



Annual Report 2021





RP-C3900

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Who We Are

Our Vision

We envision stronger nations where cultures and communities are connected, meaningful relationships are built, and lives are enriched by opportunities and experiences we make possible.

Our Purpose

To move people, create opportunities, and broaden perspectives, enabling everyone to lead richer and fuller lives.



Our Values

Service

We put people at the heart of service.

Integrity

We do what is right.

Trust

We cultivate trust and commit to collaboration.

Courage

We relentlessly pursue new ideas and better solutions.

Best of Filipino Spirit

We live the best of Filipino spirit at all times.



Message to Shareholders



Lance Y. Gokongwei
PRESIDENT & CEO

To our dear Shareholders,

2021 represents our 2nd year of battle against COVID-19 crisis. We started 2021 with early headwinds as another surge in cases led to strict lockdowns and other travel restrictions over the summer season. This was coupled with the emergence of the Delta variant during the third quarter, which also resulted in suspension of flights to various international destinations, including Dubai and Hong Kong. The steep increase in jet fuel prices - from \$45 per barrel in 2020 to \$75 per barrel average in 2021 - posed another significant obstacle in our path to recovery. Then sadly, last December, Typhoon Odette damaged multiple provinces and led us to cancel several flights during the Christmas season.

These were very difficult challenges, yet we remain encouraged, as 2021 likewise presented the clear progress of the Philippines and the aviation industry toward recovery in 2021. This has been especially reflected during the 4th quarter of the year. As vaccinations rates increased and COVID cases declined, NCR and surrounding provinces lowered to Alert level 2, and LGUs started simplifying travel requirements. As a result of increased mobility, we flew 12,914 flights in the 4th quarter, 127% higher year on year, and 78% higher than 3rd quarter. Passenger count likewise rose to 1.52 million in the 4th quarter, 346% higher year on year, and more than double passengers flown in the 3rd quarter.

Over 34,400 flights, 3.4 million passengers, and 121m kilos of cargo flown

We flew a total of 34,463 flights in 2021, 18% lower year on year. Similarly, passengers flown declined from 5M in 2020 to 3.4M in 2021, 32% lower year on year. Overall, CEB generated total revenues of P15.7B in 2021, 30% lower than 2020. Passenger revenues were P6.3 billion, 50% lower than 2020, while ancillary revenues contributed close to P3 billion, 20% lower than 2020. Such decline vs 2020's full year performance was largely due to a high base in the 1st quarter of 2020, which was prior to the onset of the Covid lockdown.

Our performance during the 4th quarter thus cannot be discounted as it resulted to a revenue of P6.6 billion, a 101% increase year on year, and 103% higher versus 3rd quarter. Passenger revenues recovered steepest – up 297% year on year and 124% higher than 3rd quarter.

Our cargo operations performed exceptionally well throughout the year, as the demand to transport essential goods and e-commerce shipments sustained. 2021 cargo revenues posted at P6.5 billion, 20% higher than 2020, and surpassed revenues of P5.8 billion in 2019, prior to the Covid pandemic. It is worth noting that for 4th quarter 2021, Cargo posted record sales of P2.2 billion, up 19% year on year and 54% higher than pre-pandemic levels.

Future size and shape strategy succeeds, continues its second phase

Our Future Size and Shape (FSAS) strategy was a response to the urgent call to create a longer runway for us to weather through this unprecedented crisis. FSAS consists of various transformative initiatives that not only allow us to survive and thrive amidst the pandemic, but also position us well into recovery.

We have successfully completed several of our strategic initiatives. We've undertaken a rightsizing of our network, fleet, and organization to better cater to the "new normal" environment. We also invested in digitalization platforms, simplifying both internal and external processes for both short-term and long-term savings. I am proud to say that our Future Size and Shape strategy generated over P2 billion in cost reduction. In addition, CEB has secured a liquidity runway of over 24 months, as we successfully raised over \$1.6 billion through several fundraising initiatives.

- Our Convertible Preferred Shares, which were issued and listed on the PSE on March 29, 2021, provided CEB with P12.5 billion in equity funding.
- Last May 10, we also received US\$250 million via convertible bonds issued to our strategic partners International Finance Corp. ("IFC"), IFC Emerging Asia Fund and Indigo Philippines LLC, an affiliate of Indigo Partners LLC. IFC is the largest global development institution focused exclusively on the private sector

in developing countries. It is a sister organization of the World Bank and member of the World Bank Group. Indigo Partners, on the other hand, is a private equity firm that specializes in the aviation sector, with current investments including Frontier Airlines (USA), Volaris (Mexico), Wizz Air (EU) and JetSMART (Chile).

- We have already raised \$800 million through asset-backed financing for both new and existing assets.
- Finally, our syndicated loan agreement signed last March 5, 2021, which provides CEB up to P16 billion pesos in credit, continues to be undrawn and fully available to date.

Two years into battling the pandemic, we celebrate our accomplishments thus far, but this does not mean we stop here. We recognize that there are still things that need to be done to protect our current position as the Philippines' leading airline. Hence, we've commenced the second phase of our FSAS strategy wherein we undertook deeper negotiations and contracting exercises with our equipment manufacturers, lessors, maintenance providers and various other partners. With FSAS 2.0, we were able to defer and reschedule new aircraft deliveries to reflect our demand outlook post

pandemic, at the same time continue to invest sensibly in the modernization of our fleet. We were also able negotiate lease payment deferrals, secure new financing for future aircraft commitments, and monetize existing aircraft assets through Sale and Leaseback transactions. I am happy to note that after months of fruitful discussions, not only were we still able honor previous agreements regarding our aircraft orders, but also strengthened our partnerships amidst the pandemic crisis.

Equally significant, FSAS served as our guide on how to deliver our environmental and social sustainability commitments, while remaining true in our promise to provide affordable and accessible air transport services for all. One such commitment is our shifting to an all-NEO (New Engine Option) fleet by 2027. We've welcomed our first A330NEO last November 2021. It consumes up to 25% less fuel as compared to the previous generation A330CEO (Classic Engine Option) thus reducing CO2 emissions, and is configured with 5% more seats, reducing fuel and CO2 burn per passenger flown. We take pride in improving our overall ESG score. Based on S&P global scoring system, our score of 39 points is 24 points higher than 2020 and even higher than the average industry standard.

It has always been part of our core purpose to give back to our community in any way we can, and times like these, we come together for in Bayanijuan for our kababayans.

- Throughout 2021, CEB flew over 648 tons of humanitarian items for free to support distribution of essential food and medical supplies to different destinations - including over 43 million COVID-19 vaccine doses to over 28 provinces in the country, on top of airlifting over 16.5 million doses into to the Philippines.
- We also flew several Bayanihan flights. In partnership with OWWA, we repatriated 11,423 OFW's and ensured that they were able to go home to their loved ones.
- In partnership with both public and private organizations, CEB was the first airline to respond to Typhoon Odette victims. We transported over 336 tons of humanitarian and disaster relief across the Philippines. Sweeper flights out of Siargao and nearby provinces were mounted to fly out locally stranded passengers, as well as fly in much-needed medical volunteer doctors.

Onwards and upwards to recovery

We ended 2021 with an Operating Loss of P23.2 billion and Net Loss of P24.9 billion. Though the flight to recovery will remain as turbulent as the changes in market conditions and industry dynamics, our outlook has never been brighter. With increased vaccination rates and quarantine-free travel, we look forward as both domestic and international borders reopen, and we remain confident about the vital role our airline plays in our country's economic recovery.

Finally, I would like to take this opportunity to welcome on board our new partners, IFC and Indigo Partners represented by Mr. Brian Franke, as well as our newly appointed independent directors, Ms. Bernadine Sy, Mr. Raymond Tantoco and Mr. Brian Cu. We look forward to your valuable insights and knowledge that would help us navigate to better days and regain our position as one of the world's strongest airlines. I would also like to express my appreciation and gratitude to our shareholders, board of directors, and partners for your continued support and trust in our airline. To our employees who work tirelessly, thank you for your dedication and faith in our cause. And to our dear customers who continue to fly Cebu Pacific, thank you! Rest assured that CEB will continue to provide affordable yet safe, reliable, and quality flying experience to everyJuan.

Maraming Salamat!



Board of Directors



James L. Go
CHAIRMAN



Lance Y. Gokongwei
DIRECTOR, PRESIDENT &
CHIEF EXECUTIVE OFFICER (CEO)



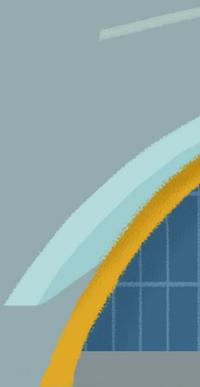
**Jose Fernando B.
Buenaventura**
DIRECTOR



Robina Gokongwei Pe
DIRECTOR



Frederick D. Go
DIRECTOR





Brian H. Franke
DIRECTOR



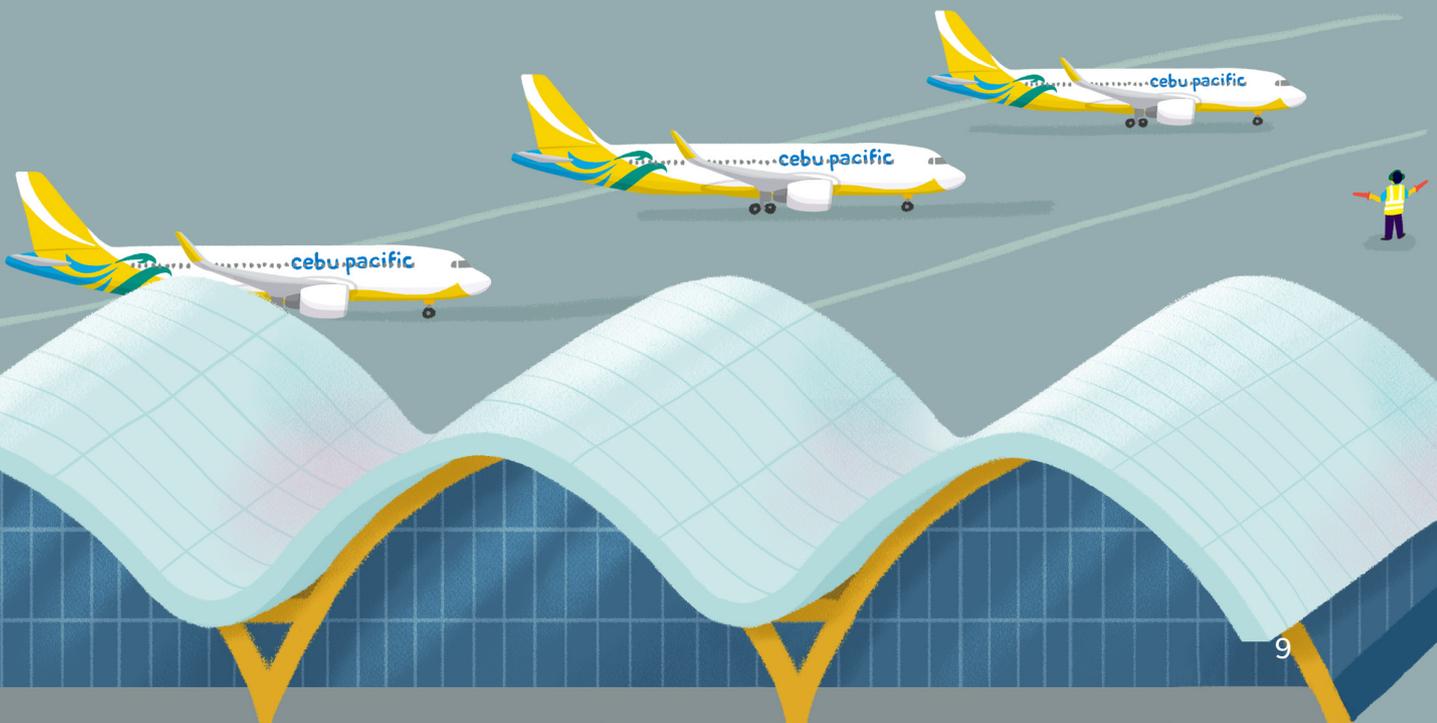
Bernadine T. Siy
INDEPENDENT DIRECTOR



Brian Matthew P. Cu
INDEPENDENT DIRECTOR



Richard Raymond B. Tantoco
INDEPENDENT DIRECTOR





Senior Management & Consultants



Mike Szucs

CHIEF EXECUTIVE
ADVISER



Alexander Lao

CHIEF COMMERCIAL
OFFICER



Michael Ivan Shau

CHIEF CORPORATE AFFAIRS
OFFICER



Alex Reyes

CHIEF STRATEGY OFFICER /
PRESIDENT & CEO, CEBGO



Andrew Huang

CHIEF FINANCE
OFFICER



Mark Julius Cezar

DEPUTY CHIEF
FINANCE OFFICER



Laureen Cansana
CHIEF INFORMATION
OFFICER



Javier Massot
CHIEF OPERATIONS
ADVISER



Candice Iyog
VP, MARKETING &
CUSTOMER EXPERIENCE



Felix Lopez
VP, PEOPLE DEPARTMENT &
ADMIN & FACILITIES



Capt. Samuel Avila
VP, FLIGHT OPERATIONS



Lei Apostol
VP, CABIN SERVICES



**Atty. Anne
Romadine Tieng**
VP, LEGAL AFFAIRS



Capt. Manny Ilagan
VP, SAFETY, QUALITY
AND SECURITY

Key Operating Statistics

	Years Ended December 31			2021 vs 2020	
	2021	2020	2019	Inc (Dec)	% Change
Passengers Carried ('000)	3,411	5,026	22,468	(1,615)	-32%
Available Seats ('000)	5,631	6,619	26,013	(988)	-15%
Seat Load Factor	61%	76%	86%	(-15%)	-20%
RPK (million)	2,479	5,275	24,883	(2,796)	-53%
ASK (million)	4,878	7,107	29,298	(2,229)	-31%
Number of sectors flown	34,463	41,804	143,897	(7,241)	-18%
Fleet size at period end	74	74	75	-	0%



