

**PAKISTAN INTERNATIONAL AIRLINES  
CORPORATION LIMITED**

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**UNCONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2016

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**EY Ford Rhodes**  
Chartered Accountants



**KPMG Taseer Hadi & Co.**  
Chartered Accountants



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**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed unconsolidated balance sheet of Pakistan International Airlines Corporation Limited (the Company) as at December 31, 2016 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in the conformity with the approved accounting standards and the requirements the repealed Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) proper books of accounts have been kept by the Company as per the repealed Companies Ordinance, 1984;
- b) in our opinion:
  - i) the unconsolidated balance sheet and unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the repealed Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated balance sheet, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the repealed Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2016 and of the loss, its comprehensive loss, cash flows and changes in equity for the year then ended; and

- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to the following notes to the unconsolidated financial statements:

- i) note 1.2 which states that during the current year, the Company incurred a net loss of Rs. 45,381.036 million, resulting in accumulated losses of Rs. 316,738.170 million as of December 31, 2016, and, as of that date, the Company's current liabilities exceeded its current assets by Rs. 195,547.793 million. These conditions along with other factors disclosed in the abovementioned note indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.
- ii) note 25.4 which states that the Pakistan International Airlines Corporation Provident Fund's contribution of Rs. 10,202.468 million along with mark-up thereon of Rs. 4,185.344 million were not deposited by the Company within stipulated time as required by Section 227 of the repealed Companies Ordinance, 1984.
- iii) note 28.1 which states that the ultimate outcome of the matters referred therein cannot presently be determined and, accordingly, no provision has been made in respect of these matters in the unconsolidated financial statements.

Our opinion is not qualified in respect of the above matters.

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**Chartered Accountants**  
**Engagement Partner:**  
Khurram Jameel

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**Chartered Accountants**  
**Engagement Partner:**  
Muhammad Nadeem

**Date:** October 12, 2017  
**Place:** Karachi



Pakistan International Airlines Corporation Limited

Unconsolidated Balance Sheet

As at December 31, 2016

		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	Note	----- (Rupees in '000) -----		----- (US\$ in '000) -----	
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
<b>Fixed assets</b>					
- Property, plant and equipment	5	68,831,114	76,602,307	656,442	730,440
- Intangibles	6	7,884	45,645	75	435
		<u>68,838,998</u>	<u>76,647,952</u>	<u>656,517</u>	<u>730,875</u>
Long-term investments	7	4,569,247	4,511,581	43,577	43,020
Long-term advances	8	-	-	-	-
Long-term deposits and prepayments	9	7,032,142	9,602,902	67,066	91,569
<b>Total non-current assets</b>		<u>80,440,387</u>	<u>90,762,435</u>	<u>767,160</u>	<u>865,464</u>
<b>CURRENT ASSETS</b>					
Stores and spares	10	2,556,206	3,039,872	24,379	28,986
Trade debts	11	8,566,349	9,294,690	81,697	88,629
Advances	12	2,289,346	1,574,020	21,833	15,009
Trade deposits and short-term prepayments	13	3,891,575	2,355,635	37,114	22,462
Other receivables	14	8,817,299	6,154,674	84,091	58,688
Short-term investment	15	19,220	19,220	183	183
Cash and bank balances	16	3,496,492	2,641,305	33,346	25,187
<b>Total current assets</b>		<u>29,636,487</u>	<u>25,079,416</u>	<u>282,643</u>	<u>239,144</u>
<b>TOTAL ASSETS</b>		<u>110,076,874</u>	<u>115,841,851</u>	<u>1,049,803</u>	<u>1,104,608</u>
<b>EQUITY AND LIABILITIES</b>					
<b>SHARE CAPITAL AND RESERVES</b>					
Issued, subscribed and paid-up share capital	17	52,345,110	52,345,110	499,215	499,136
Reserves	18	4,432,287	4,374,621	42,271	41,714
Accumulated losses		(316,738,170)	(269,946,703)	(3,020,728)	(2,574,071)
<b>Total shareholders' equity</b>		<u>(259,960,773)</u>	<u>(213,226,972)</u>	<u>(2,479,242)</u>	<u>(2,033,221)</u>
Surplus on revaluation of property, plant and equipment - net	19	4,752,639	4,863,889	45,326	46,380
<b>NON-CURRENT LIABILITIES</b>					
Long-term financing	20	74,829,943	49,766,421	713,652	474,547
Term finance and sukuk certificates	21	25,289,606	26,707,209	241,187	254,666
Liabilities against assets subject to finance lease	22	5,811,849	13,218,479	55,428	126,045
Advance from a subsidiary	23	4,208,390	4,209,056	40,135	40,135
Deferred liabilities	24	29,960,940	24,732,719	285,737	235,838
<b>Total non-current liabilities</b>		<u>140,100,728</u>	<u>118,633,884</u>	<u>1,336,139</u>	<u>1,131,231</u>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	25	130,734,207	108,498,696	1,246,811	1,034,588
Accrued interest	26	13,320,252	11,965,110	127,035	114,093
Provision for taxation - net		541,326	231,779	5,163	2,210
Short-term borrowings	27	34,351,311	36,940,201	327,608	352,242
Current maturities of:					
- Long-term financing	20	30,412,813	27,534,829	290,046	262,557
- Term finance and sukuk certificates	21	8,217,603	13,196,419	78,371	125,834
- Liabilities against assets subject to finance lease	22	7,606,768	7,204,016	72,546	68,694
<b>Total current liabilities</b>		<u>225,184,280</u>	<u>205,571,050</u>	<u>2,147,580</u>	<u>1,960,218</u>
<b>TOTAL LIABILITIES</b>		<u>365,285,008</u>	<u>324,204,934</u>	<u>3,483,719</u>	<u>3,091,449</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>110,076,874</u>	<u>115,841,851</u>	<u>1,049,803</u>	<u>1,104,608</u>
Contingencies and commitments	28				

The annexed notes 1 to 45 form an integral part of these unconsolidated financial statements.

  
  
 Chief Executive Officer  
  
 Chief Executive Officer

19/12/16

  
 Director  
  
 Chief Financial Officer




Pakistan International Airlines Corporation Limited  
 Unconsolidated Profit and Loss account  
 For the year ended December 31, 2016

	Note	2016 ----- (Rupees in '000) -----	2015 ----- (Rupees in '000) -----	2016 ----- (US\$ in '000) -----	2015 ----- (US\$ in '000) -----
Revenue - net	29	88,997,379	91,268,545	848,767	870,289
<b>Cost of services</b>					
Aircraft fuel		(27,152,814)	(28,573,668)	(258,956)	(272,464)
Others	30	(76,386,482)	(64,301,272)	(728,497)	(613,143)
		<u>(103,539,296)</u>	<u>(92,874,940)</u>	<u>(987,453)</u>	<u>(885,607)</u>
<b>Gross loss</b>		<u>(14,541,917)</u>	<u>(1,606,395)</u>	<u>(138,686)</u>	<u>(15,318)</u>
Distribution costs	31	(4,889,452)	(4,232,278)	(46,631)	(40,357)
Administrative expenses	32	(6,395,546)	(5,484,401)	(60,994)	(52,297)
Other provisions and adjustments	33	(6,744,575)	(3,820,524)	(64,323)	(36,431)
Exchange loss- net		(294,981)	(2,065,869)	(2,813)	(19,699)
Other income	34	749,606	773,571	7,149	7,376
		<u>(17,574,948)</u>	<u>(14,829,501)</u>	<u>(167,612)</u>	<u>(141,408)</u>
<b>Loss from operations</b>		<u>(32,116,865)</u>	<u>(16,435,896)</u>	<u>(306,298)</u>	<u>(156,726)</u>
Finance costs	35	(13,159,579)	(13,517,442)	(125,503)	(128,895)
<b>Loss before taxation</b>		<u>(45,276,444)</u>	<u>(29,953,338)</u>	<u>(431,801)</u>	<u>(285,621)</u>
Taxation	36	(104,592)	(2,576,222)	(997)	(24,566)
<b>Loss for the year</b>		<u><u>(45,381,036)</u></u>	<u><u>(32,529,560)</u></u>	<u><u>(432,798)</u></u>	<u><u>(310,187)</u></u>
<b>Loss per share - basic and diluted</b>		----- (Rupees) -----	----- (Rupees) -----	----- (US\$) -----	----- (US\$) -----
Loss attributable to:					
'A' class ordinary shares of Rs. 10 each	37	<u>(8.67)</u>	<u>(6.39)</u>	<u>(0.08)</u>	<u>(0.06)</u>
'B' class ordinary shares of Rs. 5 each	37	<u>(4.33)</u>	<u>(3.19)</u>	<u>(0.04)</u>	<u>(0.03)</u>

The annexed notes 1 to 45 form an integral part of these unconsolidated financial statements.

*ef*

  
 Chief Executive Officer

  
 Chief Executive Officer

*12/12/16*

  
 Director

  
 Chief Financial Officer

Pakistan International Airlines Corporation Limited  
 Unconsolidated Statement of Comprehensive Income  
 For the year ended December 31, 2016

	2016 ----- (Rupees in '000) -----	2015 ----- (Rupees in '000) -----	2016 ----- (US\$ in '000) -----	2015 ----- (US\$ in '000) -----
Loss for the year	(45,381,036)	(32,529,560)	(432,798)	(310,187)
<b>Other comprehensive income</b>				
<i>Items that will be reclassified subsequently to unconsolidated profit and loss account</i>				
Unrealised gain on remeasurement of available for sale investments	57,666	11,239	550	107
<i>Items that will not be reclassified subsequently to unconsolidated profit and loss account</i>				
Remeasurement of post retirement defined benefits obligations	(2,469,843)	(3,397,005)	(23,555)	(32,392)
Effect of deferred tax	46,172	900,747	440	8,589
	<u>(2,423,671)</u>	<u>(2,496,258)</u>	<u>(23,115)</u>	<u>(23,803)</u>
	<u>(2,366,005)</u>	<u>(2,485,019)</u>	<u>(22,565)</u>	<u>(23,696)</u>
<b>Total comprehensive income - loss</b>	<u><u>(47,747,041)</u></u>	<u><u>(35,014,579)</u></u>	<u><u>(455,363)</u></u>	<u><u>(333,883)</u></u>

Surplus / (deficit) arising on revaluation of property, plant and equipment has been reported in accordance with the requirements of the repealed Companies Ordinance, 1984, in a separate account below equity and accordingly changes therein are reported directly into equity.

The annexed notes 1 to 45 form an integral part of these unconsolidated financial statements.

*ef*

  
 Chief Executive Officer

*12/12/16*  
  
 Director

  
 Chief Executive Officer

  
 Chief Financial Officer



Pakistan International Airlines Corporation Limited  
 Unconsolidated Cash Flow Statement  
 For the year ended December 31, 2016

	Note	2016 (Rupees in '000)	2015	2016 (US\$ in '000)	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash generated from operations	38	2,664,901	5,631,117	25,415	53,695
Profit on bank deposits received		75,024	38,307	716	365
Finance costs paid		(11,653,830)	(13,898,654)	(111,142)	(132,531)
Taxes paid		(135,440)	(417,790)	(1,292)	(3,984)
Employee benefits paid		(856,521)	(828,160)	(8,169)	(7,897)
Long-term deposits and prepayments - net		508,501	(2,215,461)	4,850	(21,125)
<b>Net cash used in operating activities</b>		<b>(9,397,365)</b>	<b>(11,690,641)</b>	<b>(89,622)</b>	<b>(111,477)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		(1,495,221)	(3,001,460)	(14,260)	(28,621)
Proceeds from sale of property, plant and equipment		2,654	283,530	25	2,704
Purchase of intangibles		(1,678)	-	(16)	-
<b>Net cash used in investing activities</b>		<b>(1,494,245)</b>	<b>(2,717,930)</b>	<b>(14,251)</b>	<b>(25,917)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Receipts of advance against equity from GoP		-	3,974,371	-	37,898
Repayments of long-term financing		(31,111,079)	(13,389,668)	(296,706)	(127,677)
Proceeds from long-term financing		57,554,136	37,518,361	548,893	357,756
Repayment of term finance certificates		(6,396,419)	-	(61,003)	-
Receipts of advance from a subsidiary		-	456,731	-	4,355
Repayments of short term borrowings		-	(3,161,720)	-	(30,149)
Repayments of obligations under finance lease - net		(7,210,999)	(10,408,106)	(68,771)	(99,246)
<b>Net cash from financing activities</b>		<b>12,835,639</b>	<b>14,989,969</b>	<b>122,413</b>	<b>142,937</b>
<b>Increase in cash and cash equivalents</b>		<b>1,944,029</b>	<b>581,398</b>	<b>18,540</b>	<b>5,543</b>
Cash and cash equivalents at beginning of the year		(1,995,052)	(2,572,418)	(19,027)	(24,529)
Effects of exchange rate changes on cash and cash equivalents		(102)	(4,032)	(1)	(38)
<b>Cash and cash equivalents at end of the year</b>		<b>(51,125)</b>	<b>(1,995,052)</b>	<b>(488)</b>	<b>(19,024)</b>
<b>Cash and cash equivalents</b>					
Cash and bank balances	16	3,496,492	2,641,305	33,346	25,186
Running finance under mark-up arrangements	27.2	(3,547,617)	(4,636,357)	(33,834)	(44,210)
		<b>(51,125)</b>	<b>(1,995,052)</b>	<b>(488)</b>	<b>(19,024)</b>

The annexed notes 1 to 45 form an integral part of these unconsolidated financial statements.

  
 Chief Executive Officer

  
 Director

  
 Chief Executive Officer

  
 Chief Financial Officer



Pakistan International Airlines Corporation Limited  
 Unconsolidated Statement of Changes in Equity  
 For the year ended December 31, 2016

	Issued, subscribed and paid-up share capital	Advance against equity from Government of Pakistan (GoP)	Reserves			Subtotal	Accumulated losses	Total
			Capital reserves	Revenue reserve	Unrealised gain on remeasurement of investments (Rupees in '000)			
Balance as at December 31, 2014	28,779,674	19,591,065	2,501,038	1,779,674	82,670	4,363,382	(234,916,125)	(182,182,004)
<i>Total comprehensive income for the year ended December 31, 2015:</i>								
Loss for the year	-	-	-	-	-	-	(32,529,560)	(32,529,560)
Other comprehensive income for the year	-	-	-	-	11,239	11,239	(2,496,258)	(2,485,019)
Total comprehensive income for the year - loss	-	-	-	-	11,239	11,239	(35,025,818)	(35,014,579)
Surplus on revaluation of property, plant and equipment realised during the year on account of reduced depreciation charged thereon - net of tax	-	-	-	-	-	-	(4,760)	(4,760)
<i>Transactions with owners:</i>								
Advance against equity from GoP	-	3,974,371	-	-	-	-	-	3,974,371
Issuance of shares to GoP - note 17.2	23,565,436	(23,565,436)	-	-	-	-	-	-
	23,565,436	(19,591,065)	-	-	-	-	-	3,974,371
<b>Balance as at December 31, 2015</b>	<b>52,345,110</b>	<b>-</b>	<b>2,501,038</b>	<b>1,779,674</b>	<b>93,909</b>	<b>4,374,621</b>	<b>(269,946,703)</b>	<b>(213,226,972)</b>
<i>Total comprehensive income for the year ended December 31, 2016:</i>								
Loss for the year	-	-	-	-	-	-	(45,381,036)	(45,381,036)
Other comprehensive income for the year	-	-	-	-	57,666	57,666	(2,423,671)	(2,366,005)
Total comprehensive income for the year - loss	-	-	-	-	57,666	57,666	(47,804,707)	(47,747,041)
Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax	-	-	-	-	-	-	74,829	74,829
Surplus on revaluation of property, plant and equipment released during the year on account of aircraft retired / written off - net of tax (note 19)	-	-	-	-	-	-	938,411	938,411
<b>Balance as at December 31, 2016</b>	<b>52,345,110</b>	<b>-</b>	<b>2,501,038</b>	<b>1,779,674</b>	<b>151,575</b>	<b>4,432,287</b>	<b>(316,738,170)</b>	<b>(259,960,773)</b>

The annexed notes 1 to 45 form an integral part of these unconsolidated financial statements

  
 Chief Executive Officer

  
 Chief Executive Officer

  
 Director

  
 Chief Financial Officer

12/24/16

# Pakistan International Airlines Corporation Limited

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2016

### 1. THE COMPANY AND ITS OPERATIONS

1.1 Pakistan International Airlines Corporation (the Corporation) was incorporated on January 10, 1955 under the Pakistan International Airlines Corporation Ordinance, 1955, which was subsequently repealed and replaced by the Pakistan International Airlines Corporation Act, 1956 (the Act). With effect from April 19, 2016, the Corporation has been converted from a statutory corporation into a public limited company by shares, Pakistan International Airlines Corporation Limited ("the Company" or "PIACL"), through Act no. XV of 2016 'The Pakistan International Airlines Corporation (Conversion) Act, 2016, (the Conversion Act) approved by the Parliament of Pakistan. The Conversion Act has repealed the Pakistan International Corporation Act, 1956 and the Corporation is now governed under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). According to the Conversion Act, all assets, rights, license, privileges and benefits of which the Corporation was entitled were transferred to the Company and the Company has assumed all liabilities and obligations of the Corporation. However, the management believes that in substance there is no change except for the legal status and application of provisions of the repealed Companies Ordinance, 1984 (now Companies Act, 2017).

The principal activity of the Company is to provide commercial air transportation, which includes passenger, cargo and postal carriage services. Other activities of the Company include provision of engineering and allied services. The head office of the Company is situated at PIA Building, Jinnah International Airport, Karachi.

1.2 During the current year, the Company incurred a net loss of Rs. 45,381.036 million (2015: Rs. 32,529.560 million) resulting in accumulated losses of Rs. 316,738.170 million as of December 31, 2016 (December 31, 2015: Rs. 269,946.703 million). Further, as of December 31, 2016, current liabilities of the Company exceeded its current assets by Rs. 195,547.793 million (December 31, 2015: Rs. 180,491.634 million). Furthermore, the Company has been unable to settle its financial obligations and other statutory liabilities in time as disclosed in notes to these unconsolidated financial statements.

GoP, being the major shareholder of the Company, through its finance division's letter dated September 02, 2008 communicated that it would extend all maximum support to maintain the Company's going concern status. Accordingly, since then it has been extending support to the Company through the following measures to ensure that the Company continues and sustains in the long-term as a viable business entity:

- Reimbursement of financial charges on term finance and sukuk certificates payable by the Company. In this respect, amounts aggregating to Rs. 11,276 million have been provided to the Company towards equity since the year ended December 31, 2008;
- During the years ended December 31, 2009 and 2010, GoP provided long-term financing aggregating to Rs. 8,000 million to meet working capital requirements of the Company;
- Issuance / renewal of guarantees to financial institutions, both local and foreign, so as to enable the Company to raise / rollover funds; and





- On July 03, 2012, the Economic Coordination Committee (ECC) of the Cabinet accorded approval for extending the repayment period of the term finance certificates aggregating Rs. 12,790 million along with conversion of certain short term loans amounting to Rs. 20,700 million into new term finance certificates (refer note 21.1).

During the year ended December 31, 2013, the Company also presented a proposal for financing support required along with its interim business plan to the ECC during its meeting held on February 26, 2013. The ECC approved the following financing support proposal subject to the condition that the timeline will be fixed for repayment of loans and there will be quarterly monitoring of the Company's business plan by the Ministry of Finance:

- New loans / guarantees for repayment of loans amounting to Rs. 11,100 million becoming due in year 2013;
- Rollover / extension of GoP guarantees amounting to approximately Rs. 51,160 million;
- New guarantees against loans already taken on the basis of letter of comfort amounting to Rs. 13,500 million;
- Additional funding to provide fiscal space to the Company amounting to Rs. 12,000 million; and
- Funds of US\$ 46 million for acquisition of narrow body aircraft on dry lease.

Consequent to the above approval, GoP provided Rs. 11,758 million and Rs. 2,945 million as financial assistance to the Company to enable it to make payments, of loan installments, to overdue vendors.

During the year ended December 31, 2014, the ECC in principle approved the following financial measures for the Company:

- Issuance of GoP guarantees amount to Rs. 14,000 million enabling the Company for acquisition of loans from different banks to cater immediate funding requirements;
- Issuance of GoP guarantees to the extent the Company pays its guaranteed loans; and
- Funds of US\$ 52 million for acquisition of aircrafts on dry lease and immediately released Rs. 1,297 million for this purpose.

During the year ended December 31, 2015, the remaining amount of Rs. 3,974 million out of US\$ 52 million was received by the Company. The Company issued 2,356.54 million shares of Rs 10 each amounting to Rs. 23,565.436 million to GoP in lieu of advance against equity (refer 17.2). However, the legal formalities for the said issuance are still in process. The Company successfully concluded a GoP, Ex-Im / Islamic Corporation for the Insurance of Investments and Export Credit (ICIEC) guaranteed loan facility of US\$ 124.9 million to fund overhauling (refer note 20.6 and 20.9).

