing issue that surfaced after the PIA plane crash in Karachi in June, 2020 has also led to the cancellation of flights to Europe and the UK, and the expected opening up of the US market has also been put on hold.

20. Another recent external factor affecting the delivery service happened to be the global pandemic phenomenon of Covid-19 which seriously impacted the aviation industry globally during better part of the year 2020 and is still not over. PIA being no exception also took the hit. Though, as will be seen in later part of this report, the company still managed to show some good results in this period.

21. In order to be put PIA back on the path of recovery and revive it on stable footing, it needs to undergo extensive organizational restructuring as well as a one-time restructuring of balance sheet. The latter is described in Section 5 whereas salient features of the proposed organizational restructuring plan, along with indicative financial benefits, are as follows:

Human Resource Restructuring

22. Overstaffing is one of the significant problems of PIA. Total existing strength of the company (including both permanent and outsourced employees) is over 14,000 lending it the Aircraft-to-HR Ratio of over 450, which is one of the highest in the world, while Qatar has

[2]https://www.dawn.com/news/1238419

133, Emirates 231, Turkish 94, and Etihad 211[3]. A sizeable chunk of these employees is inefficient, politically-inducted and engaged in non-core services etc. On the top of it, undesirable luggage of non-core functions such as ground services, catering and courier service etc. is further adding the pressure. Additionally, the company was put to face stiff competition in the region and beyond through an uneven open-air policy. An aviation company cannot compete domestic and global rivals with such burden. In order to overcome this situation, following measures are part of plan:

Voluntary Separation Scheme(VSS)

23. PIA will reduce the head count by 25% through offering a Voluntary Separation Scheme. PIA was asked to undertake profiling exercise of its employees so that VSS is selectively offered in order to retain the relatively efficient human resource. ECC / Cabinet has approved the Scheme at a total cost of Rs.12.87 billion which will be borne by GoP. This will result in annual savings of Rs.4.2 billion in salary expenditure. In three years' time, total savings of the company on this account will be equal to the cost of VSS.

Carving Out/Outsourcing Functions

24. PIA is in the process of carving out and outsourcing certain non-core functions as a part of its functional restructuring (Details in succeeding paragraphs) which will further reduce the employee count by approximately 4,000.

Improving Quality of HR

25. At present PIA has been restrained by the Supreme Court from making fresh hiring. After the completion of HR rationalization exercise and subject to alleviation of Supreme Court ban, PIA will conduct a thorough HR Need Assessment duly approved by the BoD before hiring young and qualified personnel equipped with contemporary skills and suitable for operating in the modern aviation industry environment. This will lift the overall quality of HR adding to the brand image and performance of the company.

Operational Restructuring

26. In order to focus on its core business of aviation, PIA requires to get rid of some of its non-core activities. This will improve the organizational efficiency not only by reducing HR count and the resultant salary savings, but also by lending company the necessary flexibility in hiring similar services from market at competitive rates, resulting in further savings and efficiency.

27. To this end, outsourcing of following services is part of the restructuring plan:

- i) Food services – Karachi & Islamabad
- ii) Technical Ground Support
- iii) Base Maintenance of Engineering Department
- iv) In addition to above, Precision Engineering Complex is planned to be carved out to Ministry of Defence, whereas the loss-making operations of SpeedEx Courier will be closed.

28. This operational restructuring will take approx. 4,000 employees off the payroll of PIA. After the completion of operational restructuring and VSS, the restructured PIA will comprise

[3] https://tribune.com.pk/story/2265390/employment-ratio-pia-hires-500-employees-per-aircraft

of 7,500 employees only which will optimize the Staff-to-Aircraft Ratio to 250 as against the existing value of 450. This will also bring about anticipated annual savings to the tune of Rs.7 billion in salary expenditure. Brief details of these planned interventions are as follows.

Food Services at Karachi and Islamabad

29. Other than Karachi and Islamabad, food services are already outsourced at other domestic stations. The in-house food facilities maintained for the purpose have very old and outdated equipment which requires huge investment for the needed revamping. Therefore, it is planned to outsource the same to third party which will invest, manage and bear all the operational expenses and in return PIA will pay them for the actual meal cost. This will rationalize the head count by approx.633.

Technical Ground Support (TGS)

30. Technical Ground Support (TGS) provides ground handling services to PIA at 14 domestic airports in Pakistan. For this purpose, PIA has a staff of 628 and maintains a fleet of 300 vehicles. Most of the vehicles and equipment has completed the useful life cycle and are their maintenance costs at present are economically not feasible. Upgrading the vehicles and equipment again requires massive investments.

31. TGS is essential function for flight management. As per prevalent global practice, it is managed by specialized companies instead by the airlines themselves. Therefore, PIA is evaluating options for striking joint venture/operation & management contract with a third-party which will invest and manage this function. In this manner, PIA will obtain efficient and quality services at reasonable cost.

Base Maintenance of Engineering Department

32. Base Maintenance facility is part of PIA and is utilized for heavy checks of B777s & A320. This facility accommodates tool stores, stockrooms, offices, support shops and amenities with paint booths with a total employee-count of 1,967. The infrastructure is outdated and requires heavy investment. Therefore, moving forward, it is planned that this function will be outsourced to an independent entity.

Precision Engineering Complex

33. Precision Engineering Complex (PEC) manufactures high precision engineering parts for the aerospace industry and a number of other industries. Being a non-core function, it has been decided to carve out this department to Ministry of Defense (PAF). Through this restructuring, PIA will be able secure annual savings of approx. Rs.330 million/annum and head-count rationalizing by 429.