Financial Highlights

In PHP Millions	Years Ended December 31			2021 vs 2020	
	2021	2020	2019	Inc (Dec)	% Change
Total Revenues	15,741	22,618	84,807	(6,877)	-30%
Total Operating Expenses	38,899	43,387	72,186	(4,489)	-10%
Operating Income (Loss)	(23,158)	(20,769)	7,050	(2,389)	12%
Net Income (Loss)	(24,899)	(22,236)	9,123	(2,663)	12%
Pre-tax Core Net Income (Loss)	(25,808)	(23,131)	10,299	(2,677)	12%
EBITDAR	(3,943)	(932)	30,274	(3,011)	323%
Total Assests	138,254	128,459	157,733	9,795	8%
Total Liabilities	127,644	105,768	112,832	21,876	21%
Equity	10,610	22,691	44,901	(12,081)	-53%
Basic/diluted Earnings (Loss) per Share (PHP)	(42.13)	(37.14)	15.14	(4.99)	-48%

Domestic Destinations

- Bacolod
- Boracay (Caticlan)
- Bohol (Tagbilaran)
- Butuan
- Cagayan de Oro
- Camiguin
- Cauayan
- Cebu
- Clark
- Coron (Busuanga)
- Cotabato
- Davao
- Dipolog
- Dumaguete
- General Santos
- Iloilo
- Kalibo
- Legazpi
- Naga
- Masbate
- Ozamiz
- Pagadian
- Puerto Princesa
- Roxas
- San Jose
- Siargao
- Surigao
- Tacloban
- Tuguegarao
- Zamboanga
- Virac



International Destinations

China: Guangzhou

Hong Kong

Japan: Fukuoka

Nagoya

Osaka

Tokyo (Narita)

Korea: Seoul (Incheon)

Macau

Malaysia: Kuala Lumpur

Singapore

Taiwan: Taipei

United Arab Emirates: Dubai



We Fly

Our Fleet

CEB finished 2021 with 74 aircraft, comprised of:

- 6 Airbus A330CEO (Current Engine Option)
- 2 Airbus A330NEO (New Engine Option)
- 22 Airbus A320CEO
- 7 A321CEO
- 9 Airbus A321NEO
- 6 Airbus A320NEO
- 14 ATR 72-600
- 6 ATR 72-500
- 2 ATR freighters

Cebu Pacific operates one of the youngest fleets in the world with an average age of 5.5 years old as of end of 2021.





Airbus

Cebu Pacific ended 2021 with six (6) Airbus A330CEO, two (2) A330NEO, 22 Airbus A320CEO, seven (7) A321CEO, nine (9) Airbus A321NEO, six (6) Airbus A320NEO aircraft.

The Airbus A330 leads CEB's Airbus fleet with a single - class 436-seat capacity, both used for international flights, as well as to domestic destinations with high passenger volume, like Cebu and Davao.

The newest addition to the fleet is the A330neo, an eco-plane with a 459-seat capacity which allows more travelers to be carried in a single flight, resulting in the lowest carbon footprint per passenger per kilometer. This aircraft also uses 25% less fuel than previous generation aircraft, able to consume as little as 1.4 liters per seat per 100 kilometers. This enables CEB to operate as the greenest airline in Asia.

Most of the fleet is composed of the A320CEO with 180 seats.

Also from the A320/A321 Family, the A321neo with 236 seats and the A320neo with 188 seats are all made by world-renowned seat manufacturer Recaro. These seats are lighter and ergonomically designed, giving passengers more legroom. Each seat is also equipped with a USB port which allows passengers to charge their mobile devices inflight.

Between 2022 and 2027, Cebu Pacific will take delivery of 37 Airbus A320NEO family aircraft, and 14 A330neo aircraft. This order accelerates the carrier's plan to boost capacity while shifting to more fuel-efficient and eco-friendly aircraft.





ATR

CEB ended the year with 22 in its ATR fleet, six of which are its existing 72-500 aircraft. These turboprop aircraft manufactured by Avions de Transport Regional (ATR) in Toulouse, France, are known for their reliability, ease of maintenance, and ability to land on short runways—making the ATR the top choice in the turboprop class.

Equipped with the high-density Armonia cabin, the new high-capacity 72-600 also has 78 slimline seats and wider overhead bins with 30% more stowage space when compared to the 72-500 model. The new

72-600 model is also known to have more efficient fuel burn, which translates to more affordable fares for everyJuan.

Cebu Pacific's additional 72-600 aircraft are used to widen the CEB network through inter-island routes and to boost new city pairs between hubs.

Between 2022 and 2024, Cebu Pacific will take delivery of two (2) more ATR 72-600 to be utilized for more connectivity between the Philippines' many islands.

Our Products



Step

1

SELF
CHECK-IN

C 16

cebu pacific

B 22

B 23

iwato





A simple solution for guests looking to book their travel essentials in one easy step. Different fare options are now available to guests with different travel preferences and requirements: "Go Basic" is for airfare only, "Go Easy" is for airfare, baggage allowance and seat selector, and "Go Flexi" is for airfare, baggage allowance, seat selector and CEB Flexi.

CEB Fare Bundles are available for all flights to domestic and international destinations.



CEB BIZ, the corporate program of Cebu Pacific Air, lets companies optimize their travel budget through exclusive features tailor-fitted to meet companies' business travel requirements. Companies can book Cebu Pacific Air flights using an online booking facility, get corporate fares, waiver on admin fees, discounts on baggage, various forms of payment, transferrable bookings and volume-based incentive scheme among other perks.



Cebu Pacific and Cebgo guests can now avail of CEB Transfers, safe and seamless land transfer service available in many Philippine destinations. Passengers can book CEB Transfers from Caticlan airport to the guests' hotel or resort in the island of Boracay, to and from El Nido and Sabang (via Puerto Princesa) in Palawan, and Bohol. CEB Transfers service in partnership with Southwest Tours Inc., and Lexus Shuttle Services.



At the time of booking, passengers can now pre-purchase baggage allowance to save on time and money at check-in.

Prepaid baggage options of 20 kilos, 32 kilos and 40 kilos with maximum piece count of 2, 3 and 4, respectively. Guests may avail of prepaid baggage at the time of booking until two hours before flight departure.



A lifestyle rewards program that allows guests to accumulate points with their Cebu Pacific and Cebgo flights, as well as with their everyday expenses and transactions with Go Rewards partners. With enough accumulated points, members may redeem free flights. For more information, guests can visit the Go Rewards website: www.gorewards.com.ph



A product designed by CEB Travelers, for CEB Travelers! For a minimal fee upon booking, CEB Flexi allows free rebooking of up to two (2) times, for savings of up to 60%. Passengers will only have to pay for the difference in fare when rebooking.



Guests can avail of Cebu Pacific's sports equipment handling service for a minimum fee upon booking. This service lets guests bring their own sports equipment to their destination, to avoid spending for equipment rental fees.

Equipment covered by this service include:

- Bicycles
- Fishing equipment
- Golf clubs
- Scuba/Diving equipment
- Bowling balls



The Surfboard product allows passengers to reserve space in the aircraft hold for their surfboards. It covers body boards, surfboards, wakeboards, long surfboards, paddle boards, and surfing equipment. CEB Surfboard is available in Cebu Pacific and Cebgo flights, subject to aircraft limitations.

A passenger can book one surfboard product per flight.



CEB's Smile Magazine has a readership of over a million per issue. It features destination guides and news across the Cebu Pacific network. Smile also ranked 7th in CNN Travel's World's 12 Best Airline Magazines. Its online counterpart, waytogo.cebupacificair.com, is also a treasure trove of destination guides and insightful travel features.



Every time guests book a flight online, seats can be selected for a minimum fee. Guests can select Premium Seats, located at the exit rows for additional leg room. Seats closer to the front section of the aircraft are available through the Standard Plus seat option. Standard seats are all other available seats.



Cebu Pacific offers pre-ordered inflight meals that you can purchase up to 24 hours before your flight. Variants include rice meals, noodles, and sandwiches that come with a free drink. To keep offering fresh selections, our menu undergoes refresh twice a year.



Cebu Pacific's official Mobile App is now available for download on iOS and Android devices to make it even more convenient for guests to book and check-in for their flights while on the go.





Insurance beyond travel. In partnership with AXA as the insurance provider offer a non-travel insurance product for everyday protection. Coverage includes top 3 illnesses such as cancer, stroke, heart attack and minor illnesses, and a Life Insurance Benefit for premiums as low as PHP 535/month.



Cebu Pacific's Fun Café presents a wide variety of flavorful buy-on-board snacks and drinks fit for everyone's taste. Starting this year, passengers can now purchase these combos up to 24 hours before flight. Hearty rice meals and specialty snacks are exclusively available for pre-order at cebupacificair.com.



CEB TravelSure protects trips from any unforeseen events, giving travelers peace of mind as they go on their adventure! Additional benefits such as baggage protection and emergency coverage for extra security are available. TravelSure allows worry-free travel for guests from one to 70 years old.

TravelSure covers:

- Emergency medical treatment in case of accident or sickness during travel
- Unexpected travel circumstances like cancellations or delays due to weather, loss of travel documents or luggage, and other unforeseen events
- Personal accidents
- Recovery of travel expenses or reimbursement of the unused portion of travel and accommodation expenses

Insurance Add-ons:

- Baggage Protect – an insurance add-on that covers any unforeseen physical loss or damage to checked baggage
- Fly me Next – Covers rebooking penalties incurred due to late check-in, missed flights and flight cancellations.
- Home Protect- Covers loss of or damage to home contents while on a trip.
- COVID Protect- Covers medical expenses for COVID treatments



Fast Check-in Options

Cebu Pacific provides an enhanced check-in experience by offering various digital check-in channels, so guests can get their seat and boarding pass even before they get to the airport.

Mobile Check-in

Guests can check-in via the official Cebu Pacific Mobile App from seven days up to four hours before international flight departure, and up to one hour before domestic flight departure.

With the Cebu Pacific Mobile App, there is no need to get a paper boarding pass for flights to and from select domestic and international destinations. Guests can simply flash the Boarding Pass from their app and board the flight.

Web Check-in

Cebu Pacific was the first airline in the Philippines to provide guests the option to check-in for their flights online. This is available from

seven days up to four hours before international flight departure, and up to one hour before domestic flight departure.

Kiosk Check-in

CEB Kiosks are conveniently located near Cebu Pacific's check-in counters in select Philippine airports. Guests may check-in at the kiosk for their flights from eight hours up to an hour before departure.

Charlie the Chatbot

The investment in customer-centricity has also extended to our very own chatbot being born. Meet Charlie, the Cebu Pacific chatbot, everyJuan's go-to assistant for any travel concerns, information about booking with us, or even announcements on our seat sales.

Accessible on the Cebu Pacific website, its official Facebook page, or the official Cebu Pacific Facebook pages, Charlie can assist in retrieving a passenger's itinerary, checking in for their flights, and providing a boarding pass whenever possible.

More than that, Charlie is online 24/7 to provide answers to frequently asked questions about booking and requirements needed before the flight. Customers may also be lead to relevant information about other offerings, such as premium seat selections, inflight , baggage allowance, and more!

Charlie is also knowledgeable about ongoing promos and any travel advisories the airline releases, so any passenger's query can immediately be accommodated, resulting to an improved overall customer experience.



Chatting with Charlie is as simple as chatting with a friend. You can type in your query in English one at a time; or you can choose from a variety of suggested topic options when you open the chat box.