During the current year, the ECC in principle enhanced GoP guarantee limit by Rs. 5,000 million. Further, during the year, the Ministry of Finance has approved the restructuring of Sukuk Certificates (refer note 21.2).

As at December 31, 2016, the Company is operating with a fleet size of 33 aircraft with eleven (11) 777, one (1) A330, eleven (11) A320, five (05) ATR72 and five (05) ATR42 aircraft. The Company is also in the process of acquisition of more aircraft on dry lease for which tenders have been floated for acquisition of four wide body and four narrow body aircraft.



12/11/16



In addition to the above measures taken by the Company and GoP, as instructed by the Board of Directors, management is in the process of updating the Strategic Business Plan of the Company. The objectives of the business plan, among other measures, include attaining fuel efficiency through fleet modernization and optimum fleet deployment on network, enhancing revenues through additional frequencies on high demand high yield routes, separation of the core airline business from non-core activities and controlling costs. The business plan also seeks GoP's support in terms of providing necessary funding for recapitalization, acquisition of aircraft on dry lease, restructuring of existing loans to reduce finance cost and issuance of GoP guarantees. GoP through Privatization Commission, has also initiated the process of restructuring the Company leading to private sector participation in the core operations of the Company, and for this purpose a consortium has been appointed as Financial Advisor.

In view of the situation described above, material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. However, management believes that considering the mitigating factors set out in the preceding paragraphs, the going concern assumption is appropriate and has, as such, prepared these unconsolidated financial statements on a going concern basis.

## **2. BASIS OF PREPARATION**

### **2.1 Statement of compliance**

These unconsolidated financial statements are the separate financial statements of the Company which have been prepared in accordance with the requirements of the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the repealed Companies Ordinance, 1984, provisions of and directives issued under the repealed Companies Ordinance, 1984. In case where requirements differ, the provisions or directives of the repealed Companies Ordinance, 1984 shall prevail (refer note 2.5.8).

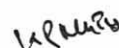
### **2.2 Basis of measurement**

These unconsolidated financial statements have been prepared under the historical cost convention except that:

- certain items of property, plant and equipment are stated at revalued amount;
- certain financial assets are carried at fair value;
- liability on account of frequent flyer programme is recognised at fair value; and
- defined benefit obligations are stated at present value.

### **2.3 Functional and presentation currency**

Items included in the unconsolidated financial statements are measured using the currency of the primary economic environment in which the Company operates. The unconsolidated financial statements are presented in Pakistani Rupees, which is the Company's functional and presentation currency.



The US Dollar amounts reported in the unconsolidated balance sheet, unconsolidated profit and loss account, unconsolidated statement of comprehensive income and unconsolidated cash flow statement are stated as additional information, solely for the convenience of the users of these unconsolidated financial statements. The US Dollar amounts in the unconsolidated balance sheet, unconsolidated profit and loss account, unconsolidated statement of comprehensive income and unconsolidated cash flow statement have been translated into US Dollar at the rate of Rs. 104.8549 = US\$ 1 (2015: Rs. 104.8715 = US\$ 1).

#### **2.4 New standards, amendments to approved accounting standards and new interpretations to existing standards that are effective for the year ended December 31, 2016**

There are new and amended standards and interpretations that are mandatory for accounting periods beginning January 01, 2016 but are considered not to be relevant or do not have any significant effect on the Company's unconsolidated financial statements and are therefore not stated in these unconsolidated financial statements.

#### **2.5 New standards, amendments to approved accounting standards and new interpretations to existing standard that are not yet effective and have not been early adopted by the Company**

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2017:

- 2.5.1** Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on the Company's unconsolidated financial statements.
- 2.5.2** Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are not likely to have an impact on the Company's unconsolidated financial statements.
- 2.5.3** Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on the Company's unconsolidated financial statements.
- 2.5.4** Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after January 01, 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on the Company's unconsolidated financial statements.



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**2.5.5 Annual improvements to IFRS standards 2014-2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:**

- 2.5.5.1** Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after January 01, 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 – 'Non-current Assets Held for Sale and Discontinued Operations'. The amendments are not likely to have an impact on the Company's unconsolidated financial statements.
- 2.5.5.2** Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after January 01, 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on the Company's unconsolidated financial statements.
- 2.5.6** IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after January 01, 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.
- 2.5.7** IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after January 01, 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax.
- 2.5.8** The Companies Ordinance, 1984 was repealed by the enactment of the Companies Act, 2017 (the Act) on May 30, 2017. Securities and Exchange Commission of Pakistan (the Commission) vide its Circular no. 23/2017 dated October 04, 2017 in continuation of its Circular 17 of 2017 dated July 20, 2017 has clarified that the companies whose financial year closes after December 31, 2017, shall prepare financial statements in accordance with the Act. Hence, the provisions of Companies Act, 2017 will be applicable for the preparation of financial statements for the reporting periods ending after December 31, 2017. The Act requires certain additional disclosures and Section 235 of the repealed Companies Ordinance, 1984 relating to treatment of surplus arising out of revaluation of assets has not been carried forward in the Act. The application of the Act would have significant impact on the Company's unconsolidated financial statements for the year ending December 31, 2018. The Company would be required to give extended disclosures and change its existing accounting policy relating to surplus on revaluation of fixed assets (refer note 4.1) to bring it in line with the requirements of IAS 16 – "Property, plant and equipment".

IAS-16 requires that any deficit arising on revaluation of an item of fixed assets is recognised in profit and loss account and any increase in carrying value of an item of fixed assets is recognised in other comprehensive income and accumulated in equity under the heading of surplus reserve.

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Based on preliminary assessment of changes in the Act, if applied at December 31, 2016, would have had a material impact on its accounting for surplus / deficit on revaluation of fixed assets. Loss and other comprehensive income for the year ended December 31, 2016 would have been higher by Rs. 1,052.024 million and Rs. 1,954.014 net of tax, respectively. Also the accumulated losses and surplus reserve in equity would have been higher by Rs. 13,774.625 million and Rs. 18,527.265 million resultantly, net equity as at December 31, 2016 would have been higher by Rs. 4,752.639 million.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these unconsolidated financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make estimates, assumptions and judgments that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to these unconsolidated financial statements:

#### 3.1 Property, plant and equipment

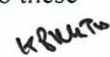
The Company reviews appropriateness of the rates of depreciation / useful lives and residual values used in the calculation of depreciation at each financial year end. Further, the Company estimates revalued amounts and useful life of aircraft fleet and leasehold land and buildings based on the annual and periodic valuations carried out by independent professional valuers respectively. Any change in estimate in future might affect the carrying amounts of the respective item of property, plant and equipment with a corresponding effect on the depreciation charge and impairment, surplus on revaluation and annual transfer of incremental / decremental affect of depreciation from surplus on revaluation of property, plant and equipment account to accumulated loss in equity directly.

#### Change in accounting estimates

As a result of revaluation exercise conducted by an independent valuer as of December 31, 2015, the useful lives of aircraft fleet have been reassessed. In addition, the management has reassessed the residual values of aircraft and related capital spares. These changes in accounting estimates have an impact on depreciation expense for the current year. Had there been no change in useful lives and residual values of aircraft, the related capital spares and depreciation expense pertaining to aircraft fleet with the related capital spares for the year would have been higher by Rs. 417.033 million, whereas the effect on future years is impracticable to ascertain considering subsequent measurement of aircraft fleet, the related capital spares under the revaluation model and inherent uncertainties attached thereto.

#### 3.2 Employee benefits

The liabilities relating to defined benefit plans are determined through actuarial valuation using the Projected Unit Credit Method. The method involves making assumptions about discount rates, future salary increases, mortality rates, future increase in medical costs and future pension increases. Due to the long-term nature of these benefits, such estimates are subject to certain uncertainties. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 24 to these unconsolidated financial statements.



### 3.3 Stores and spares

The Company at each reporting date reviews the net realisable value of stores and spares to assess any diminution in their respective carrying values. Due to the complex nature and huge quantum of the items of stores and spares, the net realisable value is arrived at by estimating the provision against slow moving stores and spares, which is made in proportion to the estimated utilised life of the relevant category of the aircraft attained up to the reporting date.

#### Change in accounting estimates

The management has reassessed the useful lives and residual values of stores and spares during the year ended 31 December 2016. These changes in accounting estimates have an impact on provision charge for the year for slow moving and obsolete spares. Had there been no change in the useful lives and residual values of stores and spares aircraft, the related provision for the year pertaining to stores and spares would have been higher by Rs. 22.363 million, whereas the effect on future years is impracticable to ascertain considering subsequent reassessment of useful lives and residual values of stores and spares and inherent uncertainties attached thereto.

### 3.4 Taxation

In making estimate for income tax payable by the Company, the Company takes into account the applicable tax laws. Deferred tax asset is recognised for unused tax losses and available credits to the extent that it is probable that sufficient taxable temporary differences and taxable profits will be available against which such losses and credits can be utilised. Significant judgment is exercised to determine the amount of deferred tax asset to be recognised.

### 3.5 Trade debts

The Company reviews its doubtful trade debts at each reporting date to assess the adequacy of the provision there against. In particular, judgment is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

### 3.6 Liability on account of frequent flyer programme

The Company operates a frequent flyer programme that provides travel awards to members of the programme based on accumulated mileage. The Company accounts for award credits as separately identifiable component of the sales transaction in the period in which they are granted. The consideration in respect of initial sale is allocated to award credits based on their fair value and is accounted for as a liability in these unconsolidated financial statements. The fair value of credits awarded is estimated by reference to the fair value of the services for which the award credits may be redeemed. Determination of the fair value of the award credit involves estimations, based on the average of air fares, the value of each award credit assuming a 100% redemption rate, and estimating the expected award credit redemption rate. These estimates are reviewed as and when a significant change in the assumptions used is observed and the liability is adjusted annually as appropriate. The provision for frequent flyer programme is determined based on the valuation carried out by an independent professional valuer.





### 3.7 Revenue recognition

Revenue for passenger tickets and cargo airway bills is recognised when the transportation services are provided. The passenger tickets that are un-utilised, are recognised as unearned revenue on the basis of sale value of those unused tickets whereas cargo airway bills that are un-utilised, are recognised as unearned revenue on the basis of estimated number of days delay between the date of sale of airway bills and the date of actual lift.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below are consistently applied for all periods presented in these unconsolidated financial statements.

### 4.1 Fixed assets

#### Property, plant and equipment

##### Owned

Lands classified as 'others' in note 5.1 are stated at cost, whereas buildings classified as 'others' in the aforesaid note are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Leasehold land and buildings thereon and aircraft fleet are initially recognised at cost and are subsequently measured at revalued amounts, which are the fair values at the date of revaluation, less accumulated depreciation and impairment, if any.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Aircraft and related equipment acquired on an exchange basis are stated at amounts paid plus the fair value of the fixed asset traded-in.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property, plant and equipment is capitalised and the asset so replaced is derecognised.

Major renewals, improvements and overhauls are capitalised and depreciated over the period to the next major overhaul. All other repairs and maintenance including cost incurred under 'power-by-the-hour' contracts are charged to the unconsolidated profit and loss account during the financial period in which they are incurred.

Depreciation is charged to the unconsolidated profit and loss account, applying the straight-line method whereby the cost or revalued amount of assets, less their residual values, is written down over their expected useful lives. The rates of depreciation are disclosed in note 5.1.





In respect of additions and disposals of assets, other than the aircraft fleet, depreciation is charged from the month in which the asset is available for use until it is derecognised, i.e., up to the month preceding the disposal. Proportionate depreciation on aircraft fleet is charged from the date of acquisition till the date of disposal.

Useful lives (except for aircraft fleet and buildings at revaluation model ) are determined by the management based on expected usage of asset, expected physical wear and tear, technical and commercial obsolescence and other similar factors. The useful lives of aircraft fleet and building at revaluation model are determined by the management based on the appraisal of an independent valuer. The assets' residual values, useful lives and methods are reviewed, and adjusted, if appropriate, at each financial year end.

Surplus on revaluation of aircraft fleet, land and buildings is credited to the surplus on revaluation of property, plant and equipment account and is shown in the balance sheet below share capital and reserves. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. Cost / revalued amount at the date of the revaluation is adjusted / eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. To the extent of the incremental / reduced depreciation charged on the revalued assets, the related surplus on revaluation of property, plant and equipment (net of deferred taxation) is transferred directly to retained earnings.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the unconsolidated profit and loss account in the year the asset is derecognised.

Gains or losses on disposal of assets are taken to the unconsolidated profit and loss account. When revalued assets are sold or retired from operation, the relevant remaining deficit and surplus is transferred to unconsolidated profit and loss account and to retained earnings, respectively.

### **Leased**

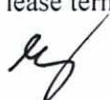
Leased assets under which the Company assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

### **Finance lease**

Assets held under finance lease are accounted for by recording the assets and related liabilities at the amounts determined on the basis of the lower of fair value of assets and the present value of minimum lease payments. Initial direct costs are added to the amount of the asset. Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged on leased assets on a basis similar to that of owned assets.

### **Operating lease**

Payments made under operating leases (net of any incentives received from the lessor) along with related costs are charged to the unconsolidated profit and loss account on a straight-line basis over the lease term.



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## **Capital spares**

Rotable and repairable stores are stated at cost and treated as property, plant and equipment and are depreciated based on the average remaining useful life of the related aircraft. Capital spares which are not useable are treated as scrap and charged to unconsolidated profit and loss account.

## **Capital work-in-progress**

These are stated at cost less impairment, if any, and consist of expenditure incurred and advances made in respect of assets in the course of their acquisition, construction and installation. The assets are transferred to relevant category of property, plant and equipment when they are available for intended use.

## **4.2 Intangibles**

Intangible assets are measured on initial recognition at cost. Costs that are directly associated with identifiable software products / licenses controlled by the Company and that have probable economic benefit beyond one year are recognised as intangible assets. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Intangible assets with finite lives are amortised on a straight line basis over their estimated useful lives as specified in note 6.2.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in unconsolidated profit or loss account when the asset is derecognised.

## **4.3 Investments**

### **Subsidiaries and associates**

Investments in subsidiaries and associates are initially recognised at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly.

### **Held to maturity**

Investments with fixed or determinable payments and fixed maturity, for which the Company has the ability to hold them till maturity, are classified as held to maturity investments. These investments are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using effective interest method. All investments categorised under held to maturity are subject to annual review for impairment. Provision for impairment in value, if any is taken to the unconsolidated profit and loss account.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise trade debts, loans, advances, deposits, interest accrued, other receivables and cash and bank balances as at the reporting date. These are stated at amortised cost less impairment, if any.





## **Available for sale**

Other investments not covered in any of the above categories are considered as available for sale. Investments classified as available for sale are initially recognised at fair value, plus transaction costs and are subsequently marked to market using year end bid prices from stock exchange quotations and quotations from brokers and in case of unquoted investments, at cost, less impairment. Any resultant unrealised gain or loss is recognised in other comprehensive income. When these investments are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified in the unconsolidated profit and loss account. Impairment losses recognised on equity securities in the unconsolidated profit and loss account are not reversed subsequently.

### **4.4 Stores and spares**

These are stated at lower of cost and net realisable value, less impairment, if any. Goods-in-transit are valued at cost plus other charges incurred thereon. Cost is determined as follows:

Fuel and medical inventories	first-in-first-out basis
Other stores and spares	weighted moving average cost

Provision against slow moving stores and spares is made in proportion to the estimated utilised life of the relevant category of the aircraft attained up to the reporting date.

### **4.5 Trade debts and other receivables**

These are recognised initially at fair value (original invoice / ticket amount) plus directly attributable transaction costs (if any) and subsequently measured at amortised cost less provision for impairment, if any. A provision for impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Trade debts and other receivables considered irrecoverable are written off.

### **4.6 Cash and cash equivalents**

For the purposes of cash flow statement, cash and cash equivalents comprise of cash in hand, balances with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents also include running finance that are repayable on demand and form an integral part of the Company's cash management.

### **4.7 Trade and other payables**

Liabilities for trade creditors and other amounts payable are recognised initially at fair value plus directly attributable transaction cost, if any, and subsequently measured at amortised cost.

### **4.8 Loans and borrowings**

Loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs, if any. Subsequently, these are measured at amortised cost using the effective interest method.



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## 4.9 Employee benefits

### Provident fund

The Company operates a defined contribution provident fund scheme for all its permanent employees. Equal monthly contributions are required to be made to the Fund by the Company and the employees in accordance with the Fund's Rules. The Company's required contribution to the Fund is charged to the unconsolidated profit and loss account.

### Pension funds

For all the permanent employees hired prior to July 1, 2008, the Company operates a funded benefit pension scheme for its three categories of employees. Pension scheme is a final salary pension scheme and is invested through three funds namely Pakistan Airline Pilot Association (PALPA), Flight Engineering Association (FENA) and Employees' Pension Funds. Under The PALPA FENA pension fund, employees are entitled to basic salary and flight allowance whereas under Employees' Pension Fund, employees are entitled to basic salary and certain other allowances. Contributions are made to the scheme at the advice of actuary. For all the permanent employees hired on or after July 1, 2008 in lieu of the pension funds as described above, the Company operates a defined contribution pension fund whereby a contribution of 5% of the pensionable benefits is made to the Fund in accordance with the relevant rules.

Actuarial valuation that is carried out annually. Net interest expense, current service cost and any past service cost are recognised in unconsolidated profit and loss account whereas any actuarial gains / losses and the return on plan assets (excluding interest) are recognized immediately in other comprehensive income.

### Post-retirement medical benefits

The Company operates an unfunded defined benefit medical scheme and provides medical allowances and free hospitalisation benefits to all its retired employees and their spouses in accordance with their service regulations. The post-retirement medical benefit is accounted for on the basis of actuarial valuation that is carried out annually. Net interest expense, current service cost and any past service cost are recognised in unconsolidated profit and loss account and any actuarial gains / (losses) are recognised immediately in other comprehensive income.

### Compensated absences

The Company accounts for all accumulated compensated absences when the employees render service that increases their entitlement to future compensated absences on the basis of actuarial valuation that is carried out annually.

## 4.10 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the unconsolidated profit and loss account except to the extent that it relates to items recognised directly in equity or in other comprehensive income.





## **Current**

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any, or minimum tax on turnover basis, whichever is higher. It also includes any adjustment to tax payable in respect of prior years.

## **Deferred taxation**

Deferred income tax is recognised using the balance sheet liability method on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax asset is recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits or taxable temporary differences will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable timing differences will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset is reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits or taxable temporary differences will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **4.11 Revenue recognition**

The Company principally earns revenue from the carriage of passengers, cargo, mail and excess baggage and provision of handling services to other airlines, engineering services, air charters and related activities.

#### **Passenger and cargo revenue**

Passenger and cargo revenue is recognised when the transportation service is provided. The value of unused tickets and airway bills is included in current liabilities as 'advance against transportation' until recognised as revenue. The estimates involved in revenue recognition are disclosed in note 3.7.

#### **Engineering and other services**

Revenue from repairs and maintenance and overhaul services of engine and component to other airlines is recognised when such services are rendered.



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## **Frequent flyer programme revenue**

The Company operates two principal loyalty programmes. The airline's 'frequent flyer programme' allows frequent travellers to accumulate travel miles that entitle them to a choice of various awards, primarily free travel. The fair value attributed to the awarded mileage credits is deferred as a liability and recognised as revenue on redemption of the miles by the participants to whom the miles are issued, when the miles expire or when they are not expected to be redeemed.

In addition, miles are sold to a commercial partner to use in promotional activity. The fair value of the miles sold is deferred and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The cost of redemption of miles is recognised when miles are redeemed. The estimates involved in recognising revenue from frequent flyer programme are disclosed in note 3.6.

## **Interest / mark-up and dividend income**

The Company recognises interest income / mark-up on short-term bank deposits, interest bearing advances and held to maturity investments on time proportion basis using effective interest method.

Dividend income is recognised when the Company's right to receive dividend is established.

### **4.12 Borrowing costs**

The Company recognises the borrowing costs as an expense in the period in which these costs are incurred, except the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset.

### **4.13 Provisions**

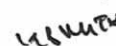
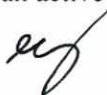
Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each reporting date and adjusted to reflect current best estimate.

### **4.14 Impairment**

#### **Financial assets**

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of the asset which can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.





The Company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the unconsolidated profit and loss account. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the unconsolidated profit and loss account.

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in reserves in equity to unconsolidated profit and loss account. The cumulative loss that is reclassified from equity to unconsolidated profit and loss account is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognised previously in unconsolidated profit and loss account.

#### **Non-Financial assets**

The carrying amounts of non-financial assets are assessed at each reporting date to ascertain whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised, as an expense in the unconsolidated profit and loss account, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **4.15 Foreign currency transactions**

Foreign currency transactions are recorded at the exchange rates approximating those ruling on the last week of the preceding month's average rate of exchange. Monetary assets and liabilities in foreign currencies are translated at the rates using the average spot rate on the reporting date. Gains and losses on translation are taken to the unconsolidated profit and loss account currently.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items, measured at fair value in a foreign currency, are translated using the exchange rates at the date when the fair value was determined.