SpeedEx Courier

34. PIA launched Courier Services in 2003 with the brand name of SpeedEx. Initially, the operations were started its operation at three major stations (Karachi, Lahore and Islamabad) by utilizing the surplus space and resources. The unit currently employees a staff of 320 and is not performing well. Operating expenses exceed the revenues. Due to this reason and further in view of the fact that courier is a non-core activity for PIA, SpeedEx unit is planned to be shut down. The cargo handled by SpeedEx will be channeled through normal cargo operations of the company. This measure will bring about saving to the tune of Rs.35 million/annum for the company.

Product Development and Revenue Enhancement Measures

35. Following measures of the plan are aimed at enhancing customers' experience and satisfaction; adding to the brand image of the company, and increasing the profits through ancillary revenues and offering better product:

Fleet Modernization

36. The existing fleet of PIA comprises of old wide and narrow body aircraft including B777, A320 and ATR which are not fuel efficient and run high fuel costs. Furthermore, these lack the facilities like in-flight entertainment, on-board internet and modern luxury seats etc. Therefore, upgradation of aircraft fleet is necessary for improving product quality and to bring about savings in fuel costs.

37. Accordingly, going forward, PIA will gradually replace the old fleet with relatively newer fuel-efficient aircrafts. Leveraging the post-Covid situation, efforts will be made to lease newer aircrafts at relatively cheaper rates in case of 8 planes whose lease will expire in 2021. Apart from ensuring better customer experience and improved brand image, the newer aircrafts are expected to bring about fuel costs savings to the tune of Rs.15-20 Million per annum per aircraft and maintenance cost savings of around Rs.200 million plus per annum.

Network Optimization and Expansion

38. Over the next three years, PIA will aggressively pursue its network optimization and expansion initiatives through code sharing arrangements which at present have been made with Turkish Airlines, Thai Airways, Etihad and Pegasus Airline. The arrangements will be extended to other airlines as well so as to gain access to wider networks where the Company does not operate. Moreover, PIA has signed agreements in UK and Spain with local train and bus operators for transportation of passengers from areas where PIA does not operate. Such agreements will be also be expanded to more operators.

39. Through these initiatives, the seat factor is expected to gradually increase to around 82% by 2023 as compared to the existing 75%. As a consequence, the yields would also rise adding to the operational revenues.

Routes Rationalization

40. PIA had been operating on loss-making routes due to a number of reasons including inconsistent commercial approach, external pressures and lack of accountability etc. In this regard, PIA has conducted analysis of profitable routes and a comprehensive route rationalization exercise for each sector through Route Diagnostic Labs. As of result of this:

i) New profitable routes have been started.
ii) Loss making routes were discontinued.
iii) Additional frequencies on profitable routes have been mounted.

41. Detailed results of this exercise are reported in para 49. Over the next three years, PlA will continue this strategy to analyze routes through Route Diagnostic Labs to achieve further rationalization of routes as well as for exploring new markets.

Corporate Business Collaboration

42. PIA will focus on enhancing business collaboration with corporate houses especially on domestic network. This will not only add premium to the brand image of PIA but will also

contribute in enhancing revenues through resource sharing and bring value addition for customers.

Use of Technology to Improve Sales and Customers Experience

43. PIA had been using Sabre Sonic system for passenger services for the last 19 years. The system had limited functionality not meeting the modern-day customer expectations. During 2019, PIA has fully migrated to a new and state of the art Crane Passenger Services System (PSS) acquired from a Turkish company. The exclusive arrangements with Sabre were terminated resulting in substantial savings and greater flexibility.

44. Crane PSS is a suite of over 12 applications for Scheduling, Flight Operations, Fare Filing, Disruptions, Departure Control, Weight & Balance and Central Reservation Control etc. This will not only improve the business processes of the company but also bring about improved system security, better customer-experience and new revenues streams as new product lines are added by fully leveraging various modules in the coming days.

45. In addition to above, PIA is focusing on multiple GDS (Global Distribution System) strategy for larger outreach for selling its services. Sabre, Travel Port and Amadeus has been added to PIA distribution system without exclusivity. Addition of Amadeus has provided the company with selling access to Amadeus-dominant markets in KSA, Gulf, Europe and Far East. This strategy will continue in the coming days. In order to further boost the web sales, PIA application will be revamped to add enhanced features and be made more user friendly.

46. Progress So Far and Performance Improvements: The new management of PIA has demonstrated impressive efforts over the period of last two years to reinvigorate the company and pull it out of operational losses. Not only some immediate measures were taken to counter the imminent challenges, but also a sustained effort has been made to make progress on continued restructuring as per plan outlined in the last Section. This Section enlists the measures already taken by the new management and the ones underway, along with the improvements in financial performance achieved as a result thereof over the last two years.

Measures Already Taken

47. A brief account of the measures already taken by the management over the period of last two years is as under:

i) Contracts with suppliers that were not financially viable were terminated and working agreement were reached with associations.
ii) US$ 15 Million stuck with Airbus since 2013 were recovered.
iii) Dispute with Air Asia was settled through International Chamber of Commerce Arbitration and US$ 2 Million were recovered as a result thereof.
iv) A concerted effort was made to rationalize routes by conducting route diagnostic labs as a result of which:

   a. New profitable routes like Sialkot-Paris-Barcelona, Peshawar-Sharjah, Peshawar Al-Ain, Sialkot-Sharjah, Lahore-Muscat, Islamabad-Doha, Lahore-Bangkok-Kuala Lumpur and Multan-Sharjah were started

   b. Loss making routes such as Bangkok, Dacca, Najaf etc. were discontinued.

   c. Additional frequencies on profitable routes like Dubai, Jeddah and Medina have been mounted.