Payment Centers

Cebu Pacific guest who are not credit card holders can book flights through the website and pay via the airline's payment centers:

- Cebuana Lhuillier
- 7-Eleven
- LBC
- ECPay
- Cashalo
- Bayad Center
- SM Business Services Center
- Robinsons Department Store
- Caesars Travel Group
- Al Rais Travel
- UAE Exchange
- Abu Dhabi Travel Bureau
- PayRemit
- ATM transactions using Bancnet and Megalink member banks
- Over-the-counter at Robinsons Bank, Bank of the Philippine Islands, Metrobank, Banco de Oro, and Banco de Oro Remittance Centers in Hong Kong and Macau



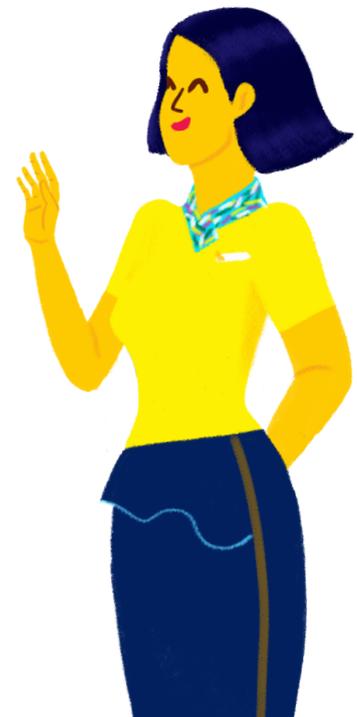
Payment Options

Cebu Pacific guests can also book online and pay using their credit cards.



Cebu Pacific is the first airline in the Philippines to offer the global payment platform as a payment option.

Cebu Pacific facilitates online booking and payment in China through Alipay. Alipay is one of the largest payment channels in China, with more than 160 financial institution members and around 800 million registered account users.





Cebu Pacific is the leading air cargo carrier in the Philippines, linking islands together through exchange of goods. It provides competitive, fast, flexible and straightforward air cargo service to an extensive network including individual shippers and cargo agents within the country and overseas.

The Cebu Pacific Air group is the largest domestic cargo carrier, representing 46% of the market, with over 152.1 million kilos delivered to domestic destinations in full year 2019. CEB Cargo also contributes quite heavily to the total CEB business, having delivered a total of 62 million kilos to international destinations in 2019. It services more than 1,500 accounts ranging from logistics, e-commerce and other industries, tailor-fitting products to the clients' domestic and international cargo needs. This includes express cargo service, seamless transshipment, and over 40 interline partnerships for worldwide reach.



2021 Highlights

Cebu Pacific, on its 25th year, remained resilient in its commitment to provide safe and affordable air transport to every Juan, amidst the significant challenges COVID-19 continued to pose for the travel and tourism industry. CEB continued to innovate offering services that keep its customers in mind in the new normal. The year marked the arrival of new generation eco-planes, paving the way to making CEB the greenest airline in Asia.



Customer-centricity and Innovation

Customers remain at the heart of CEB's business, through safety, flexibility, and digitalization.

Safety

Safety remained CEB's priority, as it continued to implement a multi-layered approach to safety in accordance with global aviation standards. CEB has been rated 7/7 stars by airlineratings.com for its COVID-19 compliance. This include daily extensive cleaning and disinfection protocols for all aircraft and facilities, antigen testing before duty for all frontliners and crew members, and contactless flight procedures. Jet fleet are equipped with hospital grade HEPA air filters, keeping viruses at bay.

CEB passes IATA Operational Safety Audit (IOSA) - highest level of safety practices. Apart from these, CEB offered relevant products such as CEB Travelsure with COVID Protect coverage, and most affordable testing options from partner laboratories.

Flexibility

Flexibility remained to be one of the considerations in restoring passenger confidence in air travel, so that is why CEB continued offering flexible options which include unlimited rebooking through the permanent removal of change fees, and a two-year travel fund - both of which are available for ALL passengers, whether or not affected by flight changes.

For those who were affected by flight changes, CEB offered the refund option. In celebration of its 25th anniversary, CEB came up with another innovative product to address flexibility, coupled with the lowest fares — the CEB Super Pass. This first-of-its-kind product lets travelers buy all they can, and fly when they can across CEB's widest domestic network. After the positive take up of its launch in May, the CEB Super Pass had another run in September.



Fly Easy /Digitalization

Speeding up its digital efforts to support contactless and self-service processes, and in line with its commitment to keep improving its overall customer experience, CEB enhanced its existing processes while empowering customers to access the website to manage their booking, apply changes, pay for their tickets or get the information they need via the website or chat with Charlie the Chatbot.

CEB continued to enhance Charlie the chatbot to better assist passengers to receive real-time answers to common queries and transactions such as flight schedule and status, check-in process, itinerary and boarding pass retrieval, and the like; or lead them to the right steps to address their concerns, real time, as Philippine hotline numbers were discontinued in May.

The advertisement features a bright yellow background with the 'FLY Easy' logo at the top. Below the logo, the tagline 'Going online is key!' is written in a curved path. A woman in a light blue suit is shown walking out of a large smartphone screen that displays a beach scene. To her left, a list of online services is provided: 'Manage Booking', 'Online Check-in', 'CEB Prepaid Baggage', and 'Charlie the Chatbot'. At the bottom, there is a QR code, the text 'BOOK NOW!', the website 'cebupacificair.com', and the hashtag '#MoreSmilesAhead'. The Cebu Pacific logo is in the bottom right corner.

In the first quarter of 2021, the airline noted a total of 87% of its passengers maximize its website to book flights directly on the platform. Along with this, 67% of CEB passengers conveniently managed their bookings online, specifically during flight disruptions. Going online is key to flying easy.



Network recovery

In June, Cebu Pacific strengthened its domestic network to support recovery efforts. Flight frequencies increased to and from Boracay, Bohol, and Bacolod, with LGU (Local Government Units) gradually implementing simpler travel requirements. Apart from the flight increases, CEB launched its direct flight from Manila to Camiguin.

International operations gradually resumed to Hong Kong, Nagoya, Osaka, and Taipei by August.

December was the strongest month for CEB since the pandemic, despite the impact of Typhoon Odette, driven by lower alert levels and increased vaccination rates, allowing more LGUs to further simplify travel requirements and open their borders.

Business Transformation

To further strengthen its financial position in the midst of this COVID-19 crisis, CEB continuously worked with capital providers, creditors, suppliers, and all other stakeholders to provide a longer liquidity runway for the airline. CEB raised over \$1.6 B through various fundraising initiatives which include the IFC and Indigo Partners USD 250 million investment, and sale-leaseback of aircraft and engines with lessors, among others.



NEO way to fly

To cushion the impact of its operations to the environment, CEB pushes forward with its investments, which includes fuel-efficient aircraft. In November, CEB received its first A330neo. With its 459 seat capacity, the eco plane has the lowest carbon footprint per passenger compared to A330neos of other airlines that are fitted with only 220-410 seats. This aircraft consumes 25% less fuel than previous generation aircraft resulting in lower carbon emission, paving the way for CEB to be Asia's Greenest Airline.

Its cabin design highlights the island colors of the carrier's hometown, Cebu, featuring

calming blue-grey and mango yellow details on its state of the art Recaro seats. Each seat is equipped with USB A/C ports so guests can easily charge their gadgets inflight.

The airline envisions having an all new-generation fleet in the next few years, designed to be quieter and less harmful to the environment.

Despite the challenges the pandemic brought to the aviation industry, CEB is the only Philippine carrier to take delivery of aircraft given the situation.





Ingat Angat

In conjunction with the Department of Health (DOH) and the Inter-Agency Task Force (IATF) to help manage the country's response to the COVID-19 pandemic, CEB took part of the Ingat Angat movement, a cooperation of companies that have committed to pool their resources to help restart the economy. In line with the mission of the Gokongwei Group, CEB fully supported the government's vaccination program through the transportation of 30 million doses of life-saving vaccines across the country.

In addition, CEB transported over 16.5 million vaccine doses from China to the Philippines during 1H of the year.



Cargo

Despite the decrease in flight count due to travel restrictions, CEB's cargo operations have remained active to ensure that the transport of essential goods is not impeded. Cargo has been consistently strong as it delivered record sales of 120,665kgs, a 10% increase from 2020. With the gradual easing of regulations towards the Christmas season, there was an uptrend in the transport of goods.

To further strengthen its domestic cargo operations, CEB received its second ATR cargo freighter in January. This was converted at the Sabena Technics DNR S.A.S. facility in Dinard, France. The ATR 72-500 aircraft with tail number RP-C7253, operated by CEB's subsidiary Cebgo, is equipped with a Large

Cargo Door, allowing for capacity to be as much as eight (8) tons of palletized cargo.

The carrier continues to anticipate its cargo business to continue flourishing, and its investment in dedicated cargo aircraft supports its commitment to continue providing affordable and accessible air travel services for every Juan.

Partnering with the Angat Buhay initiative of the Office of the Vice-President, the Department of Social Welfare and Development (DSWD), and the Armed Forces of the Philippines, among others, CEB as a public service volunteered the best way it knows how – through free-of-charge cargo deliveries across various provinces through its widest domestic network.



Bayanijuan Relief Efforts

By the end of the year, CEB carried over 648 tons of humanitarian aid in partnership with groups such as Angat Buhay, the Department of Health, the Philippine Red Cross, the Philippine Army and the TOWNS Foundation, among others.

Bayanihan flights or special commercial flights were mounted for Filipinos in Dubai, in coordination with the Philippine government's special working group. The government in May 2021 implemented a travel ban to the United Arab Emirates (UAE), which made it necessary for the government to fly repatriation flights.

CEB flew 11,423 Filipinos from Dubai, Abu Dhabi, Oman, India, Vietnam, Lebanon, and Bahrain through Bayanihan and other

chartered flights that were mounted with the Department of Foreign Affairs (DFA) since July 2021.

From Dubai alone, CEB brought home at the end of the year a total of 8,750 Filipinos via Bayanihan flights.

CEB has also organized sweeper flights domestically to help fly home stranded Filipinos – all of which were made possible through partnerships with key government agencies, namely the Department of Tourism (DOT) and Overseas Workers Welfare Administration (OWWA) for domestic flights.

Bayanihan thrived as CEB mobilized Bayanijuan Relief Operations for typhoon Odette victims in December.





Our Employees

CEB attained 100% fully vaccinated active crew in October through the Gokongwei Group's initiative - COVID Protect program. Through this, CEB employees received free inoculation for themselves and their dependents, as well as third-party workers, such as check-in agents and bag handlers.

Apart from this conglomerate-led program, CEB also worked hand-in-hand with various local government units these past months to ensure its employees will be inoculated with whatever vaccine is available, at the earliest time possible.

In November, positive indicators in the country's COVID-19 response have paved the way for greater recovery in the travel and aviation sectors. As more Filipinos got vaccinated, lower COVID cases have been reported, and many local destinations have eased their quarantine restrictions. This opened opportunities for CEB to hire

additional cabin crew to support CEB's recovery and growth.

CEB also encouraged all its employees to continue learning during their own time through virtual, microlearning sessions via the CEB-U on the Go platform. This enabled the carrier's HR team to accommodate more employees and provide training for more Juans amidst the new normal setup. All CEB pilots and cabin crew continue to receive refresher training using this modified, digital approach to ensure that their skills are up-to-date.

All year round, CEB continued to offer Telemental Health Program where everyJuan can consult with a mental health professional online for free. Other platforms for interaction were also provided by CEB's HR teams, such as the Juan CEB MS teams Community Groups.

Corporate Social Responsibility

Cebu Pacific continues to give back despite uncertain times

A year after the pandemic, CEB remain steadfast in its commitment to do well by doing good. By using its platform to carry out various corporate social responsibility initiatives, the company continuously fulfill its public service duty that could benefit their customers, the community and the environment. Together with their partners and by utilizing their assets they were able to provide service, raise funds and deliver goods to communities in need.





Partnership Renewal

In time for its 25th anniversary celebration, Cebu Pacific renewed its partnership with UNICEF by bringing the Change for Good Program online. The manner of collecting donation and raising funds inflight was put to a halt during the pandemic so to continue the goal to help vulnerable children, Cebu Pacific paved the way to open a virtual channel so passengers can donate anytime and anywhere, even without booking a flight.

This year also marks another partnership renewal with Philippine Eagle Foundation as the airline renewed adoption to sustain the needs of Philippine Eagle Mindanao. Cebu Pacific has been supporting Mindanao since 2015 and has committed to provide for Mindanao's food, shelter maintenance, keeper care and veterinary care for another year.



Wildlife Conservation

Cebu Pacific have been active as well in showing commitment to wildlife conservation through their immediate response to repatriate Philippine Pangolins (*Manis culionensis*), a highly complex wild fauna in 2021. Through CEB's immediate assistance, a total of four (4) Pangolins were safely flown back to Palawan last Aug 21, December 5, 24 and 30, 2021. All are now sent back to the wild under the care of Palawan Council for Sustainable Development.



In addition to this, CEB made it possible to release one (1) Pangolin in the wild in a matter of two days from the date of actual turn over to BMB which is a milestone for the National Wildlife Research and Rescue Center (NWRRC).

We are grateful to Cebu Pacific for being one of our partners in our advocacy on the conservation of Philippine wildlife. Biodiversity Management Bureau (BMB), through the invaluable assistance of Cebu Pacific, has been successful in the release of threatened wildlife back to their natural habitats even in the midst of this pandemic. We look forward to the continuing support and future collaborations with the Airlines to uphold our commitment in protecting the country's biodiversity said Atty. Theresa Tenazas, OIC of Wildlife Resources Division of Biodiversity Management Bureau, under DENR.