1-2-2017

#### 4.16 Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value and subsequently at fair value or amortised cost as the case may be. Financial assets are de-recognised at the time when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are de-recognised at the time when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to the unconsolidated profit and loss account immediately.

#### 4.17 Earnings per share

The Company presents basic and diluted earnings / (loss) per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the unconsolidated profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### 4.18 Derivative financial instruments

Derivatives that do not qualify for hedge accounting are recognised at estimated fair value with corresponding effect to unconsolidated profit and loss account. Derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

#### 4.19 Offsetting of financial assets and financial liabilities


Financial assets and financial liabilities are offset and the net amount is reported in the unconsolidated balance sheet only when there is a legally enforceable right to set-off the recognised amounts and the Company intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

#### 4.20 Dividend and reserves

Dividend and appropriation to / from reserves are recorded when approved.

### 5. PROPERTY, PLANT AND EQUIPMENT

	Note	2016 (Rupees in '000)	2015
Operating fixed assets			
- owned	5.1	30,562,152	23,799,446
- leased	5.2	37,837,080	52,605,356
		<u>68,399,232</u>	<u>76,404,802</u>
Capital work-in-progress	5.9	431,882	197,505
		<u>68,831,114</u>	<u>76,602,307</u>





## 5.1 Owned fixed assets

2016

	Land		Buildings on:		Workshops and hangars	Renovation and improvements	Aircraft fleet (notes 5.1.3, 5.4 and 5.5)	Operating ground, catering, communication and meteorological equipment	Engineering equipment and tools	Traffic equipment	Furniture, fixtures and fittings	Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Other equipment	Capital spares (note 5.5)	Total
Leasehold (notes 5.1.1 and 5.3)	Others (note 5.1.2)	Leasehold land (notes 5.1.1 and 5.3)	Other land																	
(Rupees in '000)																				
As at December 31, 2015																				
Cost or revalued amount	6,897,860	24,400	2,660,573	927,405	913,499	827,651	15,912,619	788,718	1,674,977	1,941,871	919,705	375,403	80,282	1,647,350	1,044,107	15,039	11,799	1,524,178	8,571,056	46,758,492
Accumulated depreciation	-	-	(1,045,463)	(409,338)	(814,531)	(824,629)	(6,493,017)	(735,176)	(1,528,166)	(1,667,716)	(806,972)	(370,089)	(78,185)	(1,581,106)	(1,042,823)	(15,039)	(11,799)	(739,082)	(4,795,915)	(22,959,046)
Net book value	6,897,860	24,400	1,615,110	518,067	98,968	3,022	9,419,602	53,542	146,811	274,155	112,733	5,314	2,097	66,244	1,284	-	-	785,096	3,775,141	23,799,446
Year ended December 31, 2016																				
Opening net book value	6,897,860	24,400	1,615,110	518,067	98,968	3,022	9,419,602	53,542	146,811	274,155	112,733	5,314	2,097	66,244	1,284	-	-	785,096	3,775,141	23,799,446
Additions / transfers	-	-	-	-	105	32,681	629,170	18,352	91,394	488	34,849	8,645	25,668	27,972	-	-	-	6,968	363,272	1,239,564
Revaluation	-	-	-	-	-	-	(50,709)	-	-	-	-	-	-	-	-	-	-	-	-	(50,709)
Cost or revalued amount	-	-	-	-	-	-	(50,709)	-	-	-	-	-	-	-	-	-	-	-	-	(50,709)
Accumulated depreciation	-	-	-	-	-	-	(50,709)	-	-	-	-	-	-	-	-	-	-	-	-	(50,709)
Adjustments / transfer	-	-	-	(39,408)	6,926	38,327	13,048,597	(405)	30,246	(168,520)	(9,856)	(421)	(106)	15,344	6,948	-	-	(171,737)	(30,881)	13,017,716
Cost or revalued amount	-	-	-	(39,408)	6,926	38,327	13,048,597	(405)	30,246	(168,520)	(9,856)	(421)	(106)	15,344	6,948	-	-	(171,737)	(30,881)	13,017,716
Accumulated depreciation	-	-	-	(39,408)	6,926	38,327	(1,121,645)	(405)	30,246	(168,520)	(9,856)	(421)	(106)	15,344	6,948	-	-	(171,737)	16,865	(1,397,442)
Disposals	-	-	-	-	-	(279)	(1,117,695)	(6,089)	-	(369)	(966)	(14,027)	(569)	(13,843)	-	-	-	(396)	(6,716)	(1,160,949)
Cost or revalued amount	-	-	-	-	-	(279)	(1,117,695)	(6,089)	-	(369)	(966)	(14,027)	(569)	(13,843)	-	-	-	(396)	(6,716)	(1,160,949)
Accumulated depreciation	-	-	-	-	-	279	107,706	6,089	-	357	937	13,778	569	13,828	-	-	-	377	5,447	149,367
Write off / retirement	-	-	-	-	-	-	(5,186,204)	-	-	-	-	-	-	-	-	-	-	-	(1,803,157)	(6,989,361)
Cost or revalued amount	-	-	-	-	-	-	(5,186,204)	-	-	-	-	-	-	-	-	-	-	-	(1,803,157)	(6,989,361)
Accumulated depreciation	-	-	-	-	-	-	3,470,135	-	-	-	-	-	-	-	-	-	-	-	1,607,565	5,077,700
Depreciation charge for the year	-	-	(219,821)	(23,042)	(11,036)	(19,190)	(2,277,308)	(22,570)	(70,800)	(30,260)	(31,682)	(7,244)	(6,104)	(33,823)	(3,672)	-	-	(111,440)	(255,188)	(3,123,180)
Closing net book value	6,897,860	24,400	1,395,289	455,617	94,963	54,840	16,921,649	48,919	197,651	75,851	106,015	6,045	21,555	75,722	4,560	-	-	508,868	3,672,348	30,562,152
As at December 31, 2016																				
Cost or revalued amount	6,897,860	24,400	2,660,573	927,405	913,604	860,053	23,235,778	800,981	1,766,371	1,941,990	953,588	370,021	105,381	1,661,479	1,044,107	15,039	11,799	1,530,750	7,093,574	52,814,753
Accumulated depreciation	-	-	(1,265,284)	(471,788)	(818,641)	(805,213)	(6,314,129)	(752,062)	(1,568,720)	(1,866,139)	(847,573)	(363,976)	(83,826)	(1,585,757)	(1,039,547)	(15,039)	(11,799)	(1,021,882)	(3,421,226)	(22,252,601)
Net book value	6,897,860	24,400	1,395,289	455,617	94,963	54,840	16,921,649	48,919	197,651	75,851	106,015	6,045	21,555	75,722	4,560	-	-	508,868	3,672,348	30,562,152
Annual depreciation rate (%)	-	-	2.5	2.5	5	20	4 - 100	10	10	10	10	25	15	10	10	20	10	10	4 - 100	

5.1.1 These represent leasehold land and buildings owned by the Company that are freely transferable and can be disposed off as and when required.

5.1.2 Land classified as 'Others' are amenity plots licensed from Pakistan Civil Aviation Authority (CAA). These are non-transferable as these were allotted at below market price.

5.1.3 During the year, the Company has disposed off / retired / written off aircrafts fleet and engines having net book value of Rs. 2,726,058 million (2015: Rs. 269,243 million). The related deficit amounting to Rs. 971,386 million (2015: Rs. 53,196 million) included in surplus on revaluation has been released to unconsolidated profit and loss account (refer note 33).

## Owned fixed assets

	Land		Buildings on		Workshops and hangars	Renovation and improvements	Aircraft fleet (note 5.1.3 and 5.4)	Operating ground, catering, communication and meteorological equipment	Engineering equipment and tools	Traffic equipment	Furniture, fixtures and fittings	Motor transport	Office equipment	Computer and office automation	Precision engineering equipment	Printing press equipment	Reservation equipment	Other equipment	Capital spares	Total
	Leasehold (notes 5.1.1 and 5.3)	Others (note 5.1.2)	Leasehold land (notes 5.1.1 and 5.3)	Other land																
(Rupees in '000)																				
As at December 31, 2014																				
Cost or revalued amount	6,897,860	24,400	2,391,892	843,384	912,800	804,499	14,871,011	779,786	1,628,704	1,936,949	893,752	383,242	78,709	1,624,335	876,979	15,039	11,799	1,503,342	7,537,322	44,015,804
Accumulated depreciation	-	-	(462,858)	(360,299)	(802,147)	(795,453)	(5,437,550)	(703,951)	(1,461,183)	(1,644,991)	(771,889)	(374,202)	(77,384)	(1,536,273)	(868,783)	(15,039)	(11,799)	(621,503)	(3,943,650)	(19,888,954)
Net book value	6,897,860	24,400	1,929,034	483,085	110,653	9,046	9,433,461	75,835	167,521	291,958	121,863	9,040	1,325	88,062	8,196	-	-	881,839	3,593,672	24,126,850
Year ended December 31, 2015																				
Opening net book value	6,897,860	24,400	1,929,034	483,085	110,653	9,046	9,433,461	75,835	167,521	291,958	121,863	9,040	1,325	88,062	8,196	-	-	881,839	3,593,672	24,126,850
Additions / transfers	-	-	-	-	699	22,917	1,127,446	9,892	46,273	4,922	26,204	133	1,488	19,739	-	-	-	21,817	268,774	1,550,304
Revaluation	-	-	-	-	-	-	210,481	-	-	-	-	-	-	-	-	-	-	-	-	210,481
Cost or revalued amount	-	-	-	-	-	-	210,481	-	-	-	-	-	-	-	-	-	-	-	-	210,481
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments / transfer	-	-	(96,302)	96,302	-	-	-	-	-	-	-	-	-	-	-	-	-	-	784,084	784,084
Cost or revalued amount	-	-	37,828	(37,828)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(784,084)	(784,084)
Accumulated depreciation	-	-	(58,474)	58,474	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(296,319)	(960)	-	-	(251)	(7,972)	-	(1,035)	-	-	-	(1,096)	(19,124)	(326,757)
Cost or revalued amount	-	-	-	-	-	-	27,076	819	-	-	183	5,778	-	810	-	-	-	739	7,935	43,340
Accumulated depreciation	-	-	-	-	-	-	(269,243)	(141)	-	-	(68)	(2,194)	-	(225)	-	-	-	(357)	(11,189)	(283,417)
Write off / retirement	-	-	364,983	(12,281)	-	235	-	-	-	-	-	-	85	4,311	167,128	-	-	115	-	524,576
Cost or revalued amount	-	-	(364,983)	12,281	-	(235)	-	-	-	-	-	-	(85)	(4,311)	(167,128)	-	-	(115)	-	(524,576)
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation charge for the year	-	-	(255,450)	(23,492)	(12,384)	(28,941)	(1,082,543)	(32,044)	(66,983)	(22,725)	(35,266)	(1,665)	(716)	(41,332)	(6,912)	-	-	(118,203)	(76,116)	(1,804,772)
Closing net book value	6,897,860	24,400	1,615,110	518,067	98,968	3,022	9,419,602	53,542	146,811	274,155	112,733	5,314	2,097	66,244	1,284	-	-	785,096	3,775,141	23,799,446
As at December 31, 2015																				
Cost or revalued amount	6,897,860	24,400	2,660,573	927,405	913,499	827,651	15,912,619	788,718	1,674,977	1,941,871	919,705	375,403	80,282	1,647,350	1,044,107	15,039	11,799	1,524,178	8,571,056	46,758,492
Accumulated depreciation	-	-	(1,045,463)	(409,338)	(814,531)	(824,629)	(6,493,017)	(735,176)	(1,528,166)	(1,667,716)	(806,972)	(370,089)	(78,185)	(1,581,106)	(1,042,823)	(15,039)	(11,799)	(739,082)	(4,795,915)	(22,959,046)
Net book value	6,897,860	24,400	1,615,110	518,067	98,968	3,022	9,419,602	53,542	146,811	274,155	112,733	5,314	2,097	66,244	1,284	-	-	785,096	3,775,141	23,799,446
Annual depreciation rate (%)	-	-	2.5	2.5	5	20	4 - 100	10	10 - 20	10 - 20	10	25	15	10 - 20	10	20	10	10	4 - 100	-



5.2 Leased fixed assets

	Aircraft fleet	Ground equipment	Total
<i>Note</i>	----- (Rupees in '000) -----		
<b>As at January 01, 2015</b>			
Cost or revalued amount	65,614,620	-	65,614,620
Accumulated depreciation	(8,230,600)	-	(8,230,600)
Net book value	<u>57,384,020</u>	<u>-</u>	<u>57,384,020</u>
<b>Year ended December 31, 2015</b>			
Opening net book value	57,384,020	-	57,384,020
Additions / transfers	3,665,905	-	3,665,905
<b>Revaluation</b>			
Cost or revalued amount	5.4 (4,153,965)	-	(4,153,965)
Accumulated depreciation	-	-	-
	(4,153,965)	-	(4,153,965)
Depreciation charge for the year	(4,290,604)	-	(4,290,604)
Closing net book value	<u>52,605,356</u>	<u>-</u>	<u>52,605,356</u>
<b>As at December 31, 2015</b>			
Cost or revalued amount	65,126,560	-	65,126,560
Accumulated depreciation	(12,521,204)	-	(12,521,204)
Net book value	<u>52,605,356</u>	<u>-</u>	<u>52,605,356</u>
<b>Year ended December 31, 2016</b>			
Opening net book value	52,605,356	-	52,605,356
Additions / transfers	-	75,387	75,387
<b>Revaluation</b>			
Cost or revalued amount	5.4 367,879	-	367,879
Accumulated depreciation	-	-	-
	367,879	-	367,879
<b>Transfer to owned fixed assets</b>			
Cost or revalued amount	(15,764,571)	-	(15,764,571)
Accumulated depreciation	3,837,619	-	3,837,619
	(11,926,952)	-	(11,926,952)
Depreciation charge for the year	(3,283,962)	(628)	(3,284,590)
Closing net book value	<u>37,762,321</u>	<u>74,759</u>	<u>37,837,080</u>
<b>As at December 31, 2016</b>			
Cost or revalued amount	49,729,868	75,387	49,805,255
Accumulated depreciation	(11,967,547)	(628)	(11,968,175)
Net book value	<u>37,762,321</u>	<u>74,759</u>	<u>37,837,080</u>
<b>Annual depreciation rate (%)</b>	<u>4 - 17</u>	<u>10</u>	

5.2.1 Aircraft fleet includes no engine (2015: one engines) held by a third party for overhauling purpose as at December 31, 2016. The carrying value of these engines at year end is Rs. Nil (2015: Rs. 1,880.599 million).

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### 5.3 Revaluation of leasehold land and buildings

The leasehold land and buildings were revalued by the following independent professional valuers, as of December 31, 2014:

- Arif Evaluators, based in Pakistan
- Shubash Shah and Associates, based in India
- Sotheby's International Realty, based in USA
- Olimp – Baholash Va Ekspertiza Markazi LLC, based in Tashkent
- Cushman and Wakefield, based in Netherlands

The valuations were carried out on the basis of professional assessment of fair values with reference to market based evidence, based on active market prices, and adjusted for any difference in nature, location or condition of specific property and resulted in a net revaluation surplus of Rs. 2,566.561 million as at December 31, 2014.

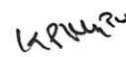
### 5.4 Aircraft fleet

The aircraft fleet of the Company was revalued by an independent valuer, Ascend Flight Global Consultancy (UK), on the basis of professional assessment of current market values as of December 31, 2016. The current market value represents the value that an aircraft could best achieve under today's open market conditions and, therefore, takes into account a thorough review of market activity and known transaction data involving the subject aircraft types, covering 'open' market and financial sales. It additionally considers the perceived demand for each type, its availability in the market and further takes into account the expressed views of informed industry sources.

The appraisal has taken into account the age, specification, accrued hours and cycles of the aircraft and produced Current Market Half Life Values (CMHLV). Half life or mid-time assumes that the airframe, engine, landing gears and all major components are half way between major overhauls or in the mid point of their useful lives for the life limited parts. CMHLV has then been adjusted to account for the maintenance status of the aircraft in accordance with the information supplied. The determination of such values involves a multiplicity of variables and some variation in perceived value must be expected.

The valuer has conducted an extended desktop appraisal of the aircraft and engines. This does not include an inspection of the aircraft or engines nor their records, but does take into account the maintenance status of the airframe, engine, landing gear, auxiliary power units and engine limited life parts.

- 5.5 As at December 31, 2015, the aircraft fleet included eight A-310 aircraft including spares engines which were stated at revalued amount of Rs. 2,412.537 million with a surplus of Rs. 27.165 million included in the surplus on revaluation of fixed assets account. During the first six months, four A-310 aircraft were permanently grounded/retired from operation and remaining four aircraft were grounded/retired from operation during last six months.





During the year, international tenders were floated for the four A-310s ground/retired from operation in last six months but either no bids were received or bids were nominal amounts. One aircraft (A310, AP-BEQ) was transported to Germany in November 2016 before the completion of formal bidding procedures. The inquiry in respect of this was initiated and it has been decided that A-310, AP-BEQ with major components should be sold at Leipzig, Germany at competitive prices on "As is where is basis" while following all applicable rules, regulations and practices while carrying out this transaction. However, no progress in this respect has been made to date.

In view of the above, a loss of Rs. 3,342.928 million has been recorded in the unconsolidated profit and loss account which comprise of carrying value of eight airframes of A-310 aircraft including spare engines, related capital spares, stores and spares and release of deficit from surplus on revaluation of fixed assets amounting to Rs. 1,716.176 million, Rs. 175.502 million, Rs. 479.864 million and Rs. 971.386 million, respectively. In addition to above, a surplus of Rs. 920.989 million from surplus on revaluation of fixed assets has been released directly to equity in accordance with the Company's policy.

5.6 Had there been no revaluation, the written down value of the revalued assets in the balance sheet would have been as follow:

	<b>2016</b>		
	Cost	Accumulated depreciation	Book value
	----- (Rupees in '000) -----		
Leasehold Land	44,166	-	44,166
Buildings on leasehold land	258,148	136,918	121,230
Aircraft fleet	<u>100,581,255</u>	<u>41,621,719</u>	<u>58,959,536</u>
	<u>100,883,569</u>	<u>41,758,637</u>	<u>59,124,932</u>
	<b>2015</b>		
	Cost	Accumulated depreciation	Book value
	----- (Rupees in '000) -----		
Leasehold Land	44,166	-	44,166
Buildings on leasehold land	258,148	131,208	126,940
Aircraft fleet	<u>128,121,496</u>	<u>61,765,790</u>	<u>66,355,706</u>
	<u>128,423,810</u>	<u>61,896,998</u>	<u>66,526,812</u>

5.7 Depreciation charge for the year has been allocated as under:

	Note	2016 (Rupees in '000)	2015
Cost of services - others	30	6,375,932	6,061,919
Distribution costs	31	12,145	13,383
Administrative expenses	32	<u>19,693</u>	20,074
		<u>6,407,770</u>	<u>6,095,376</u>

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5.8 Following operating fixed assets were disposed off during the year:

Description	Sold to	Method of disposal	Cost	Accumulated depreciation	Net book value	Sale proceeds	
							(Rupees in '000)
<b>Motor vehicles given to employees</b>							
Toyota Corolla Car Reg. No. Atf-347	Mr. Rashid Ahmed	Company's policy	1,094	1,094	-	127	
Toyota Corolla Car Reg. No. Asv-465	Mr. Sohail Yaqoob	---do---	1,094	1,094	-	127	
Toyota Corolla Car Reg. No. Aun-142	Mr. Zahid Hamid	---do---	1,159	1,159	-	135	
Toyota Corolla Car Reg. No. Auw-848	Mr. Omar Razzaq	---do---	1,159	1,159	-	135	
Toyota Corolla Car Reg. No. Auw-594	Mr. Waqar Ahmed Siddiqui	---do---	1,144	1,144	-	135	
Toyota Corolla Car Reg. No. Avh-630	Mr. Haneef Rana	---do---	1,200	1,200	-	140	
Toyota Corolla Car Reg. No. Avg-307	Mr. Younus M. Khan	---do---	1,200	1,200	-	140	
Toyota Corolla Car Reg. No. Azj-073	Mr. Khurram Mushataq	---do---	1,325	1,076	249	154	
Toyota Corolla Car Reg. No. Awd-696	Mr. Muhammad Altaf Tahir	---do---	1,202	1,202	-	140	
Toyota Corolla Car Reg. No. Awd-421	Mr. Muhammad Tarique	---do---	1,202	1,202	-	140	
			<u>11,779</u>	<u>11,530</u>	<u>249</u>	<u>1,373</u>	
<b>Aircraft fleet - AP-BHO (refer note 14.1)</b>		Insurance claim	1,117,695	107,706	1,009,989	1,258,295	
<b>Aggregate value of other items where NBV is above Rs. 50,000 - Various*</b>			6,716	5,447	1,269	1,269	
<b>Aggregate value of items where NBV is less than Rs. 50,000 - Various</b>			24,759	24,684	75	12	
			<u>2016</u>	<u>1,160,949</u>	<u>149,367</u>	<u>1,011,582</u>	<u>1,260,949</u>
			<u>2015</u>	<u>326,757</u>	<u>43,340</u>	<u>283,417</u>	<u>283,530</u>

\* This includes various operating fixed assets, having NBV above Rs. 50,000. In view of large number of items, the management considers it impracticable to disclose the particulars of all items.