v) 3 aircrafts grounded for several months were put back into operation using PIA'S own resources. Similarly, various Technical Ground Services equipment was put back to use.
vi) Customer service was improved focusing on the punctuality and regularity of flights, aircraft cleanliness and improved food quality.
vii) Positioning flights and dead legs from aircraft and network operations were removed.
viii) Effective monitoring and vigilance was ensured in all areas to eliminate pilferage and leakages.
ix) Special emphasis was made on cargo business with monitoring of performance, rationalization of cargo fares and a more effective liaison with all stakeholders. This not only helped enhance cargo revenue, but also assisted in increasing exports of goods.
x) Enhancement of higher ancillary revenue was achieved through measures like sale of bulkhead seats, pre-allocation of seats, advance excess baggage etc.
xi) Significant savings of more than Rs.1 billion were achieved in 2019 alone by termination of exclusive arrangement with Sabre Global Distribution System (Sabre) and migration to new system (HITIT) with multiple GDS strategy.
xii) An austerity and cost-saving drive was initiated which included rationalization of allowances and curtailment of unnecessary visits by officials both domestically and internationally.
xiii) Employees with fake degrees were terminated in accordance with the decision of honorable Supreme Court of Pakistan.
xiv) Strict discipline and accountability regime including Duty Time Management System was brought about in the company. Expeditious finalization of disciplinary cases was ensured.
xv) Significant savings were achieved in annual medical expenses through better monitoring and controls
xvi) Aircrew flight rostering was improved with better system resulting in discontinuation of unnecessary crew slips.

Regulatory Compliances

i) Pending external audits for the years 2017, 2018 and 2019 were successfully completed in compliance with Companies Act and the AGMs were held.
ii) PIA has been removed from Pakistan Stock Exchange defaulter counter.
iii) Successful completion of detailed security and safety assessment by US Transport Security Administration (TSA) and strict compliance with US Homeland Security regime has led to PIA acquiring authorization for direct charter flights to/from the USA for repatriation of stranded citizens. This has allowed for the first-ever PIA direct flight to mainland USA as previously the flights to USA were via Manchester or Frankfurt.

Measures Underway

48. Some of the restructuring initiatives under active implementation at present are as under:

i) Voluntary Separation Scheme has been rolled out on 7th December 2020 after the approval of government and employees had been asked to indicate the adopted option by 22nd December 2020. Processing of approved cases might be completed by 30th December 2020.

ii) Outsourcing of various non-core activities (details in previous Section) is at various stages of implementation. Some activities are planned to be shortly completed as per following deadlines:

   d. Tendering process for food services at Karachi and Islamabad will be completed by 31st December 2020 and outsourcing would take effect by 1st quarter 2021.

   e. Technical Ground Support would be outsourced in 2ndquarter of 2021 for which tender processing is to be completed in 1st quarter.

   f. Base Management Engineering Department will also be outsourced by or before the end of 2ndquarter 2021.

i) Financial Consultant for transfer of Precision Engineering Complex to Ministry of Defense has been appointed by PIA management which is in the process of making valuations. Transfer is planned to be completed by the end of 2nd quarter 2021.
ii) Shutting down the operations of loss-making SpeedExis at an advanced stage and the exercise is expected to be completed by 31st December 2020.
iii) One ATRs has been returned and efforts are under way to return at least one more ATR without penalty.
iv) Some leased engines are also being returned.
v) Negotiations are underway with OEMs (Original Equipment Manufacturers) for seeking relaxations and waivers in Component Support Program (CSP) payments due to ongoing Covid-related situation. This will result in further cost cuttings.

Improvements in Performance

49. The above efforts have not only enhanced the overall working environment of the PIA, but have also resulted in improvement of its financial performance in terms of reducing operating losses and exhibiting profits. This is manifested by the audited profit and loss statements of the company for the year 2019 and the available quarters of 2020 as under.

Year 2019

50. In the last year, the company has seen significant improvement in revenue and reduction in operational losses as under:

i) Revenue increased by 42.5% compared to previous year.
ii) The company saw gross profit on its balance sheet after 8 years. Gross profit amounting to Rs.7.8 billion was achieved in 2019 compared to gross loss of Rs.19.7 billion the previous year.
iii) Operational losses reduced by 75.9%.
iv) Charter revenue increased by 7 times.
v) 4% improvement in Seat Factor from 77.3% to 81.3%
vi) Passenger and Cargo Yields improved by 32% & 19% respectively

Year 2020

51. The ongoing year is marked with the global phenomenon of Covid-19 which adversely affected the aviation industry world over. Seen in this backdrop, PIA has demonstrated appreciable performance on its balance sheet:

i) During the first quarter of 2020, the company achieved 220% enhancement in gross profits and a 61.9% reduction in operating losses reduction in this period as compared to first quarter of 2019.

ii) In the third quarter (Jul-Sept 2020), PIA has again shown gross profit of Rs. 4 Billion and operating profit of Rs. 1.3 billion. In the challenging times, these profits were achieved through more focus on charter revenue and cargo business, special repatriation flights for stranded Pakistanis, and cost rationalization through voluntary salary cuts etc.

iii) The projections for the last quarter of 2020 show a big jump in operating loss due to two main reasons: (a) revenue is likely to be impacted as resurgence of Covid-19 would reduce air travel (b) the expenses booked under one-off VSS scheme under salaries, wages and benefits amount to Rs. 3.2 billion. Additionally, expense of Rs 1.5 billion is expected to be booked on annual actuarial valuations

iv) The above efforts and the achievements clearly indicate that PIA was on the path of recovery. Its transformation to a lean and efficient airline has high probability of success provided the operational and financial restructuring plans remain on track.