Tree Planting Adoption

Cebu Pacific also partnered this year with Forest Foundation Philippines (Forest Foundation) and Miriam College - Environmental Studies Institute (Miriam College - ESI), to grow 5,200 native seedlings in a forestland in Barangay Laiban, Tanay, Rizal. On top of these, 601 seedlings have been personally adopted by Cebu Pacific employees. The forestland serves as a window to the Sierra Madre, the country's longest mountain range. Sierra Madre, also known as the "backbone of Luzon," helps protect the country from the onslaught of typhoons.

As way to care for our planet, Cebu Pacific also continues to abide to its green commitments. "Juan Effect" is the sustainable tourism program of Cebu Pacific, in



partnership with the Department of Tourism. Its goal is to mitigate the impact of tourism on the environment. "Juan Effect" engages travelers and local stakeholders, raising awareness about their responsibilities as tourists and encourages them to make a difference by changing one daily habit.

Relief and Humanitarian Efforts

Despite the threat of different COVID variants and changing community alert levels, CEB continued to operate all-cargo flights to ensure transport of essential goods such as food, medicines, and vital supplies is not hampered. To extend community support, CEB continued to join other partners in mounting extensive relief and humanitarian efforts towards helping those affected by the pandemic. Throughout 2021, over 648 tons humanitarian items have been airlifted for free by the airline to support our frontliners and to transport essential food and medical supplies to different destinations.

"We are grateful of Cebu Pacific Airlines' generosity and continuous support to the Department's relief operations. This will greatly help the DSWD to efficiently and immediately provide our kakabayans with

the assistance that they need especially amid these uncertain times," DSWD Secretary Rolando Joselito Bautista said in a statement.

CEB was awarded the 2021 Salamat Po Award for Development Partner Local Organization Category and received the Hall of Fame Award at the annual Pagkilala sa Natatanging Kontribusyon sa Bayan or PaNata Ko sa Bayan Awards at the DSWD Central Office Batasan Pambansa Complex, Quezon City. The Salamat Po Award is a commendation conferred to development partners who helped DSWD's delivery of social services and achievement of goals, while the Hall of Fame award is given to National Awardees of the same category who was nominated for three consecutive years with consistently increasing final scores. CEB is the only airline awardee.

Typhoon Rai / Odette Response

The year 2021 ended with a challenging feat when the country was hit by super Typhoon RAI (local name Typhoon Odette). It brought torrential rains, violent winds, landslides and storm surges in the provinces of Surigao del Norte and Dinagat Islands in Mindanao, in five provinces of Visayas and in the island of Palawan in Luzon. It truly left a devastating scenario during the holiday season that is supposed to be merry and festive.

Within 24 hours after the typhoon made landfall, Cebu Pacific CSR and Cargo Team went on full force to provide support and free carriage to fly in much needed relief to affected communities. CEB transported more than 336 tons of humanitarian and disaster relief free of charge extended to govt, public and private organizations. Through the speedy response of the airline, they were able to airlift, food, water gallons, water filters, medicine, health and shelter items.

As part of the Typhoon Odette response, CEB also commissioned sweeper flights out of Siargao and nearby provinces to fly out locally stranded passengers and flew in medical volunteer doctors to help aid the health crisis experienced by affected areas. The airline also partnered with Gokongwei Brothers Foundation and distributed PHP800,000 worth of relief packs in Surigao and Siargao.

As a call to action, CEB also partnered with UNICEF, World Vision, Philippine Red Cross and Philippine Disaster Resilience Foundation and announced their respective platforms to cater those who want to donate in cash and in kind.

All these efforts shows how Cebu Pacific as a team truly practice the value of malasakit especially through hard times.



Vaccine Delivery

Having the widest domestic network, the Philippines' leading airline, also transported more than 43million COVID-19 vaccine doses in 2021. CEB has safely airlifted life-saving vaccines to 28 provinces from March until December, namely: Bacolod, Boracay, Bohol, Butuan, Cagayan de Oro, Cauayan, Cebu, Cotabato, Davao, Dipolog, Dumaguete, General Santos, Iloilo, Legazpi, Kalibo, Masbate, Naga, Ozamiz, Pagadian, Puerto Princesa, Roxas, San Jose, Siargao, Tacloban, Tuguegarao, Tawi-Tawi, Virac, and Zamboanga.

CEB is also the first airline among the Philippine companies that grouped together to help the government's pandemic relief efforts under the banner of Ingat Angat. The airline has been contributory as well in safely airlifting over 16.5 million vaccine doses from China to the Philippines from April to July 2021.

Bayanihan Flights

Throughout the year, the airline also flew a number of Bayanihan or sweeper flights to aid the Philippine government and its attached agencies in flying stranded tourists home. It has also mounted flights for OFWs in partnership with various organizations, such as the Overseas Workers Welfare Administration (OWWA).

A total of 11,423 Filipinos from Dubai, Abu Dhabi, Oman, India, Vietnam, Lebanon and Bahrain through Bayanihan and other chartered flights were mounted with the Department of Foreign Affairs (DFA) since July 2021.

From Dubai alone, CEB safely brought home 8,750 Filipinos via Bayanihan flights by the end of 2021. This is in support of the government's repatriation program to reunite our fellow countrymen with their families during the pandemic.





Free Tickets for National Athletes

Cebu Pacific honors the heroic achievements of the Philippine delegation to the Tokyo Olympics after they won multiple medals for the first time. The 19 athletes who gave honor and pride to the whole country are Eireen Ando, Kurt Barbosa, Hidilyn Diaz, Margielyn Didal, Luke Gebbie, Kris Knott, Eumir Marcial, Irish Magno, Cris Nievarez, EJ Obiena, Carlo Paalam, Bianca Pagdanaganan, Juvic Pagunsan, Nesthy Petecio, Remedy Rule, Yuka Saso, Jason Valdez, Kiyomi Watanabe and Carlos Yulo and Cebu Pacific recognizes their efforts by awarding them free flights. Each member of the Philippine delegation will receive 25 flights for free, to commemorate the airline's 25 years of enabling everyJuan to fly.

These tickets may be used for any domestic and short haul-destination in the Cebu Pacific network. Each awarded athlete may choose to use these for themselves, or share with the

rest of their teammates, families – practically anyone in their support system.

The Philippines also participated at the 2020 Summer Paralympics in Tokyo, Japan, last September 2021 and the country qualified six athletes. Although the delegation did not win any medal, Cebu Pacific still made moments happen for the paralympic athletes by giving them 13 roundtrip tickets each to any domestic or short haul destination of CEB valid until end of December 2022.

The athletes are Ernie Gawilan, Jerrold Mangliwan, Allain Ganapin, Gary Bejino, Jeanette Aceveda and Achelle Guion. They may also opt to share these tickets to their training team or to their loved ones which is the airlines way of showing gratitude to their efforts and to their contribution to the country.





For the past 25 years, CEB has been providing affordable, safe, and reliable flights to its customers to facilitate connectivity between families and communities. As it tirelessly works on moving people and cargo across great distances more efficiently, CEB ensures that it achieves its objectives with a social commitment to think of the welfare of its employees, the community and the environment in mind.

Financial Statements



RP-C3900

**STATEMENT OF MANAGEMENT’S RESPONSIBILITY
 FOR FINANCIAL STATEMENTS**

Securities and Exchange Commission
 Secretariat Building, PICC Complex
 Roxas Boulevard, Pasay City

The management of Cebu Air, Inc. (the “Parent Company”) is responsible for the preparation and fair presentation of the parent financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent financial statements, management is responsible for assessing the Parent Company’s ability to continue as going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Parent Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Parent Company’s financial reporting process.

The Board of Directors reviews and approves the parent financial statements including the schedules attached therein, and submits the same to the stockholders.

Sy Cip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Parent Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

James L. Go
 Chairman of the Board

Lance Y. Gokongwei
 President and Chief Executive Officer

Mark Julius V. Cezar
 Chief Finance Officer

Signed this MAR 30 2022 day of _____, 2022.

Subscribed and Sworn to before me this MAR 30, 2022 in the City of PASAY, affiants exhibiting to me their Passport, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
James L. Go	P2019464B	06/20/2019 until 06/19/2029	DFA NCR Central
Lance Y. Gokongwei	P6235422B	02/05/2021 until 02/04/2031	DFA NCR Central
Mark Julius V. Cezar	P4965589B	02/27/2020 until 02/26/2030	DFA Manila

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 Series of 2022

Angeli S. Tristeza
 NOTARY PUBLIC

ATTY. ANGELI S. TRISTEZA
 Commission No. 20-21
 Notary for Pasay City
 ROLL NO. 71193
 PTR No. 7682201/ 01-11-2022/ Pasay City
 IBP No. 166118/ 10-21-2021/ Cagayan

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Cebu Air, Inc.

Opinion

We have audited the consolidated financial statements of Cebu Air, Inc. and its Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2021 and 2020, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (the Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Going concern assessment

For the years ended December 31, 2021 and 2020, the Group incurred a net loss of ₱24.90 billion and ₱22.24 billion, respectively, and net cash outflows from operations of ₱6.26 billion and ₱14.45 billion, respectively. As of December 31, 2021 and 2020, the Group's current liabilities also exceeded its current assets by ₱9.08 billion and ₱21.65 billion, respectively. The COVID-19 pandemic has disrupted the business of the Group in 2021 and 2020, resulting in significant deterioration of earnings and cashflows, and may continue to significantly affect the future operations of the Group.

The consolidated financial statements have been prepared on a going concern basis. Management's assessment of the Group's ability to generate sufficient funding is based on assumptions, such as forecasted revenues and operating costs, that are subject to higher level of estimation uncertainty especially given the current economic conditions as impacted by the COVID-19 pandemic, and the feasibility of the Group's financing activities. As the going concern assessment is a significant aspect of our audit, we have identified this as a key audit matter.

The Group's disclosures on the going concern assessment are included in Notes 1 and 5 to the consolidated financial statements.

Audit Response

We obtained an understanding of management's going concern assessment, taking into consideration the current business environment and the Group's recovery plans. We evaluated the key assumptions, such as the forecasted revenues and operating costs, that were used by management in the Group's cash flows forecast for the next twelve months from reporting period. We evaluated these key assumptions by reference to historical information and relevant market data and by taking into consideration the actions undertaken and the planned strategies by management in relation to the Group's operating and financing activities to address the adverse impact of the COVID-19 pandemic. We reviewed contracts and agreements entered into by management as of the date of our report in relation to the Group's financing activities. We also assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

Estimation of Asset Retirement Obligation

As of December 31, 2021, the Group operates certain aircraft and engines under lease where it is contractually required to either restore these leased aircraft and engines to their original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. The related disclosures are in Notes 5, 20 and 33 to the consolidated financial statements.

Management estimates the overhaul, restoration and redelivery costs and accrues such costs over the lease term. The calculation of such costs includes management assumptions and estimates in respect of the anticipated rate of aircraft utilization, which includes flying hours and flying cycles and calendar months of the asset as used. These aircraft utilization and calendar months affect the extent of the restoration work that will be required and the expected costs of such overhaul, restoration and redelivery at the end of the lease term. We considered this area as a key audit matter given the significant amounts of these provisions and the extent of management judgment and estimates required..



Audit response

We obtained an understanding of management's process over estimating the Group's asset retirement obligation for the abovementioned aircraft and engines, and tested the relevant controls. We recalculated the asset retirement obligation and evaluated the key assumptions, such as maintenance rates and forecasted flight cycles and hours, adopted by management in estimating the asset retirement obligation for each aircraft and engine by discussing the aircraft utilization statistics with the Group's relevant fleet maintenance engineers. In addition, we obtained an understanding of the redelivery terms of the related lease arrangements by reading the related lease agreements and comparing the estimated costs against the comparable actual costs incurred by the Group from previous similar restorations.

Recoverability of Goodwill, Intangible Assets, Property and Equipment and Right-of-use Assets

As required under PFRSs, the Group tests the recoverability of the carrying values of goodwill and intangible assets on an annual basis, while the tests for property and equipment and right-of-use assets are performed where indicators of impairment exist. As of December 31, 2021 and 2020, the Group has goodwill and other intangible assets amounting to ₱721.65 million and ₱852.69 million, respectively, and property and equipment and right-of-use assets amounting to ₱74.29 billion and ₱30.32 billion and ₱91.32 billion and ₱17.67 billion, respectively.

The disruption caused by the COVID-19 pandemic to the Group's operations, which reported significant net loss in 2021 and 2020, is considered by management as an impairment indicator of property and equipment and right-of-use assets. Accordingly, management performed impairment tests to determine whether the carrying amount of the Group's property and equipment and right-of-use assets have exceeded their recoverable amounts.