Sale of operating fixed assets is made through a disposal committee in accordance with the prescribed procedures.

5.9 Capital work-in-progress	Aircraft fleet	Others	Total
	(Rupees in '000)		
<b>Year ended December 31, 2016</b>			
Balance at beginning of the year	155,106	42,399	197,505
Adjustment	(155,106)	-	(155,106)
Additions during the year	629,170	708,564	1,337,734
Transfer to operating fixed assets	(629,170)	(319,081)	(948,251)
Balance at end of the year	<u>-</u>	<u>431,882</u>	<u>431,882</u>
<b>Year ended December 31, 2015</b>			
Balance at beginning of the year	2,076,687	448,426	2,525,113
Adjustment / provision	200,294	(313,153)	(112,859)
Additions during the year	1,544,030	25,900	1,569,930
Transfer to operating fixed assets	(3,665,905)	(118,774)	(3,784,679)
Balance at end of the year	<u>155,106</u>	<u>42,399</u>	<u>197,505</u>



6. INTANGIBLES	Note	2016 (Rupees in '000)	2015
<b>Computer software</b>			
Cost	6.1	366,967	365,289
Accumulated amortisation	6.2	<u>(359,083)</u>	<u>(319,644)</u>
		<u>7,884</u>	<u>45,645</u>
<b>6.1 Cost</b>			
Opening balance		365,289	365,289
Additions during the year		<u>1,678</u>	-
Closing balance		<u>366,967</u>	<u>365,289</u>
<b>6.2 Accumulated amortisation</b>			
Opening balance		319,644	299,124
Amortisation for the year	6.2.1	17,816	20,520
Adjustment		<u>21,623</u>	-
Closing balance		<u>359,083</u>	<u>319,644</u>
Useful life		<u>5 years</u>	<u>5 years</u>
<b>6.2.1 Amortisation for the year has been allocated as under:</b>			
Cost of services - others	30	1,425	1,642
Administrative expenses	32	<u>16,391</u>	<u>18,878</u>
		<u>17,816</u>	<u>20,520</u>
<b>7. LONG-TERM INVESTMENTS</b>			
<b>Unquoted - at cost</b>			
Subsidiaries	7.1	4,415,714	4,415,714
Associate	7.2	<u>396</u>	<u>396</u>
		<u>4,416,110</u>	<u>4,416,110</u>
<b>Other investments</b>	7.3	<u>153,137</u>	<u>95,471</u>
		<u>4,569,247</u>	<u>4,511,581</u>



K. B. K. S.

## 7.1 Subsidiaries

	2016	2015
	(Rupees in '000)	
Note		
<b>PIA Investments Limited (PIAIL)</b>		
792,000 (2015: 792,000) fully paid ordinary shares of AED 100 each. Equity held 100% (2015: 100%). Break-up value of each ordinary share of AED 100: Rs. 69,302 (2015: Rs. 44,944) per ordinary share based on the audited (2015: audited) financial statements for the year ended December 31, 2016.	4,415,712	4,415,712
<b>Skyrooms (Private) Limited</b>		
4,000,000 (2015: 4,000,000) fully paid ordinary shares of Rs. 10 each. Equity held 100% (2015: 100%). Break-up value of each ordinary share is negative Rs. 16 (2015: negative Rs. 19) per ordinary share based on the unaudited (2015: unaudited) financial statements for the year ended December 31, 2016.	40,000	40,000
<b>Midway House (Private) Limited (under winding-up)</b>		
2,960,000 (2015: 2,960,000) fully paid ordinary shares of Rs. 10 each. Equity held 100% (2015: 100%). Break-up value of each ordinary share is 'Nil' (2015: 'Nil'). Financial statements are not available.	28,520	28,520
<b>Sabre Travel Network Pakistan (Private) Limited</b>		
312,586 (2015: 312,586) fully paid ordinary shares of Rs. 100 each. Equity held 70% (2015: 70%) Break-up value of each ordinary share is Rs. 858 (2015: Rs.736) based on the unaudited (2015: unaudited) financial statements for the year ended December 31, 2016.	2	2
	<u>68,522</u>	68,522
Provision for diminution in value of investments	<u>(68,520)</u>	<u>(68,520)</u>
	<u>2</u>	<u>2</u>
	<u>4,415,714</u>	<u>4,415,714</u>

7.1.1 All subsidiaries were incorporated in Pakistan except for PIAIL, which was incorporated in Sharjah, United Arab Emirates, however, subsequently it was registered in British Virgin Islands.

## 7.2 Associate

### Minhal Incorporated - Sharjah

1,600 fully paid ordinary shares (2015: 1,600) of AED 100 each. Equity held 40% (2015: 40%). Break-up value of each ordinary share is Rs. 45,391 (2015: Rs. 45,009) based on the unaudited financial statements for the year ended December 31, 2016.

<u>396</u>	<u>396</u>
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## 7.3 Other investments

Available for sale

7.3.1	<u>153,137</u>	<u>95,471</u>
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12/11/16



7.3.1 Available for sale

Note	2016 (Rupees in '000)	2015
<b>Quoted</b>		
<i>Pakistan Services Limited</i>		
172,913 (2015: 172,913) ordinary shares of Rs. 10 each having market value per ordinary share of Rs. 883 (2015: Rs. 550) each	152,768	95,102
<b>Unquoted</b>		
<i>Pakistan Tourism Development Corporation Limited</i>		
10,000 (2015: 10,000) ordinary shares of Rs. 10 each	100	100
<i>Duty Free Shops (Private) Limited</i>		
87,512 (2015: 87,512) ordinary shares of Rs. 100 each	269	269
	<u>153,137</u>	<u>95,471</u>

8. LONG-TERM ADVANCES

**Subsidiaries - considered doubtful**

Skyrooms (Private) Limited	37,042	37,042
Midway House (Private) Limited	82,476	82,476
	<u>119,518</u>	<u>119,518</u>
Provision for doubtful long-term advances	<u>(119,518)</u>	<u>(119,518)</u>
	<u>-</u>	<u>-</u>

9. LONG-TERM DEPOSITS AND PREPAYMENTS

**Deposits**

*Considered good*

Aircraft fleet lease deposits	5,064,356	5,695,518
Maintenance reserve	1,559,638	1,553,980
Engine maintenance	141,902	83,854
Deposit to service providers	73,497	73,011
Guarantee deposit	55,204	1,792,784
Rent	-	68,875
Utilities	-	266
Aircraft fuel	-	17,644
Others	-	41,895
	<u>6,894,597</u>	<u>9,327,827</u>

*Considered doubtful*

Less: provision against doubtful deposits	318,051	189,461
	<u>(318,051)</u>	<u>(189,461)</u>
	<u>-</u>	<u>-</u>
	<u>6,894,597</u>	<u>9,327,827</u>

**Prepayments**

Exposure fee to support financing	363,840	501,177
Less: current portion	(226,295)	(226,102)
	<u>137,545</u>	<u>275,075</u>
	<u>7,032,142</u>	<u>9,602,902</u>

9.1 This represents the remaining balance of maintenance reserve which was required to be kept by the Company with a lessor, under the terms of the lease agreement that was terminated in the year 2012 which will be utilised against future purchases.

9.2 This includes foreign currency deposit amounting to US\$ 17 million which has been maintained by a commercial bank on behalf of the collection agent on the basis of agreement between the Company and the collection agent. The deposit is due to be matured on October 27, 2017 and carries markup at a rate of 0.75% per annum. Accordingly, the same has been classified as current assets in trade deposits and prepayments.




**9.3 Movement in provision is as follows:**

	Note	2016 (Rupees in '000)	2015
Balance at beginning of the year		189,461	106,405
Provision for the year	33	<u>128,590</u>	<u>83,056</u>
Balance at end of the year		<u><u>318,051</u></u>	<u><u>189,461</u></u>

**9.4 Movement in Exposure fee to support financing**

Balance at beginning of the year		501,177	570,972
Additions during the year		116,694	200,847
Amortised during the year	35	<u>(254,031)</u>	<u>(270,642)</u>
Balance at end of the year		<u><u>363,840</u></u>	<u><u>501,177</u></u>

9.4.1 This represents consideration paid to various finance providers for the purpose of guarantees issued in favour of the Company, which is being amortised over the finance lease term.

**10. STORES AND SPARES**

Stores		676,784	649,054
Spare parts		6,762,352	6,586,595
Inventory held for disposal - adjusted to net realisable value		<u>252,859</u>	<u>252,859</u>
		7,691,995	7,488,508
Provision for slow moving and obsolete spares	10.1	<u><u>(5,135,789)</u></u>	<u><u>(4,448,636)</u></u>
		<u><u>2,556,206</u></u>	<u><u>3,039,872</u></u>

**10.1 Movement in provision is as follows:**

Balance at beginning of the year		4,448,636	3,794,492
Provision for the year	33	<u>687,153</u>	<u>654,144</u>
Balance at end of the year		<u><u>5,135,789</u></u>	<u><u>4,448,636</u></u>

**11. TRADE DEBTS**

<i>Considered good</i>		8,566,349	9,294,690
<i>Considered doubtful</i>		<u>2,392,530</u>	<u>1,901,132</u>
Less: provision for doubtful debts	11.2	<u><u>(2,392,530)</u></u>	<u><u>(1,901,132)</u></u>
		-	-
		<u><u>8,566,349</u></u>	<u><u>9,294,690</u></u>

11.1 The aging analysis of these trade debts is as follows:

	2016		2015	
	Trade debts gross	Impaired	Trade debts gross	Impaired
----- (Rupees in '000) -----				
Within current year	8,465,402	211,760	9,143,273	174,007
1 year old	318,823	302,704	302,005	280,127
2 years old	161,582	153,755	198,522	38,198
Over 3 years old	<u>2,013,072</u>	<u>1,724,311</u>	<u>1,552,022</u>	<u>1,408,800</u>
	<u><u>10,958,879</u></u>	<u><u>2,392,530</u></u>	<u><u>11,195,822</u></u>	<u><u>1,901,132</u></u>



**11.2 Movement in provision is as follows:**

	Note	2016 (Rupees in '000)	2015
Balance at beginning of the year		1,901,132	1,600,472
Provision for the year	33	538,915	300,660
Write off during the year		(47,517)	-
Balance at end of the year		<u>2,392,530</u>	<u>1,901,132</u>

11.3 Certain portion of trade debts is secured by cash and bank guarantees received from agents but due to very large number of agents all over the world the amount of secured trade debts is not determinable.

**12. ADVANCES***Considered good*

Employees		151,968	483,553
Fuel suppliers		69,518	152,637
Other suppliers	12.1	2,062,804	930,625
Others		5,056	7,205
		<u>2,289,346</u>	<u>1,574,020</u>

*Considered doubtful*

Subsidiary - Skyrooms (Private) Limited	12.2	174,146	172,313
Employees		102,890	96,344
Others suppliers		809,268	566,163
		<u>1,086,304</u>	<u>834,820</u>
Provision against doubtful advances	12.3	(1,086,304)	(834,820)
		<u>-</u>	<u>-</u>
		<u>2,289,346</u>	<u>1,574,020</u>

12.1 This includes advance of Rs. 816.248 million and Rs. 319.328 million is respect of inflight entertainment system to be installed in Boeing 777 and enterprise resource planning (ERP) project, respectively.

12.2 Maximum aggregate gross amount due from the subsidiary at the end of any month was Rs. 174.146 million (2015: Rs. 174.219 million).

**12.3 Movement in provision is as follows:**

Balance at beginning of the year		834,820	627,404
Provision for the year	33	251,484	207,416
Balance at end of the year		<u>1,086,304</u>	<u>834,820</u>

**13. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS****Trade deposits***Considered good*

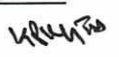
		3,553,609	1,964,447
<i>Considered doubtful</i>		46,462	58,694
Less: provision against doubtful deposits	13.1	(46,462)	(58,694)
		<u>-</u>	<u>-</u>
		<u>3,553,609</u>	<u>1,964,447</u>

**Prepayments**

	13.2	337,966	391,188
		<u>3,891,575</u>	<u>2,355,635</u>

**13.1 Movement in provision is as follows:**

Balance at beginning of the year		58,694	58,694
Reversal of provision	33	(12,232)	-
Balance at end of the year		<u>46,462</u>	<u>58,694</u>

13.2 Prepayments	Note	2016 (Rupees in '000)	2015
Current portion of exposure fee to support financing	9	226,295	226,102
Rental on leased aircraft		54,949	135,004
Rent		-	7,779
Others		56,722	22,303
		<u>337,966</u>	<u>391,188</u>

#### 14. OTHER RECEIVABLES

##### *Considered good*

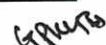
Claims receivable	14.1	1,352,137	8,749
Excise duty	28.1 (a)	100,000	100,000
Sales tax receivable	14.2	4,991,669	5,217,908
Receivable from GoP	14.3	542,501	470,040
Others	14.4	1,830,992	357,977
		<u>8,817,299</u>	<u>6,154,674</u>

##### *Considered doubtful*

Less: provision for doubtful other receivables	14.5	216,756 <u>(216,756)</u>	194,334 <u>(194,334)</u>
		<u>8,817,299</u>	<u>6,154,674</u>

- 14.1** This includes insurance claim amounting to Rs. 1,258.295 million (2015: Rs. Nil) in respect of aircraft bearing tail number AP-BHO, which was crashed on December 07, 2016, near Havelian Tehsil, Abbottabad. This claim has been acknowledged by the insurance company and out of which an amount of Rs. 1,069.016 million has been received subsequent to the year end.
- 14.2** This includes sales tax refundable aggregating Rs. 4,965.094 million (2015: Rs. 4,965.094 million) representing unadjusted portion of input tax under Sales Tax Act, 1990 (the Act). The Company has filed application for refunds of input sales tax up to December 31, 2011. In response, ACIR, Large Taxpayers Unit (LTU) through a letter has inter alia stated that as the Company is engaged in both domestic and international air travel, therefore, input tax paid is adjustable only against the domestic air travel services as no input tax adjustment is allowed against the international air travel services in terms of rule 41A(14) of the Federal Excise Rules, 2005 [refer note 28.1 (e)].
- The Company in consultation with its tax advisor believes that apportionment rule is not applicable in the subject case inter alia, at first instance, no sales tax was required to be collected at import stage on capital goods (spares / engines / aircraft) in view of the exemption available under entry No. 16 of SRO 575(1)/2006, which is applicable to the Company being registered as a Service Provider in transportation business and registered as service provider under the Act. The management has represented its view to the tax authorities. Therefore, the management is confident that sales tax was not payable on such imports and the amounts collected from the Company at the import stage shall be eventually recovered / adjusted.
- 14.3** This represents receivable in respect of charter revenue, maintenance and other charges.
- 14.4** This includes receivable from lessor amounting to Rs. 1,592.043 million (2015: Rs. Nil) in respect of overhauling incurred by the Company on aircrafts under operating lease as per lease agreement.
- 14.5 Movement in provision is as follows:**

Balance at beginning of the year		194,334	161,947
Provision for the year	33	<u>22,422</u>	<u>32,387</u>
Balance at end of the year		<u>216,756</u>	<u>194,334</u>



15. SHORT-TERM INVESTMENT

	Note	2016 (Rupees in '000)	2015
Available for sale - Unquoted			
SITA INC. N.V.			
325,491 (2015: 325,491) ordinary shares	15.1	19,220	19,220

15.1 These shares are held by SITA INC. N.V. on behalf of the Company and are transferable subject to certain specified conditions.

16. CASH AND BANK BALANCES

		2016	2015
In hand		11,924	6,527
With banks:			
- in current accounts	16.1	2,777,825	2,315,747
- in deposit accounts	16.2, 16.3 & 16.4	706,743	319,031
		3,484,568	2,634,778
		3,496,492	2,641,305

16.1 This has been adjusted by an aggregate amount of Rs. 1,402.586 million (2015: Rs. 2,025.555 million), representing book overdrafts.

16.2 These carry interest ranging from 0.1% to 7.5% (2015: 0.1% to 7.5%) per annum.

16.3 This has been adjusted by an aggregate amount of Rs. 39.517 million (2015: Rs. 323.528 million), representing book overdrafts.

16.4 These include restricted balances amounting to Rs. 448.885 million (2015: Rs. 14.271 million).

17. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2016 (No. of shares)	2015		Note	2016 (Rupees in '000)	2015
<b>Authorised capital</b>					
<b>Ordinary share capital</b>					
5,349,250,000	5,349,250,000	'A' class shares of Rs. 10 each	17.2	53,492,500	53,492,500
1,500,000	1,500,000	'B' class shares of Rs. 5 each		7,500	7,500
5,350,750,000	5,350,750,000			53,500,000	53,500,000
<b>Preference share capital</b>					
50,000,000	50,000,000	Preference shares of Rs. 10 each		500,000	500,000
5,400,750,000	5,400,750,000			54,000,000	54,000,000
<b>Issued, subscribed and paid up share capital</b>					
<b>Ordinary share capital</b>					
<b>'A' class shares of Rs. 10 each</b>					
2,642,351,960	2,642,351,957	Issued for consideration in cash		26,423,519	26,423,519
		Issued for consideration other than cash			
931,028	931,028	- for acquisition of shares		9,310	9,310
233,934,482	233,934,482	Issued as bonus shares		2,339,345	2,339,345
2,356,543,648	2,356,543,648	Issued against advance from GoP	17.2	23,565,436	23,565,436
5,233,761,118	5,233,761,115			52,337,610	52,337,610
<b>'B' class shares of Rs. 5 each</b>					
1,003,374	1,003,374	Issued for consideration in cash		5,017	5,017
		Issued for consideration other than cash			
2,625	2,625	- for acquisition of shares		13	13
494,000	494,000	Issued as bonus shares		2,470	2,470
1,499,999	1,499,999			7,500	7,500
5,235,261,117	5,235,261,114			52,345,110	52,345,110

17.1 As at December 31, 2016, GoP held 4,791,752,087 'A' class ordinary shares and 1,462,515 'B' class ordinary shares (2015: 4,791,752,087 'A' class ordinary shares and 1,462,515 'B' class ordinary shares).

17.2 In pursuance of letter No. GMFM/MoF/Equity-Adv/2015 dated November 30, 2015, GoP, Finance Division, CF-Wing vide its letter F.No.2(33)CF-PIA/13 dated December 01, 2015 conveyed sanction of the Federal Government for increase in authorised capital of the Company from Rs. 30,000 million to Rs. 54,000 million in terms of section 25(3) of the PIAC Act, 1956, subject to the condition that the amount of Rs. 23,565 million reflected in the books of account of the Company as advance against equity from GoP will be converted into GoP equity. Accordingly, the Company has increased its authorised capital by the said amount. In continuation of the above mentioned letter, GoP, Finance Division, CF-Wing vide its letter dated December 04, 2015 in pursuance of the section 25(3) of the PIAC Act 1956, conveyed sanction of the Federal Government for issuance of shares at par value of Rs. 10 per share in favour of the Federal Government without issuance of right shares. However, the legal formalities for issuance of shares are yet to be completed.

## 18. RESERVES

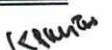
	Note	2016 (Rupees in '000)	2015
<b>Capital reserves</b>			
Reserve for replacement of fixed assets	18.1	1,966,779	1,966,779
Capital redemption reserve fund		250,000	250,000
Others		284,259	284,259
		<u>2,501,038</u>	<u>2,501,038</u>
<b>Revenue reserve</b>		<u>1,779,674</u>	<u>1,779,674</u>
		<u>4,280,712</u>	<u>4,280,712</u>
<b>Unrealised gain on remeasurement of investments</b>		<u>151,575</u>	<u>93,909</u>
		<u><u>4,432,287</u></u>	<u><u>4,374,621</u></u>

- 18.1 Up to June 1988, depreciation on fully depreciated aircraft was charged and credited to the reserve for replacement of fixed assets and excess of sale proceeds over cost of fixed assets disposed off was also credited to the aforesaid account. With effect from 1989-90, the Company changed this policy to comply with the IFRSs and the depreciation and excess proceeds over cost of relevant assets are recorded in the unconsolidated profit and loss account.