52. A comparison of actual performance of PIA in the years 2019 and 2020 (with projected figures of Q4) is given at Table 2 below.

Table 2: Comparison of PIA's Performance in Years 2019 and 2020

	(Amounts in Billion Rs.)					
	2019	2020				
		Q-1	Q-2	Q-3	Q-4*	Total
Revenue	147,500	36,443	15,028	22,891	16,089	90,451
Fuel Cost	(50,059)	(12,307)	(2,350)	(3,425)	(3,816)	(21,898)
Operating Expenses Other than Fuel						
Salaries, wages & benefits	(27,121)	(6,699)	(5,717)	(5,502)	(10,977)	(28,895)
Depreciation & Rentals	(15,724)	(4,422)	(4,078)	(3,813)	(5,451)	(17,764)
Maintenance	(17,193)	(4,407)	(4,286)	(2,489)	(3,835)	(15,017)
Aeronautical, Crew Layover, Insurance, Passenger related charges & Others	(47,227)	(10,703)	(7,331)	(6,652)	(4,754)	(29,440)
	(107,265)	**(26,231)**	**(21,412)**	**(18,456)**	**(25,018)**	**(91,117)**
Other Income	2,102	449	355	313	-	1,117
Net Other Operating Expenses	**(105,163)**	**(25,782)**	**(21,057)**	**(18,143)**	**(25,018)**	**(90,000)**
Gross Profit**	**7,822**	**1,145**	**(5,250)**	**4,034**	**(9,007)**	**(9,078)**

Operating Profit / (Loss)	**(7,722)**	**(1,646)**	**(8,379)**	**1,323**	**(12,745)**	**(21,447)**
*Projected figures. ** It is total revenue (including other income) minus direct expenses						

Balance Sheet Restructuring

53. This Section is based on the proposals put forward by the PIA Management in consultation with President National Bank of Pakistan, President Bank Al Falah, President Bank of Punjab before the Financial Restructuring Committee headed by Finance Secretary. The Committee has held six meetings attended by the Secretary Aviation, the above referred professionals and others in which various possible options were discussed and analyzed. The consensus view of the Committee was that financial restructuring in the absence of operational efficiency and organizational restructuring would not achieve any tangible results. Thus, financial restructuring is conditional on the measures to improve operational efficiency and implement organizational restructuring.

54. Under that scenario, role of Government of Pakistan in assuming financial liabilities off the PIA's balance sheet would be the critical success factor. This would enable PIA to mobilize long and short-term capital from financial market on the strength of its transformed balance sheet without recourse to Government in the form of loans and guarantees.

55. The Committee reviewed the restructuring plan submitted by PIA, measures already taken ongoing and future initiatives, and working assumptions behind financial projections of company for next 3 years. The Committee would submit its recommendations separately and without preempting the highly useful work done by them this report has benefitted from the main thrust of the discussion which is reflected here. To summarize, it is assumed that liabilities of Rs.457.1 billion currently on PIA's balance sheet as indicated in Table 3 may be assumed by the Government of Pakistan by conversion into equity:

Table 3: Summary of PIA Liabilities for Equity Conversion

Description	**Amount (Billion Rupees)** (As on 30-9-2020)
GoP Guaranteed Loans	201.8
Loans from GoP	55.6
Loans on PIA Balance Sheet	52.9
Markup	16.1
Total Loans and Markup	**326.4**
Payable to PSO (Including Markup)	16.4
Payable to CAA	86.7
Taxes payable	14.7
Total Payable to GoP Institutions	**117.8**

VSS Amount	12.9
Total for Conversion into GoP Equity	**457.1**

56. Treatment of different components of liabilities can be as under:

57. The GoP is required to provide immediate relief of Rs. 202.8 billion to PIA in various heads of account including loan and mark up relief, payable to Civil Aviation Authority, Pakistan State Oil, taxes and VSS. This amount does not necessarily involve cash outflows but adjustment as book entries i.e. accounting transfers. In addition, cost of such repayments for GoP will be around Rs.57.8 billion, also by the end of CFY. Detailed amortization schedule and projected cash flow are given at Annexure-I and its summary has hereunder: -

i) An amount (Rs.12.9 billion) has already been approved by the government for VSS of the employees.
ii) Loans extended by GoP to PIA (amounting to Rs.55.6 billion) and the interest accrued against such loans (Rs.13.6 billion out of total accrued markup of Rs.16.1 billion) will be adjusted as book entries.
iii) Receivables of Civil Aviation Authority to the tune of Rs.86.7 billion (to be updated as of 31st Dec, 2020) may be considered for waiver or writing-off or adjustment as one-time relief to PIA. However, PSO may be requested to waive-off the outstanding amount of Rs.16.4 billion, subject to approval of their BoD as the GoP cannot direct the private sector investors for waiver.
iv) The FBR may consider waiving the taxes due worth Rs.14.7 billion. The total amount payable is Rs. 117.8 billion.

58. PIA would transfer the ownership properties belonging to PIACL to the SPV as created with 100% GoP equity. Although the actual value of these assets is yet to be determined, if an estimated amount of Rs.150-160 billion is realized from these hotels, the liabilities assumed by the GoP (Loans and interest on direct loans to PIA, Government-guaranteed loans and loans acquired by PIA against its balance sheet) would be reduced from Rs.326.4 billion to Rs.166-176 billion.

59. **Annexure-II** is the depiction of PIA balance sheet after getting restructured as per plan proposed above.