Management's impairment assessment process on goodwill and other intangible assets, property and equipment and right-of-use assets require significant judgment and is based on assumptions, specifically discount rate and cashflow forecast, that are subject to higher level of estimation uncertainty especially given the current economic conditions as impacted by the COVID-19 pandemic.

We consider the impairment testing as a key audit matter given that the amounts of goodwill and other intangible assets, property and equipment and right-of-use assets are significant to the consolidated financial statements of the Group, the heightened level of estimation uncertainty on the future economic outlook and market forecast and the significant judgment involved.

Refer to Note 5 to the consolidated financial statements for the discussion of significant judgment and estimates, and to Notes 12, 14, 15 and 33 to the consolidated financial statements for detailed disclosures about the carrying amounts of goodwill and other intangible assets, property and equipment and right-of-use assets, respectively.



Audit Response

With the involvement of our internal specialist, we evaluated the key assumptions, such as the forecasted revenues, operating costs and discount rates, that were used to estimate the discounted cash flows of the cash generating units (CGU) to which the management attributes the goodwill and other intangible assets, property and equipment and right-of-use assets. We evaluated these key assumptions based on our understanding of the Group's business plans and by reference to historical information and relevant market data. In our sensitivity analyses, we considered past, current and anticipated changes in the business and economic environment. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about the assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill and other intangible assets, property and equipment and right-of-use assets.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2021 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2021, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wenda Lynn M. Loyola.

SYCIP GORRES VELAYO & CO.



Wenda Lynn M. Loyola

Partner

CPA Certificate No. 109952

Tax Identification No. 242-019-387

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 109952-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-117-2022, January 20, 2022, valid until January 19, 2025

PTR No. 8854316, January 3, 2022, Makati City

March 30, 2022



CEBU AIR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	₱18,142,000,080	₱4,324,047,495
Restricted cash (Note 7)	1,440,604,130	1,096,422,485
Receivables (Note 9)	1,978,916,405	2,233,632,383
Expendable parts, fuel, materials and supplies (Note 10)	1,776,575,069	1,906,063,822
Other current assets (Note 11)	2,988,829,444	2,578,517,403
Total Current Assets	26,326,925,128	12,138,683,588
Noncurrent Assets		
Property and equipment (Notes 12 and 33)	74,292,302,693	91,320,235,967
Right-of-use asset (Note 33)	30,320,961,533	17,669,768,620
Investments in joint ventures and associates (Note 13)	335,169,240	546,516,067
Goodwill (Note 14)	721,648,970	721,648,970
Deferred tax assets - net (Note 28)	3,437,863,668	1,471,670,325
Other noncurrent assets (Note 15)	2,818,890,093	4,590,058,039
Total Noncurrent Assets	111,926,836,197	116,319,897,988
TOTAL ASSETS	₱138,253,761,325	₱128,458,581,576
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Note 18)	₱4,462,412,500	₱4,802,300,000
Current portion of long-term debt (Note 18)	3,855,439,137	4,840,069,458
Accounts payable and other accrued liabilities (Note 16)	15,711,587,990	13,550,548,321
Unearned transportation revenue (Note 17)	4,568,640,575	3,671,467,764
Current lease liability (Note 33)	5,048,003,499	6,799,231,370
Derivative financial liabilities at fair value through profit or loss (Notes 8 and 19)	1,730,960,768	-
Derivative financial liabilities at fair value through other comprehensive income (Note 8)	-	32,214,937
Due to related parties (Note 30)	27,855,289	95,007,239
Income tax payable (Note 28)	1,270,183	-
Total Current Liabilities	35,406,169,941	33,790,839,089
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 18)	42,099,660,479	48,399,864,978
Lease liability - net of current portion (Note 33)	27,422,378,514	11,554,419,630
Bonds payable (Note 19)	12,184,836,126	-
Travel fund payable - net of current portion (Note 21)	1,850,992,630	3,432,763,770
Retirement liability (Note 27)	424,820,436	590,088,177
Other noncurrent liabilities (Note 20)	8,255,157,986	7,999,729,317
Total Noncurrent Liabilities	92,237,846,171	71,976,865,872
Total Liabilities	127,644,016,112	105,767,704,961
Equity		
Capital stock (Note 22)	942,183,918	613,236,550
Capital paid in excess of par value (Note 22)	20,544,153,993	8,405,568,120
Share-based payments (Note 23)	174,824,362	-
Treasury stock (Note 22)	(950,881,502)	(950,881,502)
Other comprehensive income (losses) (Note 31)	108,822,123	(66,291,759)
Retained earnings (deficit)	(10,209,357,681)	14,689,245,206
Total Equity	10,609,745,213	22,690,876,615
TOTAL LIABILITIES AND EQUITY	₱138,253,761,325	₱128,458,581,576

See accompanying Notes to Consolidated Financial Statements.



CEBU AIR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2021	2020	2019
REVENUE			
Sale of air transportation services			
Passenger	₱6,289,010,220	₱12,629,120,592	₱61,682,323,782
Cargo	6,471,159,954	5,401,966,490	5,745,173,259
Ancillary revenues (Note 24)	2,980,586,682	4,586,880,083	17,379,313,322
	15,740,756,856	22,617,967,165	84,806,810,363
EXPENSES			
Depreciation and amortization (Notes 6, 12 and 33)	14,355,454,086	16,074,455,051	15,399,075,784
Repairs and maintenance (Notes 10, 20 and 25)	9,653,563,335	8,557,241,666	7,993,913,625
Flying operations (Notes 10 and 25)	7,097,414,932	9,367,977,937	30,261,357,287
General and administrative (Note 26)	3,120,089,028	3,219,887,830	2,976,441,881
Aircraft and traffic servicing (Note 25)	2,669,596,916	3,374,260,034	9,262,480,358
Reservation and sales (Note 25)	899,253,672	1,499,182,703	4,059,163,907
Passenger service	659,762,025	1,009,555,914	1,919,420,047
Aircraft and engine lease (Notes 6 and 33)	443,481,482	284,665,157	313,939,967
	38,898,615,476	43,387,226,292	72,185,792,856
	(23,157,858,620)	(20,769,259,127)	12,621,017,507
OTHER INCOME (EXPENSES) - Net			
Interest income (Note 7)	36,478,759	157,917,380	670,599,817
Gain from:			
Insurance claims (Note 12)	138,049,029	807,409,620	–
Re-measurement of investment in joint venture (Note 13)	–	71,324,225	–
Sale of an investment in joint venture (Note 13)	–	34,465,240	–
Gain (loss) on disposal of property and equipment (Note 12)	1,388,678,985	(259,977,067)	(225,675,379)
Foreign exchange gains (losses) - net	(1,290,685,244)	1,731,990,762	274,565,577
Equity in net income (loss) of joint ventures and associates (Notes 6 and 13)	(174,431,012)	(316,115,081)	66,959,384
Market valuation losses on derivative financial instruments - net (Note 8)	(1,318,117,077)	(2,149,932,480)	(63,352,472)
Impairment loss (Note 13)	(36,915,815)	–	–
Financing costs and other charges:			
Financing and others (Notes 18 and 19)	(2,017,896,899)	(1,716,940,825)	(2,598,760,405)
Leases (Note 33)	(493,863,414)	(486,414,472)	(460,948,480)
	(3,768,702,688)	(2,126,272,698)	(2,336,611,958)
INCOME (LOSS) BEFORE INCOME TAX	(26,926,561,308)	(22,895,531,825)	10,284,405,549
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 28)	(2,027,958,421)	(659,089,849)	1,161,452,869
NET INCOME (LOSS)	(24,898,602,887)	(22,236,441,976)	9,122,952,680
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gains (losses) on retirement liability (Note 27)	210,443,808	386,098,893	(252,687,387)
Net fair value changes in cash flow hedge reserve	27,705,335	(284,522,331)	256,816,995
Tax effect	63,035,261	30,472,968	1,238,882
	175,113,882	71,103,594	2,890,726
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱24,723,489,005)	(₱22,165,338,382)	₱9,125,843,406
Basic/Diluted Earnings (Loss) Per Share (Note 29)	(₱42.13)	(₱37.14)	₱15.22

See accompanying Notes to Consolidated Financial Statements



CEBU AIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock		Capital Paid in		Other Comprehensive Income (Loss)			Retained Earnings (Deficit)		Total Equity	
	Value	(Note 22)	Excess of Par Value	(Note 22)	Remeasurement Gain (Loss) on Retirement Liability	Cash Flow hedge reserve	Appropriated	Unappropriated	Total		
	(Note 22)	(Note 22)	(Note 22)	(Note 22)	(Note 27)	(Note 27)	(Notes 22 and 33)	(Note 22)	Total		
Balance at January 1, 2021	₱613,236,550	₱8,405,568,120	₱-	₱(950,881,502)	₱(46,898,025)	₱(19,393,734)	₱(66,291,759)	₱12,000,000,000	₱2,689,245,206	₱14,689,245,206	₱22,690,876,615
Net loss	-	-	-	-	155,720,148	19,393,734	175,113,882	-	(24,898,602,887)	(24,898,602,887)	(24,898,602,887)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	175,113,882
Total comprehensive income (loss)	-	-	-	-	155,720,148	19,393,734	175,113,882	-	(24,898,602,887)	(24,898,602,887)	(24,723,489,005)
Issuance of preferred shares	328,947,368	12,171,052,616	-	-	-	-	-	-	-	-	12,499,999,984
Transaction costs	-	(32,466,743)	-	-	-	-	-	-	-	-	(32,466,743)
Cost of restricted stock units	-	-	-	116,527,033	-	-	-	-	-	-	116,527,033
Cost of stock options	-	-	-	58,297,329	-	-	-	-	-	-	58,297,329
Reversal of appropriations	-	-	-	-	-	-	-	(12,000,000,000)	12,000,000,000	-	-
Balance at December 31, 2021	₱942,183,918	₱20,544,153,993	₱174,824,362	₱(950,881,502)	₱108,822,123	₱-	₱108,822,123	₱-	₱(10,209,357,681)	₱(10,209,357,681)	₱10,609,745,213
Balance at January 1, 2020	₱613,236,550	₱8,405,568,120	₱-	₱(906,120,839)	₱(317,167,250)	₱179,771,897	₱(137,395,353)	₱26,000,000,000	₱10,925,687,182	₱36,925,687,182	₱44,900,975,668
Net loss	-	-	-	-	270,269,225	(199,165,631)	71,103,594	-	(22,236,441,976)	(22,236,441,976)	(22,236,441,976)
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	71,103,594
Total comprehensive income (loss)	-	-	-	-	270,269,225	(199,165,631)	71,103,594	-	(22,236,441,976)	(22,236,441,976)	(22,165,338,382)
Reversal of appropriations	-	-	-	-	-	-	-	(26,000,000,000)	26,000,000,000	-	-
Appropriation of retained earnings	-	-	-	-	-	-	-	12,000,000,000	(12,000,000,000)	-	-
Purchase of treasury stock	-	-	-	(44,760,663)	-	-	-	-	-	-	(44,760,663)
Balance at December 31, 2020	₱613,236,550	₱8,405,568,120	₱-	₱(950,881,502)	₱(46,898,025)	₱(19,393,734)	₱(66,291,759)	₱12,000,000,000	₱2,689,245,206	₱14,689,245,206	₱22,690,876,615
Balance at January 1, 2019	₱613,236,550	₱8,405,568,120	₱-	₱(785,536,714)	₱(140,286,079)	₱-	₱(140,286,079)	₱22,000,000,000	₱10,009,151,402	₱32,009,151,402	₱40,102,133,279
Net income	-	-	-	-	(176,881,171)	179,771,897	2,890,726	-	9,122,952,680	9,122,952,680	9,122,952,680
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	2,890,726
Total comprehensive income (loss)	-	-	-	-	(176,881,171)	179,771,897	2,890,726	-	9,122,952,680	9,122,952,680	9,125,843,406
Reversal of appropriations	-	-	-	-	-	-	-	(22,000,000,000)	22,000,000,000	-	-
Appropriation of retained earnings	-	-	-	-	-	-	-	26,000,000,000	(26,000,000,000)	-	-
Dividend declaration	-	-	-	-	-	-	-	-	(4,206,416,900)	(4,206,416,900)	(4,206,416,900)
Purchase of treasury stock	-	-	-	(120,584,125)	-	-	-	-	-	-	(120,584,125)
Balance at December 31, 2019	₱613,236,550	₱8,405,568,120	₱-	₱(906,120,839)	₱(317,167,250)	₱179,771,897	₱(137,395,353)	₱26,000,000,000	₱10,925,687,182	₱36,925,687,182	₱44,900,975,660

See accompanying Notes to Consolidated Financial Statements.