## 19. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET

Balance at beginning of the year		4,011,116	7,894,604
Surplus / (deficit) arising on property, plant and equipment during the year		317,171	(3,943,484)
Deficit released to unconsolidated profit and loss on account of aircraft retired / written off during the year	5.1.3	971,386	53,196
		<u>5,299,673</u>	<u>4,004,316</u>
Less: transferred to accumulated loss:			
- Surplus on revaluation of property, plant and equipment realised during the year on account of (incremental) / reduced depreciation charged thereon - net of tax		(74,829)	4,760
- Surplus on revaluation of property, plant and equipment released during the year on account of aircraft retired / written off - net of tax		(938,411)	-
- Related deferred tax		(434,246)	2,040
		<u>(1,447,486)</u>	<u>6,800</u>
		<u>3,852,187</u>	<u>4,011,116</u>
Related deferred tax asset on:			
- Revaluation at beginning of the year		852,773	(364,319)
- Surplus / (deficit) arising on property, plant and equipment during the year		(95,151)	1,183,045
- Deficit released to unconsolidated profit and loss on aircraft retired / written off		(291,416)	(15,959)
- (Incremental) / reduced depreciation charged during the year on related assets transferred to unconsolidated profit and loss account		32,070	(2,040)
- Surplus released during the year on account of aircraft retired / written off		402,176	-
- Effect of change in tax rate		-	52,046
		<u>900,452</u>	<u>852,773</u>
Balance at end of the year		<u><u>4,752,639</u></u>	<u><u>4,863,889</u></u>







20. LONG-TERM FINANCING

Financier	Note	Type of facility	Facility amount (million)	Repayment period	Number of instalments / mode	2016 (Rupees in '000)	2015
<b>Secured - from banking companies</b>							
Askari Bank Limited	20.2	Term finance	3,000 PKR	2017 - 2019	36 monthly	3,000,000	3,000,000
Albaraka Bank (Pakistan) Limited	20.2 & 20.12	Islamic Term finance	4,500 PKR	2018 - 2021	36 monthly	4,500,000	-
BankIslami Pakistan Limited (transferred from KASB Bank Limited)	20.3	Islamic Term finance	1,500 PKR	2019 - 2021	8 quarterly	1,500,000	-
The Bank of Punjab	20.2	Term finance	5,000 PKR	2016 - 2021	60 monthly	4,583,333	-
The Bank of Punjab	20.2	Term finance	5,000 PKR	2016 - 2021	60 monthly	4,250,000	-
The Bank of Punjab	20.2 & 20.13	Demand finance	30,000 PKR	2016 - 2023	84 monthly	18,239,524	-
Faysal Bank Limited	20.2	Term finance	2,000 PKR	2013 - 2016	36 monthly	-	388,879
Favsal Bank Limited	20.2	Term finance	2,000 PKR	2015 - 2018	12 quarterly	1,000,000	1,831,676
Faysal Bank Limited	20.2	Term finance	2,000 PKR	2016 - 2019	12 quarterly	1,500,000	2,000,000
Faysal Bank Limited	20.2	Islamic Term finance	1,000 PKR	2017 - 2019	12 quarterly	1,000,000	1,000,000
Faysal Bank Limited	20.2	Term finance	4,000 PKR	2017 - 2020	14 quarterly	4,000,000	-
National Bank of Pakistan	20.4	Term finance	3,000 PKR	2016 - 2019	36 monthly	3,000,000	3,000,000
National Bank of Pakistan	20.2	Term finance	2,175 PKR	2018 - 2020	12 quarterly	2,175,000	2,074,577
National Bank of Pakistan	20.2	Term finance	2,825 PKR	2018 - 2021	12 quarterly	2,825,000	-
NIB Bank Limited	20.2 & 20.15	Term finance	10,000 PKR	2015 - 2020	60 monthly	-	9,166,667
United Bank Limited	20.2	Term finance	5,000 PKR	2015 - 2020	54 monthly	3,703,704	4,814,815
United Bank Limited	20.2	Term finance	1,500 PKR	2016 - 2021	54 monthly	1,305,556	1,500,000
National Bank of Pakistan - Bahrain	20.2 & 20.5	Syndicate finance	120 USD	2013 - 2023	40 quarterly	11,617,923	11,955,351
Abu Dhabi Islamic Bank	20.6	Islamic Term finance	70.7 USD	2016 - 2019	4 half yearly	4,838,240	3,783,813
Citibank, N.A.	20.7	Islamic Term finance	120 USD & 36.73 AED	2014 - 2016	33 monthly	-	4,545,499
Citibank, N.A.	20.8	Demand finance	82 USD	2006 - 2017	20 half yearly	226,601	890,477
Citibank, N.A.	20.9	Term finance	54.2 USD	2015 - 2018	8 quarterly	1,259,314	1,084,376
Citibank, Mashreq	20.10	Term finance	120 USD	2016 - 2018	32 monthly	8,650,529	12,584,580
Standard Chartered Bank (Pakistan) Limited	20.11	Syndicate finance	137.5 USD	2014 - 2017	33 monthly	436,895	5,680,540
United Bank Limited	20.14	Syndicate finance	130 USD	2017 - 2019	33 monthly	13,631,137	-
<b>Others - unsecured</b>							
Long-term loan - GoP	20.16	Term finance	8,000 PKR	2011 - 2020	16 half-yearly	8,000,000	8,000,000
						<b>105,242,756</b>	<b>77,301,250</b>
Current maturity shown under current liabilities						<b>(30,412,813)</b>	<b>(27,534,829)</b>
						<b>74,829,943</b>	<b>49,766,421</b>

20.1 Borrowings in PKR comprise of fixed and variable rate borrowings. Fixed rate borrowings carry markup at the rate of 10% ( 2015: 10%), whereas variable rate borrowings in PKR carry markup ranging from spread of 1.5% over 1 month KIBOR to 2% over 1 month KIBOR (2015: spread of 1.5% over 1 month KIBOR to 2% over 1 month KIBOR ). Borrowings in US\$ comprise of fixed and variable rate borrowings. Fixed rate borrowings carry markup at the rate of 5.28% (2015: 5.28%) whereas variable rate borrowings carry markup ranging from spread of 0.70% over 3 month LIBOR to 4.00% over 1 month LIBOR (2015: 0.7% over 3 month LIBOR to 4.00% over 1 month LIBOR), Borrowings in AED carry variable markup with spread of 4% over 3 month EIBOR (2015: 4% over 3 month EIBOR ).

20.2 The finance is secured by way of unconditional and irrevocable GoP guarantee for an amount equivalent to the facility amount.

20.3 The facility is converted from short term loan to long term financing on Diminishing Musharakah basis. The finance is secured by way of lien over Musharakah Asset amounting to Rs. 1,500 million and unconditional and irrevocable GoP guarantee for the facility amount.

20.4 The finance was secured by Letter of Comfort from GoP, ranking charge over current and fixed asset of Company amounting to Rs. 4,000 million inclusive of 25% margin; and lien and specific right to set off over all receivables in connection with the Company's sales routed through collection account NBP Airport Branch, Karachi. However, as the Letter of Comfort has been replaced by GoP guarantee, the aforesaid ranking charge has been released by NBP. Furthermore, principal amounting to Rs. 83.33 million due as at December 31, 2016 which has been paid by the Company during the extended period on January 12, 2017.

20.5 The following are the participating banks in this syndicated finance facility:

- National Bank of Pakistan (NBP) - Bahrain; and
- Habib Bank Limited (HBL)

- 20.6** The finance is secured against ICIEC / GoP guarantee for loans outstanding at any given point of time.
- 20.7** The facility is obtained from consortium of financial institutions in which Citibank N.A. is the investment agent. The finance is secured by way of collection routed through the offshore account maintained with Citibank N.A. London Branch.
- 20.8** The finance is secured by way of:
- Mortgage over each of the six ATR aircraft and two spares engines purchased, and
  - European Credit Agencies / GoP Guarantee.
- 20.9** The finance is secured against Ex-Im Bank / GoP guarantee for loan outstanding at any given point of time.
- 20.10** The finance is secured by way of collection routed through the offshore bank account maintained with Citi Mashreq.
- 20.11** The Syndicate finance has been obtained from a syndicate of international banks and the lead arrangers are:
- Standard Chartered Bank - United Kingdom
  - Mashreqbank psc - United Arab Emirates

The finance is secured by first priority security over the collection account and facility service account; and legally enforceable assignments of tickets sales collection for the UK sector through IATA with appropriate acknowledgments.

- 20.12** The finance is secured by way of:
- 1st exclusive hypothecation charge over five engines with 10% margin; and
  - Irrevocable assignment instruction from the Company to NIB / Bank of Punjab for transfer of funds to ABPL on fortnightly basis.
- 20.13** The finance is secured by way of lien over IATA routed sales of the Company, receivable or assignment.
- 20.14** The Syndicate finance has been obtained from a syndicate of international banks and the lead arrangers are:
- United Bank Limited (UBL); and
  - Credit Suisse AG, Singapore Branch

The finance is secured by way of:

- 1st priority security over the master collection account, facility service account;
- legally enforceable assignment of the ticket sales collection for the select BSP agreement sector through IATA with appropriate acknowledgment; and
- irrevocable and unconditional instruction to IATA and GSA in the Kingdom of Saudi Arabia to pay all proceeds from the sales abroad the Company flights into master collection account. The account bank shall transfer funds received to the master collection account into the facility service account also maintained with the account bank.






- 20.15 During the current year, the Company has made early repayment of the draw down amount of the facility without incurring any additional charges pertaining to early repayment as per the terms of agreement.
- 20.16 The Company has not paid any instalment since due date of instalment, i.e. October 23, 2011. The over due principal and markup due as at December 31, 2016 is Rs. 5,062.5 (2015: Rs. 4,062.50 million) and Rs. 5,900 million (2015 Rs. 5,097.81 million), respectively. The over due principal amount is included in current maturity.

## 21. TERM FINANCE AND SUKKUK CERTIFICATES

	Note	Security	Repayment period	Number of instalments	Mark-up	2016	2015
						(Rupees in '000)	
Term finance certificates (TFC)	21.1	GoP Guarantee	2014 - 2020	16 quarterly	6 month KIBOR +1.25%	26,707,209	32,870,410
Sukuk certificates	21.2	GoP Guarantee	October 20, 2019	Bullet	6 month KIBOR +1.75%	6,800,000	6,800,000
Term finance certificates (Zero Coupon)	21.1	GoP Guarantee	2014-2016	04 half-yearly	-	-	233,218
						<b>33,507,209</b>	39,903,628
Less: current maturity						<b>(8,217,603)</b>	(13,196,419)
						<b>25,289,606</b>	<b>26,707,209</b>

- 21.1 The ECC on July 03, 2012 decided / approved the restructuring of these TFCs from various banks along with the restructuring of certain short term borrowings of Rs. 20,700 million into new TFCs for a period of 6 years, with 2 years grace period on the terms and conditions to be approved by Ministry of Finance (the Ministry). On December 01, 2014, the Ministry approved the terms and conditions of new TFCs, amounting Rs. 32,870 million, including the conversion of short term loan of Rs. 20,080 million on the terms, applicable from February 20, 2014. Further, the Ministry also approved the issuance of a Zero Coupon Privately Placed Term Finance Certificates (PPTFCs) of Rs. 960.661 million after the capitalisation of markup accrued on previous PPTFC of Rs. 12,790 million. During the year ended December 31, 2015, the restructuring agreements of both PPTFCs were signed and Pak Brunei Investment Company Limited was approved as trustee of both PPTFCs. Interest payment amounting to Rs. 885 million due as at December 31, 2016 has been paid by the Company during the extended period on February 08, 2017.
- 21.2 The Company had issued GoP guaranteed privately placed Sukuk Certificates in financial year ended December 31, 2009. The principal amount was payable after grace period of two years in six equal half yearly installments, however, the Company had not made any principal payments that were due until December 30, 2013. The Sukuk investors were requested to re-profile the principal repayment schedule along with other terms of Sukuk Certificates, with the assistance of the Ministry. On December 30, 2013, the Sukuk agreement with Sukuk investors was rescheduled by virtue of which the Company was required to pay the entire principal on October 20, 2014. However, on December 24, 2014, the Sukuk investors agreed to further extend the term of Sukuk Certificates for a period of further five years starting from October 20, 2014 and the Company will be required to pay the entire principal on October 20, 2019. The markup rate and security will remain unchanged. The Ministry has approved the restructuring and new agreement has been signed on June 30, 2016. Accordingly, the same has been classified as non-current liability. Profit payment amounting to Rs. 90 million due as at December 31, 2016 has been paid by the Company during the extended period on February 21, 2017.

## 22. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	Note	2016	2015
		(Rupees in '000)	
Present value of minimum lease payments			
B-777-200 LR	22.2	2,841,122	5,538,536
B-777-300 ER	22.3	10,375,265	14,883,959
Technical ground equipments	22.4	202,230	-
		<b>13,418,617</b>	20,422,495
Less: current maturity		<b>(7,606,768)</b>	(7,204,016)
		<b>5,811,849</b>	<b>13,218,479</b>

22.1 The amount of future payments and the year in which they will become due are:

	<b>2016</b>		
	<b>Minimum lease payments</b>	<b>Finance costs</b>	<b>Present value of minimum lease payments</b>
	----- (Rupees in '000) -----		
Not later than one year	8,102,581	495,813	7,606,768
Later than one year but not later than five years	6,028,335	216,486	5,811,849
	<b>14,130,916</b>	<b>712,299</b>	<b>13,418,617</b>

	<b>2015</b>		
	<b>Minimum lease payments</b>	<b>Finance costs</b>	<b>Present value of minimum lease payments</b>
	----- (Rupees in '000) -----		
Not later than one year	8,037,185	833,170	7,204,015
Later than one year but not later than five years	13,882,209	663,729	13,218,480
	<b>21,919,394</b>	<b>1,496,899</b>	<b>20,422,495</b>

22.1.1 The above schedule is made as per the rate implicit in the lease and the payment is made as per the rates mentioned in the notes 22.2, 22.3 and 22.4. The resulting difference between both in the current year is Rs. 516.722 million (2015: Rs. 426.152 million).

22.2 During the year 2006, the Company arranged an Ex-Im Bank guaranteed financing of US\$ 266 million to acquire two Boeing B 777-200 LR aircraft and one propulsor from Taxila - 2 Limited, a special purpose entity incorporated in Cayman Islands. The guaranteed lender is Citibank N.A. The lease term of propulsor has expired during the year 2014. The salient features of the lease are as follows:

Discount rate - aircraft and propulsor	<b>Three month LIBOR - 0.02%</b>	Three month LIBOR - 0.02%
Lease period - aircraft	<b>144 months</b>	144 months
Lease period - propulsor	<b>96 months</b>	96 months
Security deposits (Rupees in '000)	<b>802,750</b>	802,877

22.3 During the year 2006, the Company arranged an Ex-Im Bank guaranteed financing of US\$ 472 million to acquire three Boeing B 777-300 ER aircraft and one engine from White Crescent Limited, a special purpose entity incorporated in Amsterdam, Netherlands. The guaranteed lender is Royal Bank of Scotland. The lease term of spare engine has expired during the year 2014. The salient features of the lease are as under:

Discount rate - one aircraft	<b>5.25%</b>	5.25%
Discount rate - two aircraft and spare engine	<b>Three month LIBOR - 0.04%</b>	Three month LIBOR - 0.04%
Lease period - aircraft	<b>144 months</b>	144 months
Lease period - spare engine	<b>96 months</b>	96 months
Security deposits (Rupees in '000)	<b>1,613,318</b>	1,613,574



KRM/To



- 22.4 During the current year, the Company arranged an letter of credit (LC) limit of Rs. 500 million for the purpose of acquisition of technical ground equipments. On the maturity of LC, the amount of LC is converted into finance lease, having a limit of Rs. 500 million with lease period of 48 months. The lease arrangement is secured by GoP guarantee (carry markup at the rate of 2% spread over one month KIBOR).
- 22.5 The Company has an option to acquire the ownership of the aircraft and engines mentioned in notes 22.2 to 22.4, at the end of lease term.

### 23. ADVANCE FROM A SUBSIDIARY

This represents advance of US\$ 10 million, US\$ 1 million, US\$ 3 million, US\$ 10 million, US\$ 10 million, US\$ 2.5 million, US\$ 0.675 million, US\$ 0.96 million and US\$ 2 million received on March 02, 2011, September 12, 2011, July 26, 2013, May 08, 2014, July 11, 2014, September 01, 2014, December 02, 2014, April 27, 2015 and May 07, 2015, respectively, from PIA Investments Limited (PIAIL), a wholly owned subsidiary of the Company which will be adjusted against future dividends, if any, distributed by PIAIL. The advance carries mark-up at the rate of 1 month LIBOR plus 1.75% per annum.

### 24. DEFERRED LIABILITIES

	Note	2016 (Rupees in '000)	2015
Post retirement medical benefits	24.2	10,927,712	10,252,096
Pension obligation	24.3	19,033,228	14,480,623
		<u>29,960,940</u>	<u>24,732,719</u>

- 24.1 General description of the type of defined benefit plans and accounting policy for remeasurements of the net defined benefit obligation / asset is disclosed in note 4.9 to these unconsolidated financial statements.

#### 24.2 Post retirement medical benefits

##### Liability recognised in the balance sheet

Present value of defined benefit obligation	<u>10,927,712</u>	<u>10,252,096</u>
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##### Movement in liability during the year

Balance at beginning of the year	10,252,096	7,020,496
Expense recognised in profit or loss	1,272,987	959,291
Total remeasurements recognised in other comprehensive income	153,908	3,002,489
Payments made during the year	(751,279)	(730,180)
Balance at end of the year	<u>10,927,712</u>	<u>10,252,096</u>

##### Expense recognised in profit and loss account

Current service cost	285,341	106,123
Interest cost	987,646	853,168
	<u>1,272,987</u>	<u>959,291</u>

##### Total remeasurements recognised in other comprehensive income

Actuarial loss on liability arising on		
- financial assumptions	-	-
- demographic assumptions	-	-
- experience adjustments	153,908	3,002,489
	<u>153,908</u>	<u>3,002,489</u>

### 24.3 Pension obligation

The details of three different categories of plans are as follows:

	PALPA		FENA		MAIN PENSION		TOTAL	
	2016	2015	2016	2015	2016	2015	2016	2015
----- (Rupees in '000) -----								
<b>Liability / (asset) recognised</b>								
Present value of defined benefit obligation	2,554,113	2,574,493	455,917	492,596	26,092,541	23,208,226	29,102,571	26,275,315
Fair value of plan assets	(1,693,082)	(1,706,254)	(986,095)	(1,051,494)	(7,390,166)	(9,036,944)	(10,069,343)	(11,794,692)
	<u>861,031</u>	<u>868,239</u>	<u>(530,178)</u>	<u>(558,898)</u>	<u>18,702,375</u>	<u>14,171,282</u>	<u>19,033,228</u>	<u>14,480,623</u>
<b>Movement in liability / (asset) during the year</b>								
Opening liability / (asset)	868,239	597,466	(558,898)	(569,766)	14,171,282	12,495,283	14,480,623	12,522,983
Expense recognised in profit or loss	122,170	86,399	(56,052)	(60,024)	2,267,866	1,634,729	2,333,984	1,661,104
Total remeasurements recognised in other comprehensive income	(115,179)	198,573	88,101	74,887	2,343,013	121,056	2,315,935	394,516
Employer contributions	(14,199)	(14,199)	(3,329)	(3,995)	(79,786)	(79,786)	(97,314)	(97,980)
Closing liability / (asset)	<u>861,031</u>	<u>868,239</u>	<u>(530,178)</u>	<u>(558,898)</u>	<u>18,702,375</u>	<u>14,171,282</u>	<u>19,033,228</u>	<u>14,480,623</u>
<b>Movement in the defined benefit obligation</b>								
Obligation as beginning of the year	2,574,493	2,362,685	492,596	509,611	23,208,226	21,768,560	26,275,315	24,640,856
Current service costs	36,056	24,411	4	11	854,728	326,914	890,788	351,336
Interest cost	250,057	235,812	46,890	50,897	2,241,357	2,202,394	2,538,304	2,489,103
Benefits paid	(147,848)	(233,706)	(47,398)	(49,759)	(1,589,303)	(1,586,746)	(1,784,549)	(1,870,211)
Remeasurement	(158,645)	185,291	(36,175)	(18,164)	1,377,533	497,104	1,182,713	664,231
Obligation at end of the year	<u>2,554,113</u>	<u>2,574,493</u>	<u>455,917</u>	<u>492,596</u>	<u>26,092,541</u>	<u>23,208,226</u>	<u>29,102,571</u>	<u>26,275,315</u>
<b>Movement in fair value of plan assets</b>								
Fair value at beginning of the year	1,706,254	1,765,219	1,051,494	1,079,377	9,036,944	9,273,277	11,794,692	12,117,873
Interest income	163,943	173,824	102,946	110,932	828,219	894,579	1,095,108	1,179,335
Employer contributions	14,199	14,199	3,329	3,995	79,786	79,786	97,314	97,980
Benefits paid	(147,848)	(233,706)	(47,398)	(49,759)	(1,589,303)	(1,586,746)	(1,784,549)	(1,870,211)
Return on plan assets excluding amount included in interest income	(43,466)	(13,282)	(124,276)	(93,051)	(965,480)	376,048	(1,133,222)	269,715
Fair value at end of the year	<u>1,693,082</u>	<u>1,706,254</u>	<u>986,095</u>	<u>1,051,494</u>	<u>7,390,166</u>	<u>9,036,944</u>	<u>10,069,343</u>	<u>11,794,692</u>
<b>Expense recognised in profit or loss</b>								
Current service costs	36,056	24,411	4	11	854,728	326,914	890,788	351,336
Net interest expense / (income)	86,114	61,988	(56,056)	(60,035)	1,413,138	1,307,815	1,443,196	1,309,768
	<u>122,170</u>	<u>86,399</u>	<u>(56,052)</u>	<u>(60,024)</u>	<u>2,267,866</u>	<u>1,634,729</u>	<u>2,333,984</u>	<u>1,661,104</u>
<b>Total remeasurements recognised in other comprehensive income</b>								
Remeasurement on obligation arising on								
- financial assumptions	179,989	-	39,429	-	1,484,529	-	1,703,947	-
- demographic assumptions	-	-	-	-	-	-	-	-
- experience adjustments	(338,634)	185,291	(75,604)	(18,164)	(106,996)	497,104	(521,234)	664,231
	<u>(158,645)</u>	<u>185,291</u>	<u>(36,175)</u>	<u>(18,164)</u>	<u>1,377,533</u>	<u>497,104</u>	<u>1,182,713</u>	<u>664,231</u>
Return on plan assets excluding amount included in interest income	43,466	13,282	124,276	93,051	965,480	(376,048)	1,133,222	(269,715)
	<u>(115,179)</u>	<u>198,573</u>	<u>88,101</u>	<u>74,887</u>	<u>2,343,013</u>	<u>121,056</u>	<u>2,315,935</u>	<u>394,516</u>
<b>The plan assets comprise of:</b>								
Debt instruments	19%	17%	0%	0%	11%	12%	10%	11%
Others including cash and cash equivalents	81%	83%	100%	100%	89%	88%	90%	89%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Actual return on plan assets	<u>120,477</u>	<u>160,542</u>	<u>(21,330)</u>	<u>17,881</u>	<u>(137,261)</u>	<u>1,270,627</u>	<u>(38,114)</u>	<u>1,449,050</u>

24.4 Actuarial valuations of pension funds, post retirement medical benefit scheme and compensated absences (note 25.2) were carried out at December 31, 2016. The valuations have been carried out using Projected Unit Credit method and the following significant.