Risk and Challenges

60. Given the resolve of the government to revive PIA and the efforts being made by the new management, the chances of success appear promising. However, the plans may hit a snag due to a number of internal and external factors. A list of such foreseeable risk factors is as under:

i) The single dominant factor that poses the biggest risk is the Government’s ability in view of available fiscal space to allow PIA to clean up its balance sheet by assuming the debt and liabilities amounting to approx. Rs.457 billion. In case this risk is not mitigated, the restructuring plan would fail to accomplish the ultimate goal of financial sustainability and operational autonomy.
ii) Second risk factor is the ban on PIA flights to Europe and delay in opening up US routes due to pilots licensing episode and safety measures to be taken by the Civil Aviation Authority (CAA) and the Aviation Division.

iii) Thirdly, the growing competition with British Airways and Virgin Atlantic on remunerative routes in the U.K and with Air Blue, Air Sial and other domestic airlines would impose additional obligations on PIA to improve its service, in-flight entertainment, fare discounts and cargo rates rationalization. This may increase costs and diminish the projected revenue streams.
iv) The prolonged uncertainty arising out of Covid-19 and voluntary suspension of domestic and international travelling is likely to pose a challenge in achieving the expected revenue targets.
v) A favorable stance is expected from Saudi Government in respect of issuance of Umrah visas and Pilgrims quota for Hajj. If this stance is modified for extraneous reasons, it would also have a downward impact on the earnings.

61. Mitigation of above risk factors and dealing with any other arising exigencies requires a concerted 'whole of the Government's approach' in which the Aviation Division, Civil Aviation Authority and Finance Division have to work together to closely monitor the situation and take corrective measures as and when required in an expeditious manner.

Safeguards and Conditions

62. As described in previous Section, implementation of restructuring plans and achievement of targeted results may be affected due to a number of external and internal risk factors. In order to protect the interest of the Government under the circumstances, it is advisable to put in place some safeguards and conditions under which the GoP would assume these liabilities and enable PIA to clean up its balance sheet. These are spelled below:

i) The PIACL would transfer the ownership of properties belonging to PIA and PIACL to the Government of Pakistan without any encumbrances. The proceeds received from any market-based transactions would be applied towards the equity injection.
ii) The Board of PIA would authorize an agreement to be signed between PIA and the GoP laying down the specific milestones and timelines to be achieved by the company.
iii) In case of violation of financial clauses of the agreement or non-achievement of revenue targets, cost containments and operating profits, the GoP would have the unfettered right to claw back the amount of equity injected, restore the situation ex-ante and convert the equity into loans to be serviced by PIA. The amortization schedule attached to the Restructuring Plan under which PIA had to replace the loan amounts with equity would become null and void, and In case of failure, the entire plan will be reviewed afresh including possibility of withdrawal of GoP support etc. GOP may then explore the other options of outright privatization or management contract outsourcing.
iv) The clauses pertaining to waiving or writing off the amounts payable to Civil Aviation Authority, Pakistan State Oil and to the Federal Board of Revenue would be revoked and no longer valid.

Financial Projections of Restructured PIA (NEW CO.)

63. Assuming that existing momentum of performance and reforms is maintained and the balance sheet is restructured, it is projected that PIA will exhibit significant improvements over the next three years in terms of both cash flows from operations as well as the profits. As per company's calculations, profit/loss before taxation figures over next three years will be as reflected at Table 4. The revenue projections for 2021 show a big jump on the presumptions

that the inoculation of vaccine against Covid-19 would lead to resumption of domestic and international travel, and that the safety issues with European Union Aviation Safety Agency (EASA) and Europe would be successfully settled and PIA gets permission to resume its flights. It may be recalled that the actual revenue realized in 2019 was Rs 147.5 billion. Thus, the year 2021 is projected at a level below the actual achievement.

Table 4: Projections of Profits/Loss before Taxes for Years 2021-23 (in Million Rs.)

		Forecast		
	2020*	**2021**	**2022**	**2023**
Revenue	**90,451**	**143,554**	**199,524**	**220,352**
Operating Expenses				
Fuel & Oil	(21,898)	(38,570)	(56,254)	(61,596)
Other than Fuel	(89,999)	(109,134)	(133,230)	(141,841)
Operating Profit/(Loss)	**(21,447)**	**(4,149)**	**10,040**	**16,915**
Exchange Gain / (Loss)	(6,694)	-	-	-
Profit/(Loss) Before Interest & Taxation	**(28,141)**	**(4,149)**	**10,040**	**16,915**
Finance Cost	(29,372)	(375) **	-	-
Profit/(Loss) Before Taxation	**(57,513)**	**(4,524)**	**10,040**	**16,915**

** Year 2020 figures include actual figures of Q1, Q2, Q3 and projected figures of Q4.*

*** This represents finance cost on loans borrowed by PIA on its own Balance Sheet.*

64. Table 5 depicts the summary of cash flow projections over the same period.

Table 5: Cash Flow Projections for the Years 2021-23 (in Million Rs.)

		Forecast		
Cash flows	**2020***	**2021**	**2022**	**2023**
Operating Profit/(Loss)	**(21,447)**	**(4,149)**	**10,040**	**16,915**
Add: Dep/Amortization	13,569	9,864	11,160	11,833
Add: Other non-cash exp. (provisions)	5,085	5,150	5,665	5,971
Net Cash flow from Operations	**(2,793)**	**10,865**	**26,865**	**34,719**

** Year 2020 figures include actual figures of Q1, Q2, Q3 and projected figures of Q4.*

Key Assumptions

65. These above 3-year financial projections have been worked out on the basis of following key assumptions:

i) Hajj and China operations are resumed back to pre-Covid levels by 2023.
ii) No additional aircraft is inducted in the years 2020 and 2021, whereas 3 new aircraft will be inducted in the year 2022.
iii) One wide body and one narrow body aircraft are assumed on routine maintenance throughout.
iv) VSS takes effect in the last quarter of 2020 as per projections.
v) Restructuring of the departments as stated above is assumed from 2021.
vi) Finance cost on loans is calculated till 31st Dec 2020 with the assumption that debt-equity swap will take place by that time.
vii) Seat factor will be gradually increased to 82% over the 3 years from existing 74% through aforesaid measures and as a consequence the yields would rise adding to the operational revenues.
viii) Average KIBOR & LIBOR is assumed at 8.0% & 1.5% in 2021 respectively.