CEBU AIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	(₱26,926,561,308)	(₱22,895,531,825)	₱10,284,405,549
Adjustments for:			
Depreciation and amortization (Notes 12 and 33)	14,355,454,086	16,074,455,051	15,399,075,784
Provision for asset retirement obligation (Note 20)	3,566,104,161	3,132,239,751	1,940,084,130
Interest expense (Notes 18, 19 and 33)	2,511,760,313	2,203,355,297	3,059,708,885
Unrealized foreign exchange losses (gains) – net	1,464,946,976	(1,383,081,305)	(562,962,298)
Net changes in fair value of derivatives (Note 8)	1,318,117,077	2,149,932,480	63,352,472
Provision for heavy maintenance (Note 20)	849,950,290	345,964,168	–
Share-based payments (Note 23)	174,824,362	–	–
Equity in net (income) loss of joint ventures and associates (Note 13)	174,431,012	316,115,081	(66,959,384)
Provision for expected credit losses (Note 9)	130,516,567	102,043,756	–
Impairment loss in investment in associate (Note 13)	36,915,815	–	–
Redeemed & expired portion of deferred revenue on rewards program (Note 20)	(13,740,128)	(172,850,095)	(643,868,244)
Interest income (Note 7)	(36,478,759)	(157,917,380)	(670,599,817)
Loss (gain) on sale of other property and equipment	(62,304,670)	(1,408,161)	866,740
Loss (gain) on disposal of property and equipment (Note 12)	(1,388,678,985)	259,977,067	225,675,379
Gain from sale of an investment in joint venture (Note 13)	–	(34,465,240)	–
Gain from re-measurement of investment in joint venture (Note 13)	–	(71,324,225)	–
Operating income (loss) before working capital changes	(3,844,743,191)	(132,495,580)	29,028,779,196
Decrease (increase) in:			
Receivables	146,708,730	677,100,942	(75,906,582)
Restricted cash	(344,181,645)	(1,096,422,485)	–
Expendable parts, fuel, materials and supplies	129,488,752	101,662,371	35,959,480
Other current assets	2,043,268,058	540,311,176	1,230,765,673
Increase (decrease) in:			
Accounts payable and other accrued liabilities	(250,717,172)	952,943,230	1,512,339,343
Unearned transportation revenue	897,172,810	(8,210,131,827)	771,081,559
Retirement liability	45,176,068	(55,196,953)	179,799,095
Amounts of due to related parties	(67,151,950)	66,196,171	(2,119,549)
Deferred revenue on rewards program	–	–	924,714,078
Other noncurrent liabilities	(3,133,622,567)	(2,535,689,551)	(1,779,069,142)
Financial liabilities at fair value through profit or loss	20,235,264	(3,118,041,861)	(425,431,913)
Cash generated from (used in) operations	(4,358,366,843)	(12,809,764,367)	31,400,911,238
Interest paid	(1,933,873,077)	(1,622,358,037)	(2,671,033,108)
Income tax paid with creditable withholding taxes	–	(197,879,264)	(153,429,669)
Interest received	35,168,921	181,735,905	667,605,134
Net cash provided by (used in) operating activities	(6,257,070,999)	(14,448,265,763)	29,244,053,595
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceed from sales of:			
Property and equipment (Note 12)	10,705,940,871	7,336,303,774	4,406,643,673
Shares of stocks in a joint venture (Note 13)	–	373,377,600	–
Acquisitions of property and equipment (Note 12)	(5,506,681,706)	(4,044,960,019)	(25,570,098,817)
Refund of pre-delivery payments (Note 12)	5,911,374,086	1,231,661,595	–
Acquisition of a subsidiary (Note 13)	–	(200,877,673)	–
Investments in shares of stocks in joint ventures and an associate (Note 13)	–	(192,000,000)	(240,000,000)
Increase (decrease) in advances to suppliers and other noncurrent assets	(682,412,153)	236,362,339	528,105,316
Dividends received from a joint venture	–	–	62,871,045
Net cash provided by (used in) investing activities	10,428,221,098	4,739,867,616	(20,812,478,783)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Long-term debt (Note 18)	–	6,210,960,215	13,539,632,216
Short-term debt (Note 18)	4,234,107,500	4,839,600,000	–
Payments for:			
Long-term debt (Note 18)	(8,368,272,347)	(8,584,556,361)	(9,133,438,560)
Short-term debt (Note 18)	(4,791,800,000)	–	–
Proceeds from issuance of preferred shares, net of transaction costs (Note 22)	12,467,533,241	–	–
Proceeds from issuance of bonds payable, net of bond issue cost (Note 19)	11,782,473,335	–	–
Payments for lease liability (Note 33)	(6,267,349,863)	(6,362,210,157)	(6,680,508,048)
Purchase of treasury stock (Note 22)	–	(44,760,662)	(120,584,125)
Dividends paid (Note 22)	–	–	(4,206,416,900)
Net cash provided by (used in) financing activities	9,056,691,866	(3,940,966,965)	(6,601,315,417)
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS			
	590,110,620	(221,963,106)	(527,534,227)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,817,952,585	(13,871,328,218)	1,302,725,168
CASH AND CASH EQUIVALENTS AT JANUARY 1	4,324,047,495	18,195,375,713	16,892,650,545
CASH AND CASH EQUIVALENTS AT DECEMBER 31 (Note 7)	₱18,142,000,080	₱4,324,047,495	₱18,195,375,713

See accompanying Notes to Consolidated Financial Statements.



CEBU AIR, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Cebu Air, Inc. (the Parent Company) was incorporated and organized in the Philippines on August 26, 1988 to carry on, by means of aircraft of every kind and description, the general business of a private carrier or charter engaged in the transportation of passengers, mail, merchandise and freight, and to acquire, purchase, lease, construct, own, maintain, operate and dispose of airplanes and other aircraft of every kind and description, and also to own, purchase, construct, lease, operate and dispose of hangars, transportation depots, aircraft service stations and agencies, and other objects and service of a similar nature which may be necessary, convenient or useful as an auxiliary to aircraft transportation. In 2019, the principal place of business of the Parent Company is at 2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City. On November 13, 2019 and February 26, 2020, the Parent Company's Board of Directors and stockholders, respectively, approved the change in the Parent Company's principal place of business to Level 4, Unit 4030-4031, Robinsons Galleria Cebu, General Maxilom Avenue cor. Sergio Osmeña Boulevard, Cebu City, Cebu. The change in principal place of business was approved by the Philippine Securities and Exchange Commission on July 27, 2020.

The Group's operations are significantly affected by severe weather, natural disaster and seasonal factors. Severe weather and natural disasters can require the Group to suspend flight operations resulting to decrease in revenue. On the other hand, the demand for the Group's services increases significantly between dry season (March to June) and Christmas season (September to December).

The Parent Company has eleven (11) special purpose entities (SPEs) that it controls, namely: Summit C Aircraft Leasing Limited (SCALL), Tikgi One Aviation Designated Activity Company (TOADAC), Summit D Aircraft Leasing Limited (SDALL), CAI Limited (CL), Sampaguita Leasing Co. Ltd (SLCL), Dia Boracay Ltd. (DBL), Mactan Leasing Co., Ltd (MLCL), Cebuano Leasing Co., Ltd. (CLCL), Dia El Nido Ltd. (DENL), Tarsier Leasing Co., Ltd. (TLCL) and RAMEN Aircraft Leasing Limited (RALL). Other than CL, these are SPEs in which the Parent Company does not have any equity interest but have entered into finance lease arrangements for the funding of various aircraft deliveries (see Notes 12, 18 and 33).

On March 20, 2014, the Parent Company acquired 100% ownership of Tiger Airways Philippines (TAP), including a 40% stake in Roar Aviation II Pte. Ltd. (Roar II), a wholly owned subsidiary of Tiger Airways Holdings Limited (TAH). On April 27, 2015, with the approval of the Securities and Exchange Commission (SEC), TAP was rebranded and now operates as CEBGO, Inc.

On November 3, 2020, the Parent Company signed a Deed of Absolute Sale of Shares with SIA Engineering Company Limited (SIAEC) for the acquisition of SIAEC's entire 51% shareholding in Aviation Partnership (Philippines) Corporation (A-plus) in addition to its existing 49% interest, making A-plus a wholly owned subsidiary of the Parent Company.

The Parent Company, the eleven (11) SPEs, CEBGO, Inc. and A-plus (collectively known as "the Group") are consolidated for financial reporting purposes (see Note 2).

On March 1, 2018, the Parent Company incorporated 1Aviation Groundhandling Services Corporation (1Aviation), a wholly-owned subsidiary prior to its sale of 60% equity ownership in 1Aviation to Philippine Airport Ground Support Solutions, Inc. (PAGSS) and an individual on July 1, 2018. As of December 31, 2021, the remaining 40% equity stake owned by the



Parent Company in 1Aviation is accounted for as a joint venture with equity method accounting treatment (see Note 13).

In June and August 2019, Boracay Leasing Limited (BLL) and Surigao Leasing Limited (SLL) were dissolved due to full payment of loans and transfer of ownership of related aircraft to the Parent Company and CL. Panatag One Aircraft Leasing Limited (POALL) was also subsequently dissolved in December 2019 due to the sale of the related three (3) A320CEO aircraft to a subsidiary of Allegiant Travel Company.

In April 2021, Panatag Two Aircraft Leasing Limited (PTALL) was dissolved following the full payment of loans and transfer of ownership of related aircraft due to sale of four (4) A321 CEOs to EOS Aviation 6 Ireland Limited.

The Parent Company's common stock was listed with the Philippine Stock Exchange (PSE) on October 26, 2010, the Parent Company's initial public offering (IPO) (see Note 22).

The Parent Company's ultimate parent is JG Summit Holdings, Inc. (JGSHI). The Parent Company is 66.60%-owned by CP Air Holdings, Inc. (CPAHI).

In 1991, pursuant to Republic Act (R.A.) No. 7151, the Parent Company was granted a franchise to operate air transportation services, both domestic and international. In August 1997, the Office of the President of the Philippines gave the Parent Company the status of official Philippine carrier to operate international services. On March 31, 2001, the Philippine Civil Aeronautics Board (CAB) issued the permit to operate scheduled international services and a certificate of authority to operate international charters.

The Parent Company is registered with the Board of Investments (BOI) as a new operator of air transport on a non-pioneer status. Under the terms of the registration and subject to certain requirements, the Parent Company is entitled to certain fiscal and non-fiscal incentives, including among others, an income tax holiday (ITH) which extends for a period of two (2) to four (4) years for each batch of aircraft registered to BOI.

Prior to the grant of the ITH and in accordance with the Parent Company's franchise, which extends up to year 2031:

- a. The Parent Company is subject to franchise tax of five percent (5%) of the gross revenue derived from air transportation operations. For revenue earned from activities other than air transportation, the Parent Company is subject to corporate income tax and to real property tax.
- b. In the event that any competing individual, partnership or corporation received and enjoyed tax privileges and other favorable terms which tended to place the Parent Company at any disadvantage, then such privileges shall have been deemed by the fact itself of the Parent Company's tax privileges and shall operate equally in favor of the Parent Company (see Note 35).

The Reformed-Value Added Tax (R-VAT) law took effect on November 1, 2005 following the approval on October 19, 2005 of Revenue Regulations (RR) No. 16-2005, which provides for the implementation of the rules of the R-VAT law. Among the relevant provisions of R.A. No. 9337 are the following:

- a. The franchise tax of the Parent Company is abolished;
- b. The Parent Company shall be subject to corporate income tax;



- c. The Parent Company shall remain exempt from any taxes, duties, royalties, registration license, and other fees and charges;
- d. Change in corporate income tax rate from 32% to 35% for the next three years effective on November 1, 2005, and 30% starting on January 1, 2009 and thereafter; and
- e. Increase in the VAT rate imposed on goods and services from 10% to 12% effective on February 1, 2006.

Refer to Note 28 for changes in tax rates applicable to the Group due to implementation of Corporate Recovery and Tax Incentives for Enterprises (CREATE Law).

Status of Operations

The Group incurred a net loss of ₱24.90 billion and ₱22.24 billion for the years ended December 31, 2021 and 2020, respectively. Further, the Group's net cash outflows from operations amounted to ₱6.26 billion and ₱14.45 billion for the years ended December 31, 2021 and 2020, respectively. The Group's current liabilities exceeded its current assets by ₱9.08 billion and ₱21.65 billion as of December 31, 2021 and 2020, respectively. Furthermore, the Group reported a deficit of ₱10.21 billion as of December 31, 2021. The COVID-19 pandemic has disrupted the business of the Group in 2021 and 2020, resulting in significant deterioration of earnings and cashflows, and may continue to significantly disrupt the business activities of the Group.

The Group has undertaken various measures, including the implementation of comprehensive business transformation program to address the impact of the COVID-19 pandemic to its operational and financial performance. As at March 30, 2022, the Group has undertaken various financing activities intended to ensure availability of sufficient financial resources to enable the Group to continue as a going concern. Its cash and cash equivalent balance of ₱18.14 billion as of December 31, 2021 is sufficient to support the operations of the Group for the next 18 months. Based on management's cash flow projections for the next twelve months, the Group will maintain sufficient cash and cash equivalents from internally generated cash flows, refund of pre-delivery payments on new aircraft to be subjected to sale and leaseback and a ₱16.0 billion term loan facility with various banks that is available for drawdown anytime to finance its operations and pay its debts as and when they fall due. Accordingly, management has assessed that the Group, will have sufficient financial resources to enable the Group to continue as a going concern for at least the next twelve months from December 31, 2021.