	2016	2015
Valuation discount rate	8.00%	10.00%
Salary increase rate	7.00%	9.00%
Pension indexation rate	1.50%	2.50%
Medical inflation rate	1.75%	3.75%
Mortality table	Adjusted SLIC 2001-2005 with one year age set back	



24.5	Number of employees covered by the various schemes are as follows:	2016	2015
		(Number)	
	<b>Pension scheme</b>		
	Active employees	14,191	13,702
	Beneficiaries	15,104	14,677
	<b>Post retirement medical benefit scheme</b>	15,104	16,440

#### 24.6 Sensitivity analysis

The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant:

Change in assumption	Increase / (decrease) in defined benefit obligation of						
	PALPA Fund		FENA Fund		Main Pension Fund		
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption	
----- (Rupees in '000) -----							
Valuation discount rate	1%	(193,839)	132,193	(30,347)	34,622	(1,724,286)	1,272,671
Salary increase rate	1%	no change	no change	no change	no change	no change	no change
Pension indexation rate	1%	178,448	(156,239)	36,617	(32,460)	1,669,237	(1,451,816)
Life expectancy	one year	(47,606)	51,373	(12,646)	13,648	383,920	(355,656)

Change in assumption	Increase / (decrease) in defined benefit obligation of				
	Post retirement medical benefits		Compensated absences		
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption	
----- (Rupees in '000) -----					
Valuation discount rate	1%	(948,748)	1,129,232	(477,247)	544,967
Salary increase rate	1%	no change	no change	584,551	(520,616)
Medical inflation rate	1%	965,343	(843,964)	not applicable	not applicable
Life expectancy	one year	(271,089)	292,056	(4,502)	4,520

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the unconsolidated balance sheet.

#### 24.7 The employee benefit plans exposes the Company to the following risks:

**Mortality risk:** The risk that the actual mortality rate is different. The effect depends on the beneficiaries service / age distribution and the benefit.

**Investment risk:** The risk of the investment underperforming and being not sufficient to meet the liabilities.

**Final salary risk:** The risk that the final salary at the time of cessation of service is greater than what is assumed. Since the benefit is calculated on the final salary, the benefit amount increases similarly.

**Withdrawal risk:** The risk of higher or lower withdrawal experienced than assumed. The final effect could go either way depending on the beneficiaries' service/age distribution and the benefit.

#### 24.8 The fair value of plan assets of pension funds includes investment in the Company's shares, amounting to Rs.4.846 million (2015: Rs.4.846 million).

#### 24.9 The weighted average duration of the benefit obligations as at December 31, 2016 is as follows:

	Years
Post retirement medical benefits	9.51
PALPA fund	6.38
FENA fund	7.13
Main Pension fund	5.74
Compensated absences	6.28




- 24.10** The expected pension and medical expense for the next one year from January 01, 2017 amounts to Rs. 2,325.293 million and Rs. 973.129 million, respectively. The expected amount of Pension fund is the amount which the Company has to contribute for the next one year.
- 24.11** The total expense relating to deferred liabilities has been allocated to cost of services, distribution costs and administrative expenses in the amount of Rs.1,947.764 million (2015: Rs. 1,415.013 million), Rs. 1,009.951 million (2015: Rs. 471.671 million) and Rs. 649.255 million (2015: Rs. 733.710 million) respectively.

**25. TRADE AND OTHER PAYABLES**

	<i>Note</i>	2016 (Rupees in '000)	2015
<b>Trade creditors</b>			
Goods	25.1	17,661,379	15,807,236
Services		5,842,435	4,322,860
Airport related charges		<u>20,212,685</u>	<u>16,525,429</u>
		<u>43,716,499</u>	<u>36,655,525</u>
Accrued liabilities	25.2	6,734,863	4,900,439
Advance against transportation (unearned revenue)		11,293,754	10,864,375
Obligation for compensated absences	25.3	8,142,723	6,385,556
Unredeemed frequent flyer liabilities	25.4	755,829	744,008
Advances from customers		880,683	1,007,858
Payable to employees' provident fund	25.5	10,202,468	10,470,475
Unclaimed dividend - Preference shares		8,493	8,493
Collection on behalf of others	25.6	33,642,194	24,608,025
Customs, federal excise duty and sales tax		3,592,336	2,855,999
Federal excise duty - International travel		8,900,478	7,811,194
Income tax deducted at source		1,937,779	1,327,034
Short-term deposits		<u>926,108</u>	<u>859,715</u>
		<u><u>130,734,207</u></u>	<u><u>108,498,696</u></u>

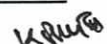
**25.1** This includes an amount of Rs. 15,484.500 million payable to Pakistan State Oil Limited (PSO) which comprises of principal balance of Rs. 13,358.167 million and late payment interest balance of Rs. 2,126.333 million. There is a dispute over the adjustment of payments made by the Company. PSO adjusts the late payment interest first and then the principal while the management considers that based on the interpretation of agreement with PSO all payments made should be adjusted first with principal and once the whole principal balance is paid off, the remaining payments will be adjusted against late payment interest balance. The disagreed recorded amount in this respect as at December 31, 2016 is Rs. 1,258.741 million.

**25.2** This includes total management fee upto December 31, 2016 amounting to Rs. 122 million (2015: Rs. 62.806 million) payable to PIA Investments Limited, a subsidiary company.

**25.3 Obligation for compensated absences**

**Liability recognised in the balance sheet**

Balance at beginning of the year	6,385,556	5,337,919
Expense recognised during the year	1,765,095	1,055,565
Benefits paid during the year	<u>(7,928)</u>	<u>(7,928)</u>
Balance at end of the year	<u><u>8,142,723</u></u>	<u><u>6,385,556</u></u>



- 25.3.1** Number of employees covered by the compensated absences are 14,191 (2015: 13,702). The assumptions used to determine the obligation for compensated absences, sensitivity analysis and weighted average duration are disclosed in notes 24.4, 24.6 and 24.9, respectively.
- 25.3.2** The total expense relating to compensated absences has been allocated to cost of services, distribution costs and administrative expenses in the amount of Rs. 1,270.868 million (2015: Rs. 760.073 million), Rs. 211.811 million (2015: Rs. 127.264 million) and Rs. 282.415 million (2015: Rs. 168.228 million), respectively.
- 25.4** The liability for frequent flyer programme is based on the valuation carried out by an independent professional valuer. Significant assumptions include:
- ticket inflation rate of 7% (2015: 9%);
  - discount rate of 8% (2015: 10%);
  - expiry of unavailed points after three years; and
  - accumulated points above 11,000 can be used for purchase of tickets. Points lower than 11,000 are valued on aggregate cost of redeemed points.
- 25.5** This represents amount deducted from employees on account of contribution to Provident Fund, the Company's own contribution and deductions from employees on account of loan recoveries on behalf of Provident Fund which is payable to Pakistan International Airlines Corporation Provident Fund (PF), which could not be paid to the PF within 15 days as required by Section 227 of the repealed Companies Ordinance, 1984 due to the liquidity constraints. Hence, mark-up thereon have been accrued based on the discount rate as announced by the State Bank of Pakistan upto 19 April and thereafter based on 1 month KIBOR.
- 25.6** This includes taxes payable at foreign stations and amount payable to CAA relating to embarkation, security and infrastructure charges.

<b>26. ACCRUED INTEREST</b>	<i>Note</i>	<b>2016</b>	<b>2015</b>
		<b>(Rupees in '000)</b>	
<b>Mark-up / profit payable on:</b>			
- long-term financing		<b>6,528,696</b>	5,465,941
- term finance certificates		<b>1,418,995</b>	1,625,374
- sukuk certificates		<b>224,953</b>	432,216
- liabilities against assets subject to finance lease		<b>295</b>	-
- short-term borrowings		<b>664,229</b>	711,296
- provident fund	25.5	<b>4,185,344</b>	3,528,554
- advance from a subsidiary		<b>297,740</b>	201,729
		<b><u>13,320,252</u></b>	<b><u>11,965,110</u></b>
<b>27. SHORT-TERM BORROWINGS</b>			
Short-term loans - secured	27.1	<b>30,803,694</b>	32,303,844
Running finances under mark-up arrangements	27.2	<b>3,547,617</b>	4,636,357
		<b><u>34,351,311</u></b>	<b><u>36,940,201</u></b>




27.1 Short-term loans - secured

Financier	Note	Security	Facility amount (million)	Expiry date	2016 (Rupees in '000)	2015
<b>From Banking Companies</b>						
National Bank of Pakistan		Unconditional irrevocable continuing GoP Guarantee; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	5,000 PKR	31-Jul-17	5,000,000	5,000,000
National Bank of Pakistan		Unconditional irrevocable continuing GoP Guarantee; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	5,000 PKR	31-Jul-17	5,000,000	5,000,000
National Bank of Pakistan		Unconditional irrevocable continuing GoP Guarantee; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	5,000 PKR	31-Jul-17	5,000,000	5,000,000
National Bank of Pakistan		Unconditional irrevocable continuing GoP Guarantee; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	4,360 PKR	31-Jul-17	4,360,000	4,360,000
National Bank of Pakistan		Unconditional irrevocable continuing GoP Guarantee; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	3,500 PKR	31-Jul-17	3,500,000	3,500,000
National Bank of Pakistan		Unconditional irrevocable continuing GoP Guarantee; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	3,000 PKR	31-Jul-17	3,000,000	3,000,000
National Bank of Pakistan		Unconditional irrevocable continuing GoP Guarantee; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	2,000 PKR	31-Jul-17	2,000,000	2,000,000
National Bank of Pakistan		Unconditional irrevocable continuing GoP Guarantee; lien / specific right to set-off over all receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi.	2,000 PKR	31-Jul-17	2,000,000	2,000,000
BankIslami Pakistan Limited (transferred from KASB Bank Limited)	27.1.2	GoP Guarantee and also covered by 1st Pari Passu charge over receivables with 25% margin.	1,500 PKR	13-May-15	-	1,500,000
Habib Allied International Bank Limited - London		EURO receivables	4 & 5 USD	Continuous	943,694	943,844
					<u>30,803,694</u>	<u>32,303,844</u>

27.1.1 The borrowings in PKR carry mark-up with a spread of 1.5% over 3 months KIBOR (2015: spread of 0.9% to 2.0% over 3 months KIBOR). The borrowings in foreign currency carry mark-up of 3.5% over 3 month LIBOR (2015: a spread of 3.5% over 3 months LIBOR).

27.1.2 During the year, loan liability has been transferred from KASB Bank Limited to BankIslami Pakistan Limited as per the approval of State Bank of Pakistan (SBP). The loan liability has been converted on Diminishing musharka basis and accordingly the loan has been transferred to long term loans.

27.1.3 The agreements of these borrowings have expired on their maturity, however, these were renewed on their respective maturity dates.

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27.2 Running finances under mark-up arrangements

Banks	Security	Facility amount (million)	Unavailed credit amount (million) (note 27.2.2)	Expiry date	2016	2015
					(Rupees in '000)	
<b>Secured</b>						
The Bank of Punjab	Ranking charge on present and future stocks and book debts of Mirpur Azad Jammu Kashmir (AJK) for Rs. 734 million including 25% margin; irrevocable undertaking to route all collection in Mirpur, AJK from BOP counter.	550 PKR	550 PKR	30-Jun-16	-	503,869
Habib Bank Limited	Hypothecation charge on all present and future spare parts, accessories of aircraft assets or present and future receivables of the Company for Rs. 2,800 million including 25% margin or as per SBP requirement, whichever is higher.	350 PKR	28.20 PKR	30-Sep-17	321,829	288,496
National Bank of Pakistan	First pari passu hypothecation charge of Rs. 766.667 million on all present and future current assets with a margin of 25%, lien and specific right to set-off over receivables in connection with sales routed through collection account in NBP Airport Branch, Karachi. Further, a promissory note has been issued in the name of NBP amounting to Rs. 686 million payable on demand.	575 PKR	282.97 PKR	31-Jul-17	292,031	440,941
United Bank Limited	Hypothecation charge of Rs. 3,427 million on all present and future stocks and spares and assignment of receivables from Karachi and Lahore.	2,570 PKR	53.99 PKR	31-Jul-17	2,515,108	2,244,436
Habib Allied International Bank Limited - London	EURO receivables	3 USD	Nil	On Demand	315,285	314,853
					3,444,253	3,792,595
<b>Un-secured</b>						
Habib American Bank	-	1.5 USD	0.51 USD	On Demand	103,364	109,661
Citibank N.A.	-	3 USD	3 USD	On Demand	-	314,615
Citibank N.A.	-	4 USD	4 USD	Temporary Line	-	419,486
					3,547,617	4,636,357

27.2.1 The borrowings in PKR carry mark-up with a spread of 1.5% to 2.0% over 1 month KIBOR (2015: 1.5% to 2.0% over 3 months KIBOR). Borrowings in US\$ comprise of fixed and variable rate borrowings. Fixed rate borrowing carries mark-up at the rate of 3.25% (2015: 3.25% per annum) whereas variable rate borrowings carry mark-up with a spread of 3.5% over 3 month LIBOR and 2% over Citi Base Rate (2015: spread of 3.5% over 3 month LIBOR and 2% over Citi base Rate).

27.2.2 Unavailed credit represents the difference between the facility amount and the closing balance as at December 31, 2016.

27.2.3 The agreements of these facilities have expired on their maturity, however, these were renewed on their respective maturity dates.

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## 28. CONTINGENCIES AND COMMITMENTS

### 28.1 Contingencies

- a) The tax department had raised demand of Rs. 566.544 million (2015: Rs. 566.544 million) in December 1998, as Federal Excise Duty (FED) along with penalty of Rs. 1 million (2015: Rs. 1 million) and additional duty of Rs. 2,923.005 million (2015: Rs. 2,923.005 million) on the contention that the Company had not collected FED on tickets provided to its employees either free of cost or at concessional rates. The Company has paid Rs. 100 million (note 14) against the subject demand which is considered fully recoverable from the department. This case is currently under adjudication before Appellate Tribunal Inland Revenue (ATIR). Based on consultation with legal advisor, the management believes that the case will be decided in the favour of the Company. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.
- b) The tax department had also raised demands of Rs. 6.804 million (2015: Rs. 6.804 million) and Rs. 277.621 million (2015: Rs. 277.621 million) on 11 March 2008 as FED and sales tax respectively along with penalty of Rs. 14.416 million (2015: Rs. 14.416 million) and additional duty / default surcharge of Rs. 17.91 million (2015: Rs. 17.91 million) during the tax audit of the Company for the periods 2004-2005 and 2005-2006. These demands were raised on the issues of late payment of FED, collection of FED at incorrect rate, incorrect apportionment of input tax and failure to collect FED on carriage of goods / mail of Pakistan Post. The Company has paid an amount of Rs. 25 million (2015: Rs. 25 million) in this regard which is considered fully recoverable. The Company filed an appeal with the Collector of Customs, Sales Tax and Federal Excise (Appeals), which was decided partially in its favour, partially against it and partially remanded back. The Company and the department both have filed appeals at the ATIR which are pending adjudication. Based on consultation with legal advisor, the management believes that the case will be decided in the favour of the Company. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.
- c) The tax department has raised demands of Rs. 2.065 million (2015: Rs. 2.065 million) and Rs. 1,319.101 million (2015: Rs. 1,319.101 million) as FED and sales tax respectively along with penalty of Rs. 66.058 million (2015: Rs. 66.058 million) and additional duty / default surcharge of Rs. 534.412 million (2015: Rs. 534.412 million) during the tax audit of the Company for the period 2007-2008. These demands were raised mainly on the issues of collection of FED at incorrect rate and incorrect apportionment of input tax. The Company filed appeal at Commissioner Inland Revenue (Appeals) [CIR (A)], which was decided in favour of the tax department. The Company had filed appeal against this at ATIR and a rectification application with CIR (A). The Tribunal has disposed off the Company's appeal, vide appellate order STA No. 08/KB/2011 dated September 26, 2016, remanded back the issues of incorrect rates of FED charged on excess baggage and disallowance of claim of input tax. Further, tribunal has deleted the penalty. Based on consultation with legal advisor, the management believes that the case will be decided in the favour of the Company. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.





- d) The tax department through orders dated March 06, 2009, December 04, 2010 and May 30, 2011 levied penalties of Rs. 5,877.351 million (2015: Rs. 5,877.351 million), Rs. 5,679.110 million (2015: Rs. 5,679.110 million) and Rs. 7,025.270 million (2015: Rs. 7,025.270 million), respectively, on account of delayed payment of sales tax and FED for the month of November – December 2008, January – March and November 2010 – January 2011, respectively. In addition to this, the tax department levied default surcharge and 5% penalty on the unpaid sales tax and FED amounting to Rs. 38.88 million, Rs. 21.11 million and Rs. 74 million, respectively. The Company filed application for waiver of penalty for the month of November – December 2008 before Federal Board of Revenue (FBR) on which the decision is pending.

The CIR (A) deleted the penalties of Rs 5,679.110 million and Rs. 7,025.270 million, respectively, through its order dated September 19, 2011, however, default surcharge and 5% penalty on the unpaid sales tax and FED were maintained. The Company and the department have filed appeals with ATIR, which were decided in favour of the Company. Further, for the months of January – March 2010 and November 2010 – January 2011, the Company had filed an application for rectification, which was disposed off by ATIR on July 22, 2016 while maintaining the default surcharge.

On 30 April, 2013, the Additional Commissioner Inland Revenue (ACIR) levied penalty of Rs. 4,745.852 million (2015: Rs. 4,745.852 million) in respect of short payment of sales tax and FED for the tax periods April 2012 to January 2013. In addition, the tax department levied default surcharge on unpaid sales tax and FED amounting to Rs. 400.446 million (2015: Rs. 400.446 million). The Company filed an appeal against the said orders before CIR (A), which was decided in favour of the department. Currently, the Company has filed an appeal against this at ATIR, which is pending adjudication.

The ECC communicated its decision through its letter dated July 12, 2013, directing the Company and the FBR to reconcile the outstanding amounts and meanwhile the date for payment of outstanding dues in respect of FED, shall be deemed to be extended till further consideration by the ECC. Further, based on consultation with legal advisor, the management believes that the case will be decided in the favour of the Company. Accordingly, no provision is required to be recognised in these unconsolidated financial statements in respect of penalties and default surcharge.