Recommendations

Policy Recommendations to Improve Environment for Aviation Industry in General

66. The recent global recession of aviation industry due to Covid-19 situation notwithstanding, the ecosystem for the local aviation industry in general in Pakistan may be improved through a number of measures which will naturally benefit the national flag carrier as well. Recommendations in this regard are as under:

i) Civil Aviation Authority should play a more proactive role not only as the regulator of the local aviation industry but also as the interface with international regulators and agencies. More focus needs to be placed on ensuring that Pakistan remains compliant to the regulations of ICAO (e.g. State Safety Program etc.) as well as those of the local regulators at destinations of interest. Appointment of an aviation industry professional from the market as DG CAA coupled with organizational restructuring of the Authority will go a long way in achieving this.
ii) Aviation Division may ensure that grant of slots to foreign carriers is strictly on the principle of reciprocity, so that the natural advantage of local airlines to provide direct point-to-point connectivity to the Pakistani diaspora is optimally leveraged to our advantage.
iii) Airports infrastructure in general and technical equipment in particular need to be upgraded to facilitate the aviation companies. A case in point is the CAT-III equipment required for landing during smog which is installed only at Lahore airfield. Resultantly, flight schedule is severely disturbed during the winters each year. For this purpose, the ongoing exercise of bifurcation of CAA into a regulating authority and an infrastructure development company needs to be completed at the earliest.
iv) Reportedly, review of the Aviation Policy is in the offing and recommendations are being developed in this regard. As a policy, PIA and other local aviation companies should be actively consulted whenever such exercise is carried out so as to address their concerns.

v) During last three decades, few trends have become quite obvious in the airlines business. Most of the state airlines have been privatized. These airlines are now merely using the old national names/ symbols like British Airway, Japan airline, Lufthansa, Qantas and few US airlines. These all are now owned by private fund managers and investment houses. Airlines, which are in the public sector like Air India, Malaysia Airline, South African Airways etc. are making heavy losses. Around 20 airlines of the public sector have closed down in last thirty years and many in the private sector. Only airlines of UAE are in public sector, but these are also being operated by the Fund Managers, not per say by their national governments, which provides the flexibility to take "decisions" and operate purely in commercial terms. The airline industry has become a business with modicum and declining margins due to burgeoning competition. In Pakistan, somehow, the ecosystem required to take bold commercial decisions has fast lost its ground. GOP particularly Aviation Division and CAA would have to take responsibility to remove the unnecessary hurdles impeding the commercial operations of Pakistani Airlines.

Recommendations specific to PIA

i) Implementation of PIA Organizational Restructuring Plan needs to be closely monitored, not only to track the progress but also to facilitate the management in overcoming difficulties if faced any. For this purpose, a Committee may be constituted after considering the options for balance sheet restructuring OR alternatively PIA may be tasked to present their quarterly progress before Cabinet Committee on Reforms (CCIR) for review.

ii) Balance sheet restructuring is the biggest ticket item for public exchequer as for as PIA restructuring process is concerned. In this regard, an earlier decision is of much significance as financial projections have been made assuming that the process will be completed by the end of year June 2021. To this end, Aviation Division may finalize the proposal and initiate summary for ECC in due course with beforehand consultation with Finance Division as Finance Division has to take up the matter with IMF in the first place.

iii) Whereas it is important that Aviation Division being the administrative Division maintains an oversight over PIA performance, it is equally important that company should operate as an autonomous corporate organization. Therefore, PIA Board should be allowed to act in an independent manner for the best interest of the company with little lateral interferences. Administrative reorganization that includes appointment of a Chief Commercial officer and experts in aviation industry, may be necessary in light of the lean and focused Business opportunities. Expensive office spaces and residential accommodation at stations from where the PIA is withdrawing itself should be immediately disposed of. Health insurance in place of the PIA provided facilities and the existing reimbursement system would minimize the abuse and inflation of medical expenses. Other opportunities for cost savings through robust internal controls and automation should be explored.

iv) As stated earlier, procurement through lengthier PPRA-prescribed procedures puts PIA in disadvantageous position in comparison to its competitors. This is especially true in case of narrower windows of opportunity requiring immediate decisions. In order to acquire necessary agility to respond to market dynamics, it is imperative that PIA, with the approval of Board, should adopt an alternate procurement manual. However, if the same could not possible due to legal reasons, PPRA Board may consider the case and recommend appropriate exemptions/relaxations to fulfil

PIA needs. In the absence of procurement and hiring & firing flexibility, the success chances of the instant bailout package are slim.

Decision

67. A summary containing the Restructuring Report recommendations was presented before and approved by the ECC on 31st March, 2021.

68. The Cabinet discussed the minutes of ECC on 27th April, 2021. The Cabinet took note of the presentation by the Adviser to Prime Minister on Institutional Reforms & Austerity and directed the Aviation Division to move a summary for the Cabinet, after incorporating the views of all the stakeholders for formal approval of the Restructuring Plan, as amended in light of the observation of the Minister for Finance & Revenue.