2. Basis of Preparation and Statement of Compliance

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and financial assets and financial liabilities through other comprehensive income (FVOCI) that have been measured at fair value.

The consolidated financial statements of the Group are presented in Philippine Peso (₱ or Peso), the Parent Company's functional and presentation currency. All amounts are rounded to the nearest Peso, unless otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).



Basis of Consolidation

The consolidated financial statements as of December 31, 2021 and 2020 represent the consolidated financial statements of the Parent Company, the SPEs that it controls and its wholly owned subsidiaries, CEBGO and A-plus.

The Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (that is, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the investor's returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of the subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same reporting date as the Parent Company, using consistent accounting policies. All intragroup assets, liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards and amendments effective as of January 1, 2021.

The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective. The adoption of these pronouncements does not have a significant impact on the Group's consolidated financial statements unless otherwise indicated.



- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond June 30, 2021*
The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
 - The rent concession is a direct consequence of COVID-19;
 - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
 - Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
 - There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

The Group adopted the amendment beginning April 1, 2021. The Group's lease concessions were accounted for as lease modification. Accordingly, the adoption of the amendment did not impact the Group's consolidated financial statements.

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*
The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
 - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
 - Relief from discontinuing hedging relationships
 - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Group shall also disclose information about:

- The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Group is not required to restate prior periods. The adoption of the amendment did not impact the Group's financial statement as of December 31, 2021.

4. Summary of Significant Accounting Policies

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification.



An asset is current when it is:

- a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
- b. Held primarily for the purpose of trading;
- c. Expected to be realized within twelve months after the reporting period; or
- d. Cash or cash equivalents, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- a. It is expected to be settled in normal operating cycle;
- b. It is held primarily for the purpose of trading;
- c. It is due to be settled within twelve months after the reporting period; or
- d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Fair Value Measurement

The Group measures derivatives at fair value at each reporting period. Also, for assets and liabilities which are not measured at fair value in the consolidated statement of financial position but for which the fair value is disclosed, are included in Note 32.

The fair value is the price that would be received to sell an asset in an ordinary transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the measurement is directly or indirectly observable.
- Level 3: Valuation techniques for the lowest level input that is significant to the fair value measurement is unobservable.



For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash and Cash Equivalents

Cash represents cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of six months or less from dates of placement and that are subject to an insignificant risk of changes in value. Cash equivalents include short-term investments that can be pre-terminated and readily convertible to known amount of cash and that are subject to an insignificant risk of changes in value.

Restricted cash

Restricted cash are cash in bank set aside as security for letters of credit issued to aircraft lessors. The nature of restriction is assessed by the Group to determine its eligibility to be classified as cash and cash equivalents. The Group classifies restricted cash as current and noncurrent assets depending on the tenure of the restriction.

Financial Instruments - Initial Recognition and Subsequent Measurement

Classification of financial instruments

Financial instruments are classified, at initial recognition, as subsequently measured at amortized cost, fair value through OCI, financial assets and financial liabilities at FVPL and other financial liabilities.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables are measured at the transaction price determined under PFRS 15, *Revenue from Contracts with Customers*.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs.

a. Financial Assets at Amortized Cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and



- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains or losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

This accounting policy applies primarily to the Group's cash and cash equivalents (excluding cash on hand), restricted cash, receivables and certain refundable deposits.

b. **Financial Assets and Financial Liabilities at FVPL**

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at financial assets at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVPL. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of FVPL category.

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments such as jet fuel/sing kero and brent crude swaps and zero cost collars and crack swap contracts to manage its exposure to fuel price fluctuations and forward contracts for the risk associated with foreign currency (FX). Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Derivatives maturing 2020 and beyond started to be designated as accounting hedges beginning September 1, 2019 and adhered to PFRS 9, *Financial Instruments; Recognition and Measurement*, Hedge Accounting requirements.



For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; and
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes Group's risk management strategies and objectives focusing on the hedged risks, identification of the hedging instrument, the hedged item, and the nature of the risks being hedged and the Group's assessment on whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging instrument is recognized in the consolidated statement of comprehensive income as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated statement of comprehensive income as other expense.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss.



Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately under 'Market valuation gains (losses) on derivative financial instruments' in the consolidated statement of comprehensive income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as OCI while any gains or losses relating to the ineffective portion are recognized in the consolidated statement of comprehensive income.

The Group applies cash flow hedge accounting to all designated hedges beginning September 1, 2019.

Derivatives not Designated as Hedging Instruments

Derivative financial instruments previously designated in hedging relationships that have been subsequently discontinued, either fully or partially, were recognized as financial assets or liabilities at FVPL in the consolidated statement of financial position. Hedge accounting is discontinued under the following circumstances:

- Risk management objectives were updated or modified;
- Economic relationship between the fuel and FX hedges and the forecasted purchase was subsequently assessed to be non-existing;
- Effect of credit risk dominates the value changes of the hedging relationship upon performing subsequent effectiveness testing; and
- Forecasted underlying or hedged item is no longer highly probable to occur



Discontinuation of hedge accounting is applied prospectively upon determination that the forecasted cash flow is no longer highly probable, even if still expected to occur. Amounts accumulated in the cash flow hedge reserve remain recognized separately in equity until the forecasted transaction occurs if the loss is recoverable.

When discontinuation of hedge accounting arises due to hedged future cash flows are no longer expected to occur, amounts accumulated in the cash flow hedge reserve are immediately reclassified to profit or loss under 'Market valuation gains (losses) on derivative financial instruments' in the consolidated statement of comprehensive income. Any subsequent changes in the fair value of these derivative financial instruments are recognized under 'Market valuation gains (losses) on derivative financial instruments' in the consolidated statement of comprehensive income and are presented net.

Derivatives that do not meet the hedge accounting criteria are treated as economic hedges and not designated in hedging relationships. This default accounting has been applied to derivatives for which hedge accounting was fully or partially discontinued in 2020.

Derivative Financial Instruments

Derivative financial instruments, including bifurcated embedded derivatives, are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group's derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the combined instrument vary, in a way similar to a stand-alone derivative. The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- c) the hybrid or combined instrument is not recognized as at FVPL.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

The Group's bifurcated embedded derivatives pertain to options arising from the Parent Company's convertible bonds payable.



c. Other Financial Liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings.

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR.

This accounting policy applies primarily to the Group's accounts payable and other accrued liabilities, short-term debt, long-term debt, bonds payable and other obligations that meet the above definition.

Classification of Financial Instruments Between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Debt Issue Costs

Debt issue costs are presented as reduction in long-term debt and are amortized over the terms of the related borrowings using the EIR method.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right to offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Derecognition of Financial Instruments

Financial asset

A financial asset (or, when applicable, a part of a financial asset or part of a group of financial assets) is derecognized (that is, removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or



- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangements; and either:
 - The Group has transferred substantially all the risks and rewards of the asset; or
 - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lowest level of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead, recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.



For other debt financial instruments such as cash and cash equivalents (excluding cash on hand) and refundable deposits ECLs, the Group applies the general approach of which it tracks changes in credit risk at every reporting date. The probability of default (PD) and loss given defaults (LGD) are estimated using external and benchmark approaches for listed and non-listed financial institutions, respectively. For listed financial institutions, the Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs. For non-listed financial institutions, the Group uses benchmark approach where the Group finds comparable companies in the same industry having similar characteristics. The Group obtains the credit rating of comparable companies to determine the PD and determines the average LGD of the selected comparable companies to be applied as LGD of the non-listed financial institutions.

Expendable Parts, Fuel, Materials and Supplies

Expendable parts, fuel, materials and supplies are stated at the lower of cost and net realizable value (NRV). Cost of flight equipment expendable parts, materials and supplies are stated at acquisition cost determined on a moving average cost method. Fuel is stated at cost on a weighted average cost method. NRV represents replacement cost of these expendable parts, fuel, materials and supplies, considering factors such as age and physical condition of these assets.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization and accumulated impairment loss, if any. The initial cost of property and equipment comprises its purchase price, any related capitalizable borrowing costs attributed to progress payments incurred on account of aircraft acquisition under construction and other directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are capitalized as part of 'Property and equipment' account only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Subsequent costs such as actual costs of heavy maintenance visits for airframe and engine are capitalized and depreciated based on the estimated number of years or flying hours, whichever is applicable, until the next major overhaul or inspection.

Generally, heavy maintenance visits are required every five (5) to six (6) years for airframe and ten (10) years or 20,000 flight cycles, whichever comes first, for landing gear. All other repairs and maintenance expenses are charged to profit or loss as incurred.

Pre-delivery payments for the construction of aircraft are initially recorded as Construction in-progress when paid to the counterparty. Construction in-progress are transferred to the related 'Property and equipment' account when the construction or installation and related activities necessary to prepare the property and equipment for their intended use are completed, and the property and equipment are ready for service. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use.

Depreciation and amortization of property and equipment commence once the property and equipment are available for use and are computed using the straight-line method over the estimated useful lives (EULs) of the assets, regardless of utilization.

The EULs of property and equipment of the Group follow:

<u>Category</u>	<u>EUL (in years)</u>
Aircraft*	15
Engines	15



<u>Category</u>	<u>EUL (in years)</u>
Rotables	15
Ground support equipment	5
EDP Equipment, mainframe and peripherals	3
Transportation equipment	5
Furniture, fixtures and office equipment	5
Communication equipment	5
Special tools	5
Maintenance and test equipment	5
Other equipment	5
<i>*With residual value of 15.00%</i>	

Leasehold improvements are amortized over the shorter of their EULs or the corresponding lease terms.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 recognized in profit or loss, when the asset is derecognized.

The methods of depreciation and amortization, EUL and residual values of property and equipment are reviewed annually and adjusted prospectively.

Fully depreciated property and equipment are returned in the account until they are no longer in use and no further depreciation or amortization is charged to profit or loss in the consolidated statement of comprehensive income.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress, and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

The Group has not capitalized any borrowing costs for the years ended December 31, 2021 and 2020 as all borrowing costs from outstanding long-term debt relate to assets that are ready for intended use.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included under 'General and administrative' account in the consolidated statement of comprehensive income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.



If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PFRS 9, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses.

Investments in Joint Ventures and Associates

A joint venture (JV) is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled entity is a JV that involves the establishment of a separate entity in which each venturer has an interest. An associate is an entity in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture.

The Parent Company's 60% and 40% respective investments in Philippine Academy for Aviation Training, Inc. (PAAT), and 1Aviation (1AV) are classified as investments in joint ventures. The Parent Company's 13% investment in Value Alliance Travel System Pte. Ltd. (formerly Air Block Box Asia Pacific Pte. Ltd.) and 40% investment in Digital Analytics Ventures, Inc. (DAVI) are classified as investment in associates. These investments in JVs and associates are accounted for under the equity method. Under the equity method, the investments in JVs and associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the JVs and associates, less any allowance for impairment in value. The consolidated statement of comprehensive income reflects the Group's share in the results of operations of the JVs and associates. Dividends received are treated as a reduction from the carrying value of the investment.

The financial statements of the investee companies used in the preparation of the consolidated financial statements are prepared as of the same date with the Group. The investee companies' accounting policies conform to those by the Group for like transactions and events in similar circumstances.

Intangible Assets

Intangible assets include acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost, less any accumulated impairment loss.



Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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 recognized in profit or loss when the asset is derecognized.

The intangible assets of the Group have indefinite useful lives.

Impairment of Nonfinancial Assets

The Group assesses, at each reporting date, whether there is an indication that an asset (e.g., property and equipment, right-of-use assets and investments in joint ventures and associates) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal (FVLCD) and its value-in-use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In assuming VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which takes into consideration impact of COVID-19, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five (5) years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimate the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine that asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value is impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGU) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment loss relating to goodwill cannot be reversed in future periods.



Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Aircraft Maintenance and Overhaul Cost

The Group recognizes aircraft maintenance and overhaul expenses in accordance with the contractual terms.

The maintenance contracts are classified into two: (a) those based on time and material basis (TMB); and (b) power-by-the-hour (PBH) contract. For maintenance contracts under TMB and PBH, the Group recognizes expenses on an accrual basis.

Asset Retirement Obligation (ARO)

The Group is contractually required under various lease contracts to either restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. The event that gives rise to the obligation is the actual flying hours, flying cycles or calendar months of the asset as used, as the usage determines the timing and nature of the overhaul and restoration work required or the amount to be contributed at the end of the lease term.

If there is a commitment related to maintenance of aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is made based on historical experience, manufacturers' advice and if relevant, contractual obligations, to determine the present value of the estimated future major airframe inspections cost and engine overhauls.

Advance payment for materials for the restoration of the aircraft is initially recorded under 'Advances to suppliers' account in the consolidated statement of financial position. This is recouped when the expenses for restoration of aircraft have been incurred.

The Group regularly assesses the provision for ARO and adjusts the related liability. ARO liability is carried at amortized cost using effective interest method.