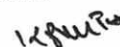
- e) During the current year, the Deputy Commissioner Inland Revenue (DCIR) issued a show cause notice to the Company under section 11 of the Sales Tax Act, 1990 in respect of tax years 2010, 2011 and 2012 on the contention that the Company has adjusted excess input tax amounting to Rs. 2,603.502 million, Rs. 2,629.350 million and Rs. 1,514.818 million in the returns for tax year 2010, 2011 and 2012, respectively. However, the Company has filed an appeal before Honorable High Court of Sindh which has granted stay order in favour of the Company. The showcause notice is issued on the same grounds as involved in sales tax refund (refer not 14.2). The management, based on advices obtained from its tax advisor and legal counsel, is of the view that the case will be decided in favour of the Company as department is not justified to disallow the adjustment of input tax. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.
- f) A show cause notice was issued to the Company by the Collector of Customs demanding payment of Rs. 87.926 million (2015: Rs. 87.926 million) in respect of custom duties and other taxes levied on the import of simulator along with default surcharge. The Company filed an appeal before the High Court which is pending adjudication. The management, based on legal advice, believes that the case will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements.



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- g) DCIR passed orders dated March 04, 2016 and November 30, 2015 and raised demand of Rs. 24.086 million and Rs. 55.691 million respectively, while disallowing input tax claimed, demand for sales tax along with default surcharge and penalty for periods February 2014, March 2014, and July 2014 on the contention that the Company has claimed additional input tax. The management has filed an application for condonation of time limit and issuance of necessary directions for the activation of option for revision of returns which is pending. Based on legal advice, the management is confident that this matter will ultimately be decided in the Company's favour, hence no provision is made in these unconsolidated financial statements in this respect.
- h) Several orders passed on various dates with respect to short payments, delayed payment, default surcharge and penalties amounting to Rs. 60 million of which decision is pending before CIR (A), ATIR and Collector of Customs (Appeals).
- i) Competition Commission of Pakistan (CCP) vide its order dated November 20, 2009 imposed a token penalty of Rs. 10 million on account of unreasonable increase in Hajj fare during the year 2008 as compared to Hajj season 2007. Further, on account of discrimination between Hajj passengers and regular passengers the Company was directed to work out an amount of refund to be paid back to Hajjis based on the difference of fare between regular passengers and short duration Hajjis who flew during Hajj season 2008. The total exposure of refund estimated by the Company is Rs. 417 million. The Company had filed appeals simultaneously in Lahore High Court and Supreme Court of Pakistan which are pending for hearing. Based on legal advice, the management believes that both appeals will be decided in its favour. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.
- j) The Civil Aviation Authority (CAA) has been claiming excessive amounts from the Company which mainly relates to non-aeronautical charges comprising of land lease rent and the license fee. As at December 31, 2016, the excessive amounts claimed by CAA are not acknowledged by the Company aggregated to Rs. 12,249.350 million (2015: Rs. 8,642.635 million) including late payment surcharge and interest thereon amounting to Rs. 7,754.263 million (2015: Rs. 4,976.653 million). In view of the understanding reached through a Memorandum of Understanding (MoU) which was concluded in the meeting held on January 24, 2011 between the representatives of the Company and CAA, the management does not accept the higher amounts being claimed by CAA.

During the aforementioned meeting, the matter of chargeability of rates for non-aeronautical services was amicably resolved whereby it was agreed that CAA shall charge rates as were decided in the arbitration award of 1998. The MoU was signed in the form of minutes of the meeting, however, CAA has continued to charge higher rates for non-aeronautical services rather than those agreed by virtue of the said MoU. However, the management maintains its position on the chargeability of rates based on arbitration award of 1998 and the understanding (MoU) reached between the representatives of CAA and the Company during January 2011.





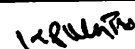
Further, in relation to the aforementioned surcharge and interest payable, the management considered that the same are not part of the Company's agreement with CAA and accordingly in view of the management such surcharge and interest payable shall never be paid by the Company. The Company is considering to take up this matter again with the Aviation Division of Government of Pakistan for resolution in the light of the previous understanding reached with CAA. Accordingly, no excessive amount shall eventually become payable to CAA and therefore, no provision for the excessive amount has been made in these unconsolidated financial statements.

- k) Various ex-employees of the Company have lodged claims against the Company for their dues specifically relating to their reinstatements. The management believes the claims to be frivolous, therefore, no provision has been made in these unconsolidated financial statements.
- l) The Company is contesting several litigations mainly relating to suits filed against it for unlawful termination of contracts, breach of contractual rights and obligations, non-performance of servicing stipulations due to negligence or otherwise. The management is of the view that these cases have no sound legal footing and it does not expect these contingencies to materialise. Accordingly, no provision has been made in these unconsolidated financial statements against these claims amounting to Rs. 11,390.195 million (2015: Rs. 7,918.94 million).
- m) Claims against Company not acknowledged as debt amount to Rs. Nil (2015: Rs. 903.317 million).
- n) Contingencies relating to income tax matters are disclosed in note 36.1.

## 28.2 Commitments

- a) Commitments for capital expenditure amounted to Rs. 324.443 million (2015: Rs. 852.9 million).
- b) Outstanding letters of credit amounted to Rs. 143.512 million (2015: Rs. 3,607.65 million).
- c) Outstanding letters of guarantee amounted to Rs. 196.148 million (2015: Rs. 182.21 million).
- d) The Company has entered into an agreement for purchase of aircraft, the remaining commitments of which aggregate to US\$ 1,527.904 million (2015: US\$ 1,527.904 million) equivalent to Rs. 160,208.221 million (2015: Rs. 160,233.584 million) based on catalogue prices. The Company has not made certain payments on its due dates as per the terms of the agreement.
- e) The amount of future payments in operating lease arrangement relating to aircrafts B-777-200 ER, B-737-800, A-320-232, A-320-200 and A-330 and the period in which these payments will become due is as follows:

	2016	2015
	(Rupees in 000)	
Not later than one year	7,235,512	7,575,917
Later than one year but not later than five years	25,070,274	29,980,859
Later than five years	3,737,597	6,559,685
	<u>36,043,383</u>	<u>44,116,461</u>

29. REVENUE - NET	Note	2016 (Rupees in 000)	2015
Passenger		80,426,927	83,271,593
Cargo		3,686,515	3,480,770
Excess baggage		815,488	824,023
Charter services		653,342	598,461
Engineering services		1,094,838	928,839
Handling and related services		422,994	503,713
Mail		288,401	291,059
Others		1,608,874	1,370,087
		<u>88,997,379</u>	<u>91,268,545</u>

### 29.1 Revenue by geographical segments

#### Revenue analysis

USA / Canada		5,593,835	5,467,320
Europe		15,879,688	18,685,974
Middle East / Africa		18,701,168	19,215,554
Asia (excluding Middle East and Pakistan)		4,296,337	3,260,924
Pakistan		44,526,351	44,638,773
		<u>88,997,379</u>	<u>91,268,545</u>

The analysis of revenue by origin is derived by allocating revenue to the area in which the sale was made.

### 30. COST OF SERVICES - OTHERS

Salaries, wages and allowances		15,169,210	11,847,831
Welfare and social security costs		2,387,526	2,208,020
Retirement benefits	30.1	2,241,221	1,640,212
Compensated absences	25.3.2	1,270,868	760,073
Legal and professional charges		21,555	32,263
Stores and spares consumed		1,421,594	1,262,791
Maintenance and overhaul		10,098,314	5,981,417
Flight equipment rental	30.2	9,069,290	7,507,705
Landing and handling		14,468,149	11,921,998
Passenger services		2,987,437	2,846,481
Crew layover		2,882,160	2,581,933
Staff training		128,674	122,271
Utilities		36,641	33,212
Communication		3,609,593	3,109,527
Insurance	30.3	1,166,914	2,728,850
Rent, rates and taxes		2,062,708	2,053,972
Printing and stationery		181,685	130,567
Depreciation	5.7	6,375,932	6,061,919
Amortisation of intangibles	6.2.1	1,425	1,642
Others		805,586	1,468,588
		<u>76,386,482</u>	<u>64,301,272</u>






30.1 The Company's staff retirement benefits includes provident fund - a defined contribution plan. The Company has established a separate provident fund. Following information of the provident fund has been derived from the unaudited financial statements of the provident fund as at December 31, 2016 and 2015.

The information related to provident fund established by the Company is as follows:

	2016	2015
	(Rupees in '000)	
Size of provident fund	22,890,155	23,039,146
Cost of investments made	14,065,162	13,564,645
Percentage of investments made	60.7%	66.2%
Fair value of investments	13,883,570	15,296,809

The break-up of fair value of investments is as follows:

	2016	2015	2016	2015
	Percentage		(Rupees in '000)	
Term finance certificates	17.6%	20.5%	4,037,235	4,732,714
Pakistan Investment Bonds	2.5%	8.7%	565,013	2,012,132
Islamic bonds	9.2%	9.7%	2,102,911	2,244,031
Bank deposits	5.4%	4.4%	1,232,546	1,020,905
PIACL shares	0%	0%	5,765	5,324
Special Savings Certificate	26.0%	22.9%	5,940,100	5,281,703
Total	<u>60.7%</u>	<u>66.2%</u>	<u>13,883,570</u>	<u>15,296,809</u>

30.1.1 The investments out of provident fund have been made in accordance with the provisions of Section 227 of the repealed Companies Ordinance, 1984 and the rules formulated for this purpose.

30.1.2 Number of employees of the Company:

	2016	2015
	(Number)	
Average number of employees during the year	<u>14,280</u>	<u>14,468</u>
Number of employees as at year end	<u>14,191</u>	<u>14,369</u>

30.2 This includes custom duty and sales tax amounting to Rs. Nil (2015: 375.733 million) on account of import of wet lease and dry lease aircrafts.

30.3 This includes central excise duty (CED) amounting to Rs. Nil (2015: Rs. 1,637.615 million) on insurance premium paid / payable on account of aircraft insurance of current and previous years not claimed before expiry as refundable by the Company.

### 31. DISTRIBUTION COSTS

	Note	2016	2015
		(Rupees in '000)	
Salaries, wages and allowances		1,756,042	1,481,497
Welfare and social security costs		298,714	276,098
Retirement benefits		1,162,115	847,888
Compensated absences	25.3.2	211,811	127,264
Distribution and advertising expenses		649,988	671,214
Legal and professional charges		38,320	57,379
Insurance		12,323	20,686
Printing and stationery		84,271	73,247
Communication		171,610	179,169
Staff training		42,805	40,973
Rent, rates and taxes		242,649	261,401
Utilities		18,320	16,606
Depreciation	5.7	12,145	13,383
Others		188,339	165,473
		<u>4,889,452</u>	<u>4,232,278</u>

**32. ADMINISTRATIVE EXPENSES**

	Note	2016 (Rupees in '000)	2015
Salaries, wages and allowances		2,686,413	2,191,628
Welfare and social security costs		441,659	408,443
Retirement benefits		747,074	545,071
Compensated absences	25.3.2	282,415	168,228
Legal and professional charges		179,626	181,993
Insurance		22,972	40,379
Printing and stationery		31,340	40,452
Staff training		155,407	119,179
Rent, rates and taxes		553,206	559,692
Utilities		861,063	780,471
Auditors' remuneration	32.1	17,200	14,902
Communication		101,092	108,729
Depreciation	5.7	19,693	20,074
Amortisation of intangibles	6.2.1	16,391	18,878
Donations	32.2	3,600	3,600
Others		276,395	282,682
		<u>6,395,546</u>	<u>5,484,401</u>

**32.1 Auditors' remuneration**

	2016			2015		
	KPMG Taseer Hadi & Co.	EY Ford Rhodes	Total	KPMG Taseer Hadi & Co.	EY Ford Rhodes	Total
	----- (Rupees in '000) -----					
Audit fee	5,334	5,334	10,668	4,680	4,680	9,360
Fee for review of interim financial information	1,599	1,599	3,198	1,403	1,403	2,806
Consolidated financial statements	793	793	1,586	696	696	1,392
Code of Corporate Governance	274	274	548	240	240	480
Out of pocket expenses	600	600	1,200	432	432	864
	<u>8,600</u>	<u>8,600</u>	<u>17,200</u>	<u>7,451</u>	<u>7,451</u>	<u>14,902</u>


**32.2** Donations represent payments aggregating Rs. 3.6 million (2015: Rs. 3.6 million) to Al-Shifa Trust, situated at Terminal-2, Road, Karachi Airport, Pakistan in which the Chief Executive of the Company acts as a Trustee. Besides this, none of the directors or their spouse have any interest in the donees.

**33. OTHER PROVISIONS AND ADJUSTMENTS**

	Note	2016 (Rupees in '000)	2015
Property, plant and equipment			
- capital spares written off		195,592	-
- deficit released from surplus on aircraft written off / retired	5.1.3	971,386	53,196
- aircraft fleet written off / retired	5.5	1,716,176	-
- other assets written off		308,272	-
- provision for capital work in progress	5.9	-	112,859
		<u>3,191,426</u>	<u>166,055</u>
Provision for slow moving and obsolete spares	10.1	687,153	654,144
Provision for doubtful debts	11.2	538,915	300,660
Provision against doubtful advances	12.3	251,484	207,416
Provision against doubtful deposits	9 & 13	116,358	83,056
Provision against other receivables	14.4	22,422	32,387
Late payment surcharge on fuel	25.1	1,363,416	2,243,949
Late payment surcharge on maintenance reserve		560,563	-
Others		12,838	132,857
		<u>6,744,575</u>	<u>3,820,524</u>



34. OTHER INCOME	Note	2016 (Rupees in '000)	2015
<b>Income from financial assets</b>			
Profit on bank deposits		75,024	38,307
Interest on maintenance reserve		<u>5,903</u>	-
		<u>80,927</u>	<u>38,307</u>
<b>Income from assets other than financial assets</b>			
Gain on disposal of property, plant and equipment		<u>249,367</u>	113
Insurance claims		234,323	53,479
Others		<u>184,989</u>	681,672
		<u>668,679</u>	<u>735,264</u>
		<u><u>749,606</u></u>	<u><u>773,571</u></u>
<b>35. FINANCE COSTS</b>			
Mark-up on:			
- long-term financing		5,563,179	3,956,114
- term finance certificates		2,413,416	3,153,360
- short-term borrowings		2,613,439	3,448,052
- advance from a subsidiary		<u>96,000</u>	<u>79,111</u>
		<u>10,686,034</u>	<u>10,636,637</u>
Profit on sukuk certificates		553,147	683,523
Interest on liabilities against assets subject to finance lease		319,400	417,611
(Unwinding) / discounting of long term deposits		(103,424)	39,706
Interest on provident fund	25.5	656,790	712,146
Arrangement, agency and commitment fee		716,912	700,113
Amortisation of prepaid exposure fee	9.4	254,031	270,642
Bank charges, guarantee commission and other related charges		<u>76,689</u>	<u>57,064</u>
		<u><u>13,159,579</u></u>	<u><u>13,517,442</u></u>
<b>36. TAXATION</b>			
Current	36.1	444,987	456,343
Deferred	36.2.2	<u>(340,395)</u>	<u>2,119,879</u>
		<u><u>104,592</u></u>	<u><u>2,576,222</u></u>
<b>36.1 Current</b>			
<b>36.1.1</b> In the view of tax loss for the year, provision for minimum taxation has been made in accordance with section 113 of the Income Tax Ordinance, 2001.			

Minimum tax rate under section 113 of Income Tax Ordinance 2001 (I.T.O.) for Tax Year 2016 is 1% of turnover, however the rate for the Company is 0.5% in accordance with the Division IX of First Schedule of I.T.O. 2001.

No numeric tax rate reconciliation is given as the Company is liable for turnover tax only and deferred tax asset have been recognised to the extent of defer tax liability (refer note 36.2.2).

**36.1.2** The Company has filed tax returns for tax years up to tax year 2016. The tax returns from tax years 2003 to 2016 have been filed under self assessment scheme. All assessments for tax years 1991 to 2002 have been finalized by the department. The minimum tax liability under section 80D of the I.T.O. 2001 had been levied by the department from assessment year 1991-92 to assessment year 2002-03 after adding 10% of net turnover on estimated basis. The Company had filed appeals against the above demands which had been decided in favour of the Company at ATIR level. The department had filed appeal against the decision before Sindh High Court which was decided on few grounds in favour of the Company. Thereafter, the department has filed an appeal against the decision of Sindh High Court before Supreme Court which is pending to date. Based on consultation with legal advisor, the management believes that this issue will be decided in favour of the Company without any additional tax liability.

**36.1.3** A demand of Rs. 898.177 million (2015: Rs. 898.177 million) was raised by the Deputy Commissioner Inland Revenue (DCIR) by issuing an amended order in relation to the tax year 2005. The main contention among others was disallowance of depreciation claimed on leased aircraft. The Company claimed the depreciation on the contention that those aircraft were obtained under hire purchase arrangement which has been approved by Ministry of Finance as a financing arrangement. The department did not accept this contention and disallowed depreciation expense as inadmissible. An amount of Rs. 48.235 million was also recovered by FBR in this respect. The Company filed an appeal at CIR (A) level which was decided partially in favour of the Company. Being further aggrieved, the Company has filed appeal at Income Tax Appellate Tribunal (ITAT) level which is partially heard on September 27, 2016. Based on consultation with legal advisor, the management is confident that this issue will ultimately be decided in its favour and the amount will be recovered.

Further, the ACIR has issued orders under section 122 (5A) of the I.T.O. 2001 in respect of tax years 2006 and 2007 disallowing the depreciation claimed on leased aircraft and other provisions amounting to Rs. 3,480.442 million and Rs. 20,462.797 million, respectively. The Company has filed an appeal CIR (A) against the said orders, however, the matter is still pending for adjudication.

The Company also received show cause notice in respect of tax years 2008 on account of disallowance of depreciation on leased aircraft and other provisions. The Company has filed its reply in response to these notices and no response has yet been received from the department. During the current year, the ACIR has passed an order dated December 19, 2016 under section 124/122 (5A) of the I.T.O. 2001 in respect of tax year 2009 and raised a demand of Rs. 109.428 million while maintaining the disallowance of depreciation amounting to Rs. 17,069.522 million demanded under the order dated June 15, 2015. In addition, the ACIR has also passed an amended order dated June 30, 2016 under section 122 (5A) of the I.T.O. 2001 in respect of tax year 2010 and raised a demand of Rs. 143.075 million disallowing the depreciation claimed on leased aircraft and other provisions amounting to Rs. 12,810 million. The Company has filed appeals before CIR (A) against these said orders, however, the matter is still pending for adjudication and the Company is confident that this issue will ultimately be decided in its favour.





A demand of Rs. 561.129 million was raised by the DCIR through the order dated June 23, 2015 under sections 122(1)/(9) of the I.T.O. 2001 in respect of tax year 2011 disallowing depreciation claimed on leased aircraft and other provisions amounting to Rs. 9,900.695 million. The Company has filed an appeal before CIR(A) against the said orders, however, the matter is still pending for adjudication and the Company is confident that this issue will ultimately be decided in its favour.

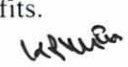
However, if the above matters are decided against the Company, it may erode the benefit of tax depreciation, which remains available for an indefinite period, compared to business losses.

**36.1.4** The tax department has also issued order under section 161/205 of the I.T.O. 2001 pertaining to tax year 2011 and raised a demand of Rs. 324.319 million. The Company has filed an appeal against the order before CIR(A) which are pending adjudication. Further, the return of income for tax year 2011 has been selected for audit under section 214C of the I.T.O. 2001 and certain information / detail has been sought by the department. Reply has been submitted in case of certain information while replies on remaining issues are to be filed shortly. However, no response has yet been received from the tax department. Based on consultation with legal advisor, the management believes that these issues will be decided in favour of the Company without any additional tax liability. Accordingly, no provision has been made in these unconsolidated financial statements in this regard.

**36.1.5** Tax department of Afghanistan has audited income tax returns of the Company's Kabul station for the tax year 2006 to 2014 and raised a demand of AFN 238.01 million (equivalent to Rs. 376.294 million). On request of the Company, the Ministry of Finance of Afghanistan (MoFA) has constituted an Objection Review Unit (ORU) to review the disputed matters. On advice of MoFA, the Company has paid the principal tax demand recomputed by the ORU in its interim report amounting to AFN 41.098 million (equivalent to Rs. 64.976 million) under protest and subject to the final amount of tax to be determined by ORU. A separate appeal has also been filed with the Commercial Courts in Kabul, Afghanistan which is pending for adjudication. Based on legal advise, the management believes that the case will be decided in the favour of the Company. Accordingly, no provision has been made in these unconsolidated financial statements.

<b>36.2 Deferred taxation</b>	<b>2016</b>	<b>2015</b>
	<b>(Rupees in '000)</b>	
<b>Deferred tax credits:</b>		
Accelerated tax depreciation	<b>15,049,336</b>	16,581,741
Surplus on revaluation of property, plant and equipment	<b>(900,452)</b>	<b>(852,773)</b>
	<b>14,148,884</b>	15,728,968
<b>Deferred tax debits:</b>		
Unused tax losses	<b>(4,494,246)</b>	<b>(7,934,116)</b>
Provisions for liabilities and to write down other assets	<b>(9,654,638)</b>	<b>(7,794,852)</b>
	<b>(14,148,884)</b>	<b>(15,728,968)</b>
	<b>-</b>	<b>-</b>

**36.2.1** In accordance with the accounting policy of the Company (note 4.10), deferred tax asset of Rs. 83,489.204 million (2015: Rs. 71,384.902 million) has not been recognised in these unconsolidated financial statements due to uncertainty in availability of sufficient future taxable profits.