Current Status

69. Further action is to be taken by the Aviation Division.

Annexure I: Amortization Schedule as per Proposed Restructuring

Re-payment Timelines (Amounts in Billion Rs.)										
Description	**As on 30-9-2020**	**Immediate**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**
GoP Guaranteed Loans	201.8	-	45.6	41.0	41.8	48.4	16.1	7.2	4.2
Loans from GoP	55.6	55.6	-	-	-	-	-	-	-
Loans on PIA Balance Sheet	52.9	0.4	12.2	22.0	16.0	6.6	-	-	-
Markup	16.1	16.1	-	-	-	-	-	-	-
Total Loans and Markup	**326.4**	**72.1**	**57.8**	**62.9**	**57.7**	**55.1**	**16.1**	**7.2**	**4.2**
Payable to PSO	16.4	16.4	-	-	-	-	-	-	-
Payable to CAA	86.7	86.7	-	-	-	-	-	-	-
Taxes payable	14.7	14.7	-	-	-	-	-	-	-
Total Payables to GoP Institutions	**117.8**	**117.8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
VSS	12.9	12.9	-	-	-	-	-	-	-
Total GoP Equity Conversion	**457.1**	**202.8**	**57.8**	**62.9**	**57.7**	**55.1**	**16.1**	**7.2**	**4.2**

Immediate cash flow requirement against equity conversion of Rs.457.1 billion (reflected above) will be as under:

	(Amounts in Billion Rs.)		
Description	**Equity Conversion**	**Cash Outflows**	**Remarks**
GoP Guaranteed Loans	201.8	0	These will be repaid as per amortization schedule
Loans from GoP	55.6	0	This will be book entry
Loans on PIA Balance Sheet	52.9	0.4	Remaining will be repaid as per amortization schedule
Markup	16.1	2.5	Remaining markup is accrued on GoP loans and will be book entry
Payables to GoP institutions	117.8	0	This is subject to agreeing of CAA, PSO and FBR to waive-off receivables.
VSS	12.9	0	Already approved by GoP
Total	**457.1**	**2.9**	

Annexure II: PIA Balance Sheet after Proposed Restructuring

(Page 1/2)

As on 30th September 2020					
ASSETS	**Good (retain)**	**Outsource***	**PEC (carve out)**	**Bad/ Financial restructuring (carve out)**	**Total**
	(Amounts in Billion Rs.)				
PPE	82.6	0.9	0.0	-	83.5
Intangible	0.3	-	-	-	0.3
	82.9	**0.9**	**0.0**	**-**	**83.8**
PIAIL	-	-	-	4.4	4.4
SRL	-	0.0	-	-	0.0
Others	0.2	-	-	-	0.2
Long Term Investment	**0.2**	**0.0**	**-**	**4.4**	**4.6**
Deposit & Prepayments	**5.9**	**-**	**-**	**-**	**5.9**
Total Non-Current Assets	**88.9**	**0.9**	**0.0**	**4.4**	**94.3**
Stores & Spares	2.4	0.4	0.1	-	2.9
Trade Debts	14.8	0.3	0.4	-	15.6
Advances	1.6	-	0.1	-	1.6
Trade Deposits & Short Term	2.5	0.0	-	-	2.5
Other receivable	8.8	0.2	0.1	-	9.0
Short-term investment	0.0	-	-	-	0.0
Cash & Bank Balance	8.6	-	-	-	8.6
VSS Cash Payment	12.9				12.9
Total Current Assets	**51.6**	**0.9**	**0.7**	**-**	**53.2**
Total Assets	**140.6**	**1.8**	**0.7**	**4.4**	**147.5**

**This includes FSD & TGS. Further Base Maintenance of Engineering will be included in this after finalization.*

Annexure II: PIA Balance Sheet after Restructuring (Page 2/2)

	As At 30-September-2020				
LIABILITIES & EQUITY	**Good (retain)**	**Out source**	**PEC (carve out)**	**Bad/ Financial restructuring (carve out)**	**Total**
	(Amounts in Billion Rs.)				
Loans from financial institution (GoP guaranteed)	-	-	-	201.8	201.8
Loans from GoP	-	-	-	55.6	55.6
Loans from financial institution, non GoP Guaranteed (Secured via PIA Assets)	-	-	-	52.9	52.9
Total Loans	**-**	**-**	**-**	**310.3**	**310.3**
Markup on Loans from GoP	-	-	-	13.6	13.6
Accrued Interest – Others	7.7	-	-	2.5	10.2
Total Loans (including Markup)	**7.7**	**-**	**-**	**326.4**	**334.1**
Trade & others payables					
CAA	-	-	-	86.7	86.7
PSO	-	-	-	16.4	16.4
Taxes	-	-	-	14.0	14.0
Others	68.5	3.7	2.1	-	74.3
Total Trade & Other Payables	**68.5**	**3.7**	**2.1**	**117.1**	**191.4**
Total Loans & Trade Payables	**76.2**	**3.7**	**2.1**	**443.5**	**525.5**
Deferred Liabilities - Employee Benefit	37.2	1.1	1.6	-	39.9
Deferred Liabilities - Leased Aircraft Re-delivery	2.0	-	-	-	2.0
Advance from PIAIL (Incl. markup)	-	-	-	8.1	8.1

Lease Liability & Others	21.5	-	-	0.7	22.2
	60.7	**1.1**	**1.6**	**8.8**	**72.2**
Total Liabilities	**136.9**	**4.8**	**3.7**	**452.3**	**597.7**
Issued, subscribed and paid-up share capital	52.3	-	-	-	52.3
Reserves	4.4	-	-	-	4.4
Surplus on revaluation of PPE-net	19.2	-	-	-	19.2
VSS Equity	12.9	-	-	-	12.9
Accumulated losses	(85.2)	(3.0)	(3.0)	(447.9)	(539.0)
Total Shareholder Equity	**3.7**	**(3.0)**	**(3.0)**	**(447.9)**	**(450.2)**
Total Equity & Liabilities	**140.6**	**1.8**	**0.7**	**4.4**	**147.5**
Net Equity (Retain)	**0.7**				

Annexure III: Implementation Timelines of immediate Initiatives

Sr.	Initiative	Responsibility	Timeline/ Completion Date	Remarks
Financial Restructuring Plan Tentative (to be agreed with stakeholders)				
1.	Finalization of Plan	• Ministry of Finance • Aviation Division • PIA Management	5-1-2021	Meeting of Committee to finalize the plan is convened on the date
2.	Approval of Plan by PIA Board	• Aviation Division • PIA Management	18-1-2021	
3.	Initiation of summary for ECC after stakeholders' consultations	• Aviation Division	22-1-2021	
4.	Decision of ECC and ratification by Cabinet	• Cabinet Division	27-1-2021/ 2-2-21	Indicative timelines
5.	Signing of agreement between Finance Division and PIA	• Finance Division • Aviation Division • PIA Management	8-2-2021	In anticipation of approval of proposed plan by ECC and Cabinet
6.	Formation of Special Purpose Vehicle	• Aviation Division • PIA Management	15-2-2021	- do -
7.	Book adjustments, immediate cash payments, issuance of instruments etc.	• Finance Division	25-2-2021	- do -
8.	Decision by CAA and PSO Boards regarding waiving PIA liabilities	• Aviation Division/CAA • Petroleum Division/PSO	25-2-2021	- do -
Organizational Restructuring Plan				
9.	Voluntary Separation Scheme	• PIA Management	31-12-2020	
10.	Outsourcing food services at Islamabad and Karachi	• PIA Management	• Tendering to complete by 31-12-2020 • Outsourcing to take effect by 31-3-2021	
11.	Outsourcing of Technical Ground Support	• PIA Management	• Tendering to complete by 31-3-2021	

			• Outsourcing to take effect before 30-6-2021	
12.	Outsourcing of Base Management Engineering Department	• PIA Management	30-6-2021	
13.	Transfer of Precision Engineering Complex to Ministry of Defense	• PIA Management • Ministry of Defense	30-6-2021	
14.	Closure of SpeedEx	• PIA Management	31-12-2020	
15.	Replacements of old aircrafts with recent vintage ones	• PIA Management	2021 (As per lease expiry of 8 aircrafts during the year)	
16.	Network expansion through code sharing arrangements	• PIA Management	Ongoing	
Other Issues				
17.	Review of Aviation Policy	• Aviation Division	30-6-2021	
18.	Review of Air Services Agreements (ASAs) with other countries	• Aviation Division • Foreign Office • CAA	31-3-2021	
19.	Negotiations with EASA for complete or provisional lifting of ban on PIA from European routes	• Aviation Division • CAA	31-3-2021	

Annexure IV: Implementation Timelines of Restructuring plan

		2020	2021				2022
Sr.	**RESTRUCTURING MEASURE**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
1	VOLUNTARY SEPERATION SCHEME (VSS)	Offer to Employees	- Acceptance of offers - Separation of employees after receipt of funds from GoP	Another Scheme in consultation with legal counsel			
2	CLOSURE OF SPEEDEX	Closure of operations	Layoff of 3rd Party Employees	Settlement of Dues			
3	OUTSOURCING OF FOOD SERVICES DIVISION (FSD) AT ISLAMABAD	Tendering for Outsourcing is Done	- Technical Bids Evaluation - Financial Bid Evaluation for shortlisted parties	- Shortlisting the final Vendor - Contract Negotiation - Award of Contract			
4	JV / O&M CONTRACT OF FOOD SERVICES DIVISION (FSD) AT KARACHI		- Tendering for Valuation of PIA Equipment. - Finalization of Valuation	- Tenders for JV/O&M Contract - Technical Bids Evaluation - Financial Bid Evaluation for shortlisted parties	- Shortlisting the final Vendor - Contract Negotiation	Award of Contract	
5	TRANSFER OF PRECISION ENGINEERING COMPLEX (PEC) TO MoD		Re-Appointment of Consultant	- Finalization of Valuation - Hiring of Legal Consultant	Finalization of Terms of Transfer	Transfer to MoD	
6	JV / O&M CONTRACT OF TECHNICAL GROUND SUPPORT (TGS)		Tendering for Valuation of PIA Equipment.	- Award of Contract for valuation -Valuation Finalization - Initiation of process for Hiring of Consultant	- Financial Model by Consultant - PPPA Approval - Tenders for JV / O&M Contract	- Contract Negotiation - Award of Contract	
7	JV / O&M CONTRACT OF BASE MAINTENANCE OF ENGINEERING		Tendering for Valuation of PIA Equipment.	- Award of Contract for valuation -Valuation Finalization - Initiation of process for	- Financial Model by Consultant - PPPA Approval - Tenders for JV / O&M Contract	- Contract Negotiation - Award of Contract	

				Hiring of Consultant		
8	REPLACEMENTS OF 8 NARROW BODY AIRCRAFTS	Tenders Publication Done	Evaluation of Bids	- Selection of Fleet & Vendor - Contract Negotiation	- Award of Contract - Replacement of Aircraft	- Replacement of Aircraft
9	NETWORK EXPANSION		This process of exploring New Markets & Code Sharing Agreement is a continuous process.			