36.2.2 Movement in temporary differences during the year

	Balance as at December 31, 2014	Recognised in profit and loss account (Note 36.2.2.1)	Recognised in equity (Note 36.2.2.1)	Balance as at December 31, 2015	Recognised in profit and loss account	Recognised in equity	Balance as at December 31, 2016
----- (Rupees in '000) -----							
<b>Deferred tax credits:</b>							
Accelerated tax depreciation	20,281,855	(3,700,114)	-	16,581,741	(1,532,405)	-	15,049,336
Surplus on revaluation of property, plant and equipment	364,319	2,040	(1,219,132)	(852,773)	(434,246)	386,567	(900,452)
	20,646,174	(3,698,074)	(1,219,132)	15,728,968	(1,966,651)	386,567	14,148,884
<b>Deferred tax debits:</b>							
Unused tax losses	(13,284,934)	5,350,818	-	(7,934,116)	3,439,870	-	(4,494,246)
Provisions for liabilities and to write down other assets	(7,361,240)	467,135	(900,747)	(7,794,852)	(1,813,614)	(46,172)	(9,654,638)
	(20,646,174)	5,817,953	(900,747)	(15,728,968)	1,626,256	(46,172)	(14,148,884)
	-	2,119,879	(2,119,879)	-	(340,395)	340,395	-

36.2.2.1 This includes effect of change in tax rate from 35% to 30% amounting to Rs. 52.046 million.

37. LOSS PER SHARE - BASIC AND DILUTED

	2016	2015
Loss for the year (Rupees in '000)	(45,381,036)	(32,529,560)
Weighted average number of ordinary shares outstanding	5,235,261,117	5,093,932,550
Loss per share attributable to		
'A' class ordinary share (Rupees)	(8.67)	(6.39)
'B' class ordinary share (Rupees)	(4.33)	(3.19)

37.1 The impact of 'advance against equity' has been taken into weighted average number of ordinary shares outstanding in previous years.

38. CASH GENERATED FROM OPERATIONS

	2016	2015
(Rupees in '000)		
Loss before taxation	(45,276,444)	(29,953,338)
<b>Adjustments for:</b>		
Depreciation	6,407,770	6,095,376
Gain on disposal of property, plant and equipment - net	(249,367)	(113)
Amortisation of intangibles	39,439	20,520
Provision for slow moving and obsolete spares	687,153	654,144
Provision for doubtful debts	538,915	300,660
Property, plant and equipment retired / written off - net of insurance claim	2,373,552	-
Provision for capital work in progress	-	112,859
Provision against doubtful advances	251,484	207,416
Provision against doubtful deposits	116,358	83,056
Provision against other receivables	22,422	32,387
Provision for employee benefits	5,372,066	3,675,960
Finance cost	13,159,579	13,517,442
Unrealised exchange (gain) / loss	(4,217)	2,050,403
Profit on bank deposits	(75,024)	(38,307)
Deficit released from surplus on account of aircraft retired / written off	971,386	53,196
	(15,664,928)	(3,188,339)
<b>Working capital changes</b>		
Increase in stores and spares	(203,487)	(283,390)
Decrease in trade debts	189,426	771,901
Increase in advances	(966,810)	(591,596)
Decrease / (increase) in trade deposits and prepayments	259,108	(1,379,973)
(Increase) / Decrease in other receivables	(1,426,752)	898,743
Increase in trade and other payables	20,478,344	9,403,771
	18,329,829	8,819,456
	2,664,901	5,631,117

39. REMUNERATION OF CHIEF EXECUTIVE OFFICER AND EXECUTIVES

	Chief Executive Officer		Head of Departments		Executives	
	2016	2015	2016	2015	2016	2015
----- (Rupees in '000) -----						
Managerial remuneration	30,002	5,786	135,401	73,231	3,818,933	3,148,691
Company's contribution to provident fund	270	406	2,014	1,158	182,814	150,729
Other perquisites	1,918	2,400	28,647	17,310	3,200,043	2,638,420
	32,190	8,592	166,062	91,699	7,201,790	5,937,840
Number	1	1	23	14	3,168	2,612

Aggregate amount charged in these unconsolidated financial statements for fee to directors was Rs. 286,110 (2015: Rs. 241,635). Chief Executive Officer and certain executives are also provided with the Company's maintained cars and facilities as per the Company's rules.

39.1 The number of persons does not include those who left during the year but remuneration paid to them is included in the above amounts.

K. P. R. S.



## 40. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, fuel price risk and other price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company's senior management carries out financial risk management under governance approved by the Board of Directors. Senior management identifies, evaluates and hedges financial risks, wherever necessary.

### 40.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as fuel price and equity price risk. Financial instruments affected by market risk include loans and borrowings, bank deposits, available for sale investments and derivative financial instruments, if any.

#### a) Fuel price risk

The Company's earnings are affected by changes in price of aircraft fuel. The Company hedges fuel prices to a limited extent through use of derivative contracts. There are no derivative contracts outstanding as of year end.

#### b) Currency risk

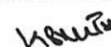
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. In addition, the Company has substantial foreign currency borrowings and lease liabilities that are primarily denominated in US Dollar (US\$), Saudi Riyal (SAR), United Arab Emirates Dirham (AED) and Great Britain Pound (GBP). The Company can experience adverse or beneficial effects arising from foreign exchange rate movements. The Company manages some of its currency risk by utilising its foreign currency receipts to satisfy its foreign currency obligations.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the foreign currency exchange rates, with all other variables held constant, on loss before tax:

	2016	2015	2016	2015
	----- (Rupees in '000) -----			
Change in US\$ rate	-----+5%-----		------(5%)-----	
(Increase) / decrease in loss before tax	<u>(2,743,109)</u>	<u>(3,196,874)</u>	<u>2,743,109</u>	<u>3,196,874</u>
Change in SAR rate	-----+5%-----		------(5%)-----	
(Increase) / decrease in loss before tax	<u>15,853</u>	<u>31,706</u>	<u>(15,853)</u>	<u>(31,706)</u>
Change in AED rate	-----+5%-----		------(5%)-----	
(Increase) / decrease in loss before tax	<u>33,375</u>	<u>(16,987)</u>	<u>(33,375)</u>	<u>16,987</u>
Change in GBP rate	-----+5%-----		------(5%)-----	
(Increase) / decrease in loss before tax	<u>7,263</u>	<u>11,272</u>	<u>(7,263)</u>	<u>(11,272)</u>

#### c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the following:

2016                      2015  
(Rupees in '000)

**Variable rate instruments at carrying amount:**

**Financial liabilities**

Long-term financing	97,016,155	68,410,772
Term finance and sukuk certificates	33,507,209	39,903,628
Liabilities against assets subject to finance lease	10,525,657	15,990,349
Advance from a subsidiary	4,208,390	4,209,056
Provision for payable to employees' provident fund	10,202,468	10,470,475
Short-term borrowings	34,247,947	36,830,540
	<b>189,707,826</b>	<b>175,814,820</b>

**Financial assets**

Long-term deposits and prepayments	(1,559,638)	(1,553,980)
	<b>188,148,188</b>	<b>174,260,840</b>

**Fixed rate instruments at carrying amount**

**Financial liabilities**

Long-term financing	8,226,601	8,890,478
Liabilities against assets subject to finance lease	2,892,960	4,432,146
Short-term borrowings	103,364	109,661
	<b>11,222,925</b>	<b>13,432,285</b>

**Financial assets**

Bank deposits	(706,743)	(319,031)
	<b>10,516,182</b>	<b>13,113,254</b>

**Fair value sensitivity analysis for fixed rate instruments**

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, change in interest rates at the reporting date would not affect unconsolidated profit and loss account.

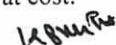
**Cash flow sensitivity analysis for variable rate instruments**

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Company's loss before tax:

	KIBOR		LIBOR	
	2016	2015	2016	2015
	----- (Rupees in '000) -----			
Change in interest rate	-----+1%-----		-----+0.25%-----	
Increase in loss before tax	<b>(1,334,830)</b>	(1,033,224)	<b>(136,663)</b>	(152,730)
Change in interest rate	-----(-1%)-----		-----(-0.25%)-----	
Decrease in loss before tax	<b>1,334,830</b>	1,033,224	<b>136,663</b>	152,730

**d) Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors effecting all similar financial instruments traded in the market. The Company is not significantly exposed to equity securities price risk as majority of its investments are in subsidiaries and associated companies which are stated at cost.



## 40.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial asset. The Company manages its liquidity risk by maintaining sufficient cash and cash equivalents, financing facilities and through support of GoP either in the form of capital / loans or in the form of guarantee to obtain financing from lenders (refer note 1.2).

The following table shows the Company's remaining contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
----- (Rupees in '000) -----					
<b>2016</b>					
Long-term financing	105,242,756	143,580,913	44,404,076	90,999,795	8,177,042
Term finance and sukuk certificates	33,507,209	38,499,370	10,467,332	28,032,038	-
Liabilities against assets subject to finance lease	13,418,617	14,130,916	8,102,581	6,028,335	-
Advance from a subsidiary	4,208,390	4,208,390	-	4,208,390	-
Trade and other payables	94,304,517	94,304,517	94,304,517	-	-
Accrued interest / mark-up / profit	13,320,252	13,320,252	13,320,252	-	-
Short-term borrowings	34,351,311	34,351,311	34,351,311	-	-
	<u>298,353,052</u>	<u>342,395,669</u>	<u>204,950,069</u>	<u>129,268,558</u>	<u>8,177,042</u>
<b>2015</b>					
Long-term financing	77,301,250	115,587,345	59,378,000	46,527,042	9,682,303
Term finance and sukuk certificates	39,903,628	46,102,393	15,757,970	30,344,423	-
Liabilities against assets subject to finance lease	20,422,495	21,919,394	8,037,185	13,882,209	-
Advance from a subsidiary	4,209,056	4,209,056	-	4,209,056	-
Trade and other payables	76,642,957	76,642,957	76,642,957	-	-
Accrued interest / mark-up / profit	11,965,110	11,965,110	11,965,110	-	-
Short-term borrowings	36,940,201	36,940,201	36,940,201	-	-
	<u>267,384,697</u>	<u>313,366,456</u>	<u>208,721,423</u>	<u>94,962,730</u>	<u>9,682,303</u>

## 40.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. All financial assets except cash in hand are subject to credit risk. The carrying amount of financial assets as at December 31, 2016 represents the maximum credit exposure, which is as follows:

	2016	2015
(Rupees in '000)		
Long-term deposits	6,894,597	9,327,827
Trade debts	8,566,349	9,294,690
Advances	5,056	7,205
Trade deposits	3,553,609	1,964,447
Other receivables	3,725,630	836,766
Bank balances	3,484,568	2,634,778
	<u>26,229,809</u>	<u>24,065,713</u>

### Trade debts

The Company has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. The Company normally grants a credit term of 30 to 60 days to customers and in certain circumstances such exposure is partially protected by bank guarantees. Trade debtors mainly represent passenger and freight sales due from agents and government organizations. The majority of the agents are connected to the settlement systems operated by the International Air Transport Association ("IATA") who is responsible for checking the credit worthiness of such agents and collecting bank guarantees or other monetary collateral according to local industry practice. In most cases amounts due from airlines are settled on net basis via an IATA clearing house. The credit risk with regard to individual agents and airlines is relatively low.

Ageing of trade debts is disclosed in note 11 to these unconsolidated financial statements.

### Other financial assets

The credit risk on liquid funds (cash and bank balances) is limited because the counter parties are banks with a credit rating i.e. at least "A3" or equivalent for short term and "BBB" or equivalent for long term.

There is no credit risk on aircraft lease deposits because they are secured against the finance lease obligation. Other deposits are not significantly exposed to credit risk as they have been paid as security deposits to receive future services.

There is no significant credit risk against other receivables as majority of the receivable is from GoP.

#### 40.4 Capital management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern. The Company has incurred losses in recent years and the disclosure in respect of the Company's ability to continue as a going concern is disclosed in note 1.2 to these unconsolidated financial statements.

#### 41. FAIR VALUES

Fair value is an amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Level 1 : Fair value measurements using quoted (unadjusted) in active markets for identical asset or liability.

Level 2 : Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 : Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2016				Fair value				
	Available for sales	Held to Maturity	Loans and Receivables	Other financial assets	Total	Level 1	Level 2	Level 3	Total
(Rupees in '000)									
<b>Financial assets measured at fair value</b>									
Long term investments	152,768	-	-	-	152,768	152,768	-	-	152,768
<b>Financial assets not measured at fair value</b>									
<i>Non current assets</i>									
Investments in unquoted securities	-	-	-	4,416,479	4,416,479	-	-	-	-
Long-term deposits	-	-	6,894,597	-	6,894,597	-	-	-	-
<i>Current assets</i>									
Trade debts	-	-	8,566,349	-	8,566,349	-	-	-	-
Advances	-	-	5,056	-	5,056	-	-	-	-
Trade deposits	-	-	3,553,609	-	3,553,609	-	-	-	-
Other receivables	-	-	3,725,630	-	3,725,630	-	-	-	-
Short term investments	19,220	-	-	-	19,220	-	-	-	-
Cash and Bank balances	-	-	3,496,492	-	3,496,492	-	-	-	-
	<b>171,988</b>	<b>-</b>	<b>26,241,733</b>	<b>4,416,479</b>	<b>30,830,200</b>	<b>152,768</b>	<b>-</b>	<b>-</b>	<b>152,768</b>

	2016				Fair value				
	Available for sales	Held to Maturity	Loans and Receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
(Rupees in '000)									
<b>Financial liabilities not measured at fair value</b>									
Long-term financing	-	-	-	105,242,756	105,242,756	-	-	-	-
Term finance and sukuk certificates	-	-	-	33,507,209	33,507,209	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	13,418,617	13,418,617	-	-	-	-
Advances from a subsidiary	-	-	-	4,208,390	4,208,390	-	-	-	-
Trade and other payables	-	-	-	94,304,517	94,304,517	-	-	-	-
Accrued interest	-	-	-	13,320,252	13,320,252	-	-	-	-
Short-term borrowings	-	-	-	34,351,311	34,351,311	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>298,353,052</b>	<b>298,353,052</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	2015				Fair value				
	Available for sales	Held to Maturity	Loans and Receivables	Other financial assets	Total	Level 1	Level 2	Level 3	Total
(Rupees in '000)									
<b>Financial assets measured at fair value</b>									
Long term investments	95,102	-	-	-	95,102	95,102	-	-	95,102
<b>Financial assets not measured at fair value</b>									
<i>Non current assets</i>									
Investments in unquoted securities	-	-	-	4,416,479	4,416,479	-	-	-	-
Long-term deposits	-	-	9,327,827	-	9,327,827	-	-	-	-
<i>Current assets</i>									
Trade debts	-	-	9,294,690	-	9,294,690	-	-	-	-
Advances	-	-	7,205	-	7,205	-	-	-	-
Trade deposits	-	-	1,964,447	-	1,964,447	-	-	-	-
Other receivables	-	-	836,766	-	836,766	-	-	-	-
Short term investments	19,220	-	-	-	19,220	-	-	-	-
Cash and Bank balances	-	-	2,641,305	-	2,641,305	-	-	-	-
	<b>114,322</b>	<b>-</b>	<b>24,072,240</b>	<b>4,416,479</b>	<b>28,603,041</b>	<b>95,102</b>	<b>-</b>	<b>-</b>	<b>95,102</b>

	2015				Fair value				
	Available for sales	Held to Maturity	Loans and Receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
(Rupees in '000)									
<b>Financial liabilities not measured at fair value</b>									
Long-term financing	-	-	-	77,301,250	77,301,250	-	-	-	-
Term finance and sukuk certificates	-	-	-	39,903,628	39,903,628	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	20,422,495	20,422,495	-	-	-	-
Advances from a subsidiary	-	-	-	4,209,056	4,209,056	-	-	-	-
Trade and other payables	-	-	-	76,642,957	76,642,957	-	-	-	-
Accrued interest	-	-	-	11,965,110	11,965,110	-	-	-	-
Short-term borrowings	-	-	-	36,940,201	36,940,201	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>267,384,697</b>	<b>267,384,697</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Leasehold land and building and Aircraft fleet have been carried at revalued amounts determined by professional valuers (level 3 measurement) based on their assessment of the market values as disclosed in note 5.3 and 5.4.



## 42. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of subsidiaries, profit oriented state-controlled entities, directors, key management personnel and employee benefit funds. The Company in the normal course of business carries out transactions with various related parties. The transactions with related parties, other than those relating to issuance of tickets at concessional rates to employees and directors according to the terms of employment / regulations and those not mentioned elsewhere in these unconsolidated financial statements are as follows:

	2016	2015
	(Rupees in '000)	
<b>Skyrooms (Private) Limited – Subsidiary</b>		
Payments made against in-transit passengers	184,721	290,142
Advances extended	1,833	3,985
<b>PIA Investments Limited - Subsidiary</b>		
Management fee expense	66,955	76,306
Finance cost on advance	96,000	79,111
<b>Minhal France S.A. - Sub-subsidiary</b>		
Management fee income	71,119	80,319
<b>Sabre Travel Network Pakistan (Private) Limited - Subsidiary</b>		
Charges in respect of courier services	123	89
<b>Retirement funds</b>		
Contribution to Provident Fund and others	3,476,668	1,263,349
Interest on overdue balance of provident fund	656,790	712,146
<b>Profit oriented state-controlled entities - common ownership</b>		
Purchase of fuel	10,807,888	10,913,804
Late payment interest	1,363,416	2,243,949
Airport related charges	10,952,243	7,804,011
Insurance premium	985,139	1,051,984
Finance cost	4,530,853	5,182,449
<b>GoP - Major shareholder</b>		
Finance costs	802,192	800,000
Advance against equity from GoP	-	3,974,371
Hajj revenue	2,443,746	3,165,790

42.1 Transactions with the directors, chief executive and key management personnel have been disclosed in note 39 to these unconsolidated financial statements.

42.2 Details of balances held with the aforementioned related parties excluding profit oriented state-controlled entities have been disclosed in respective notes.

42.3 The Company's sales of transportation services to subsidiaries, associates, directors and key management personnel are not determinable.



1-10-17

#### 43. **BENAZIR EMPLOYEE STOCK OPTION SCHEME (BESOS)**

On August 14, 2009, GoP launched the BESOS for employees of certain State Owned Enterprises (SOEs) including the Company and Non-State Owned Enterprises (Non-SOEs) where GoP holds significant investments. BESOS is applicable to permanent and contractual employees who were in employment of these entities on its launch date, subject to completion of five years' vesting period by all contractual employees and by permanent employees in certain instances.

BESOS provides for a cash payment to employees on retirement or termination based on the price of shares of the Company. Under the scheme, Pakistan Employees Empowerment Trust (PEET) was formed and 12% of the shares held by the Ministry of Defence were transferred to the Trust. The eligible employees have been allotted units by PEET in proportion to their respective length of service and on retirement or termination such employees would be entitled to receive such amounts from PEET in exchange for the surrendered units as would be determined based on market price of shares of the Company. The shares relating to the surrendered units would be transferred back to GoP.

BESOS also provides that 50% of dividend related to shares transferred to PEET would be distributed amongst the unit-holder employees. The balance 50% dividend would be transferred by PEET to the Central Revolving Fund managed by the Privatisation Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in PEET to meet the repurchase commitment would be met by GoP.

BESOS which has been developed in compliance with the policy of GoP for empowerment of employees of SOEs needs to be accounted for by the covered entities, including the Company, under the provisions of the IFRS 2. However, keeping in view the difficulties that may be faced by the entities covered under BESOS, the Securities and Exchange Commission of Pakistan on receiving representations from some of entities covered under BESOS and after having consulted the Institute of Chartered Accountants of Pakistan has granted exemption to such entities from the application of IFRS 2 in respect of BESOS.

Had the exemption not been granted, the accumulated losses as at December 31, 2016 would have been higher by Rs. 725.707 million (2015: Rs. 725.707 million), staff costs and loss after taxation of the Company for the year then ended would have been higher by Rs. 66.684 million (2015: Rs. 66.684 million) while earnings per share would have been lower by Rs. 0.013 and Rs. 0.006 per share (2015: Rs. 0.02 and Rs. 0.01 per share) for class 'A' and 'B' shareholders respectively.

#### 44. **CORRESPONDING FIGURES**

Corresponding figures have been reclassified, wherever necessary, for the purpose of better presentation and comparison.



1/1/2017



45. AUTHORISATION OF FINANCIAL STATEMENTS

These unconsolidated financial statements were authorised for issue by the Board of Directors in their meeting held on 12-OCT-2017.



12/10/17

  
\_\_\_\_\_  
Chief Executive Officer  
\_\_\_\_\_  
Director  
\_\_\_\_\_  
Chief Executive Officer  
\_\_\_\_\_  
Chief Financial Officer