Heavy Maintenance Visits (HMV)

The Group is contractually required under various lease contracts to undertake the maintenance and overhaul of certain leased aircraft throughout the contract period. Major maintenance events are required to be performed on a regular basis based on historical or industry experience and manufacturer's advise. Estimated costs of major maintenance events are accrued and charged to profit or loss over the estimated period between overhauls as the leased aircraft is utilized. HMV liability is carried at amortized cost using effective interest method.

Liability Under Lifestyle Rewards Program

The Group operates a lifestyle rewards program called 'Getgo'. A portion of passenger revenue attributable to the award of Getgo points, which is estimated based on expected utilization of these benefits, is deferred until utilized. The fair value of the consideration received in respect of the initial sale is allocated to the award credit based on its fair value. The deferred revenue is included under 'Other noncurrent liabilities' account in the consolidated statement of financial position. Any remaining unutilized benefits are recognized as revenue upon redemption or expiry.

There have been no changes in the accounting policy on the deferral and subsequent recognition of passenger revenue related to the award of Getgo points as effect of the adoption of PFRS 15.



Starting January 1, 2020, the management and ownership of the Getgo points issued in 2020 has been transferred to DAVI. As such, all revenue and expenses in relation to the Getgo points issued in 2020 will be recognized by DAVI. The Group accounts for such issued and redeemed points as a payable to and receivable from DAVI, respectively.

Getgo points outstanding as of December 31, 2019, however, are permanently ring-fenced in the Group's books. The Group shall continue to account for these points using the aforementioned policy until redemption or expiration (see Note 20).

Last July 26, 2021, the Group's Getgo program was replaced by Go Rewards. With this change, the remaining unredeemed ring-fenced points in the Group's books were all converted to Cebu Pacific Travel Fund, a virtual wallet that can be used as a form of payment for booking new flights and purchasing add-ons (see Note 21).

Capital Stock

Capital stock, both common and preferred, is classified as equity and recorded at par. Proceeds in excess of par value are recorded under 'Capital paid in excess of par value' account in the consolidated statement of financial position. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from 'Capital paid in excess of par value'.

Treasury Stock

Own equity instruments which are acquired (treasury stock) are recognized at cost and deducted from equity. No gain or loss is recognized in profit and loss on the purchase, sale, issuance or cancellation of the Parent Company's own equity instruments.

Retained Earnings (Deficit)

Retained earnings represents accumulated earnings or losses of the Group, less dividends declared. Appropriated retained earnings are set aside for purposes of the Parent Company's re-fleeting program. When retained earnings account has a debit balance, it is called a "deficit", and presented as a deduction from equity.

Dividends on common and preferred shares are recognized as liability and deducted from equity when approved and declared by the Parent Company's Board of Directors (BOD), in the case of cash dividends; or by the Parent Company's BOD and shareholders, in the case of stock dividends.

Revenue Recognition

The Group is in the business of providing air transportation services. Revenue from contracts with passengers and cargo customers, and any related revenue from services incidental to the transportation of passengers, is recognized when carriage is provided or when the passenger is lifted in exchange for an amount that reflects the consideration to which the Group expects to be entitled to.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of air transportation services

Passenger ticket and cargo waybill sales are initially recorded as unearned passenger revenue under 'Unearned transportation revenue' account in the consolidated statement of financial position until earned and recognized under 'Revenue' account in the consolidated statement of comprehensive income when carriage is provided or when the passenger is lifted or flown.



Ancillary revenue

Flight and booking services

Revenue from services incidental to the transportation of passengers such as excess baggage, inflight sales and rebooking and website administration fees are initially recognized as deferred ancillary revenue under 'Unearned transportation revenue' account in the consolidated statement of financial position until the services are rendered.

Other ancillary revenue

Other ancillary revenue such as refund surcharges, service income and cancellation fees are recognized upon booking.

A-Plus' revenue from third party customers

Revenue from services rendered by A-Plus to third party customers is recognized when it satisfies a performance obligation by transferring a promised service to the customer, which is when the customer obtains control of service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. A-Plus' revenue from third party customers is presented under 'Ancillary revenue' account in the consolidated statement of comprehensive income. A-Plus' revenue for services rendered to the Parent Company are eliminated upon consolidation.

Interest income

Interest on cash in banks, short-term cash placements and debt securities is recognized as the interest accrues using the EIR method.

Expense Recognition

Expenses are recognized when it is probable that decrease in future economic benefits related to a decrease in an asset or an increase in a liability has occurred and the decrease in economic benefits can be measured reliably.

The commission related to the sale of air transportation services is recognized as outright expense upon receipt of the payment from customers, and is included under 'Reservation and sales' account in the consolidated statement of comprehensive income.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the Parent Company and subsidiaries' functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency using the Bankers Association of the Philippines (BAP) closing rate prevailing as of December 31, 2021 and 2020, respectively. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the prevailing closing exchange rate as of the date of initial transaction.

Retirement Costs

The Group maintains defined benefit plans covering substantially all of its employees. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. The method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity with the option to accelerate when significant changes to underlying assumptions occur.



Retirement expense comprises the following:

- a. Service cost; and
- b. Net interest on retirement liability.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements, are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on retirement liability is the change during the period in the retirement liability that arises from the passage of time, which is determined by applying the discount rate based on high quality corporate bonds to the retirement liability. Net interest on retirement liability is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, excess of actual return on plan assets over interest income and any change in the effect of the asset ceiling (excluding net interest on retirement liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The retirement liability is the aggregate of the present value of defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Share-based Payments

The Group has a Long-Term Incentive Plan (LTIP) granting eligible persons any one or a combination of Restricted Stock Units (RSUs) and Stock Options to purchase a fixed number of shares of stock at a stated price during a specified period ("equity-settled transactions").

The cost of equity-settled transactions is measured by reference to the fair value at the date at which these are granted. Said cost is recognized in profit or loss, together with a corresponding increase in 'Share-based payments' account in the consolidated statement of financial position, over the period in which the service conditions are fulfilled, ending on the date on which the eligible persons become fully entitled to the award ("vesting date"). The fair value of Stock Options is determined using the Cox-Ross-Rubinstein Binomial Option Pricing Method. The cumulative expense recognized for the share-based transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not ultimately vest.



Where the terms of a share-based award are modified, at a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment agreement, or is otherwise beneficial to the eligible persons as measured at the date of modification.

Where a share-based award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if there were a modification of the original award. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Income Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions, when appropriate.

Deferred tax

Deferred tax is provided using the liability method on all temporary differences, with certain exceptions, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences with certain exceptions, and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT over RCIT and unused NOLCO can be utilized. Deferred tax assets, however, are not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable profit or loss.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax liabilities associated with investments in subsidiaries, associates, and interests in joint arrangements are not recognized if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the reporting date.



Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or OCI.

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

Leases

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease Liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group accounted the deferral of lease payments originally due on various date until before June 30, 2021 granted by the lessors due to COVID-19 pandemic as a separate lease liability in the period the allocated lease payments are due. The separate lease liability does not accrue interest. The Group continued to account for the original lease liability using the rights and obligations of the existing lease.

The Group accounts for other lease concessions as lease modification. The Group remeasures the lease liability using the incremental borrowing rate as at modification date and charge any adjustment to right-of-use assets.



Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Sale and leaseback

When entering into a sale and leaseback transaction, the Group determines whether the transfer qualifies as a sale based on the requirements satisfying a performance obligation under PFRS 15. When the transfer of the asset is a sale, the Group measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by the Group. Gain or loss is recognized only at the amount that relates to the rights transferred to the buyer-lessor. When the transfer of the asset is not a sale under PFRS 15 requirements, the Group continues to recognize the asset in its consolidated statement of financial position and accounts for the proceeds from the sale and leaseback as a financial liability in accordance with PFRS 9.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (that is, more likely than not) 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 the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense in profit or loss.

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed in the notes to consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable. If it is virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Earnings (Loss) Per Share

Basic earnings (loss) per share (EPS) is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted earnings (loss) per share (EPS) amounts are calculated by dividing the net income (loss) attributable to common stockholders of the Group by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common shares.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for resource allocation and assessing performance of the operating segment, has been identified as the President and Chief Executive Officer (CEO). The nature of the operating segment is set out in Note 6.



Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting event) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements, when material.

5. Significant Accounting Judgments and Estimates

In the process of applying the Group's accounting policies, management has exercised judgments and estimates in determining the amounts recognized in the consolidated financial statements. The most significant uses of judgments and estimates follow:

Judgments

a. Use of going concern assumption

The underlying assumption in the preparation of the accompanying consolidated financial statements is that the Group has the ability to continue as a going concern for at least the next twelve (12) months from December 31, 2021. The use of the going concern assumption involves management making significant judgments, at a particular point in time, about the future outcome of events or conditions that are inherently uncertain. Management takes into account a whole range of factors which include, but are not limited to, the forecasted level of revenue and operating cost, profitability and cash flows, and the other potential sources of financing given the economic uncertainties caused by the COVID-19 pandemic (see Note 1). Management believes that with the continuing implementation of the comprehensive business transformation program which will reduce operating costs and ensures the Group's competitiveness and with the progress of the steps undertaken to date on the Group's financing plans, the Group will be able to generate sufficient cash flows to enable the Group to meet its obligations when they fall due to address the Group's liquidity requirements and to support its operations. Accordingly, the accompanying consolidated financial statements have been prepared on a going concern basis of accounting.

b. Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised (see Note 33).

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group included the renewal period as part of the lease term for leases of aircraft with shorter non-cancellable period (i.e., three to five years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on operation if a replacement asset is not readily available. Refer to Note 33 for the disclosure of the Group's leases.



c. *Determination of sale and leaseback transaction as true sale or financing transaction – Group as lessee*

The Group determines whether the transfer of assets qualifies as a sale by referring to the requirements for satisfying performance obligations under PFRS 15. The sale and leaseback transactions are considered as a true sale if there is a transfer of rights and ownership of the related asset. If the transfer is not a sale under PFRS 15 requirements, the Group accounts for the sale and leaseback as a financing transaction in accordance with PFRS 9. The Group assessed that the sales and leaseback transactions in 2021 and 2020 qualify as true sale.

d. *Determination of functional currency*

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Group's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Group. In making this judgment, each entity in the Group considers the following:

- The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- The currency in which funds from financing activities are generated; and
- The currency in which receipts from operating activities are usually retained.

Management determined that Philippine Peso is the functional currency for the Group, after considering the criteria stated in PAS 21.

e. *Consolidation of SPEs*

The Group periodically undertakes transactions that may involve obtaining the rights to variable returns from its involvement with the SPEs. These transactions include the purchase of aircraft and assumption of certain liabilities. In all such cases, management makes an assessment as to whether the Group has: (a) power over the SPEs; (b) the right over the returns of its SPEs; and (c) the ability to use power over the SPEs to affect the amount of the Parent Company's return, and based on these assessments, the SPEs are consolidated as a subsidiary or associated company. In making these assessments, management considers the underlying economic substance of the transaction and not only the contractual terms. The Group has assessed that it will benefit from the economic benefits of the SPEs' activities and it will affect the returns for the Group. The Group is directly exposed to the risks and returns from its involvement with the SPEs. Such rights and risks associated with the benefits and returns are indicators of control. Accordingly, the SPEs are consolidated.

Upon loss of control, the Group derecognizes the assets and liabilities of its SPEs and any surplus or deficit is recognized in profit or loss.

f. *Contingencies*

The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these will have a material adverse effect on the Group's consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 33).



g. Allocation of revenue, costs and expenses for registered and non-registered activities

Revenue, costs and expenses are classified as exclusive and common. Exclusive revenue, cost and expenses such as passenger revenue, cargo revenue, baggage revenue, insurance surcharge, fuel and oil expense, hull/war/risk insurance, maintenance expense, depreciation, lease expense (for aircraft under operating lease) and interest expense based on the related long-term debt are specifically identified per aircraft based on an actual basis. For revenue, cost and expense accounts that are not identifiable per aircraft, the Group allocates based on activity factors that closely relate to the earning process of the revenue.

h. Assessment of intangible assets with indefinite useful lives

The Group has intangible assets representing costs to establish brand and market opportunities under the strategic alliance with CEBGO. Management assessed that these assets have indefinite useful lives because there is no foreseeable limit to the period over which these assets are expected to generate net cash inflows to the Group.

i. Determination of jet fuel/sing kero price risk components

The Group has historically entered into fuel derivatives to provide extensive protection against the unexpected jet fuel prices movement due to various economic and political events happening across the world. Beginning September 1, 2019, the Group commenced the application of hedge accounting under PFRS 9 on fuel derivatives maturing in 2020 and beyond and has classified these as cash flow hedges. Along with the jet fuel price risk hedging, the Group also adopted risk component hedging strategy given the lack of liquidity in the jet fuel derivatives with long-term maturities across financial markets. Risk components of the jet fuel price are identified as the Brent crude oil and cracks. These components are determined to be separately identifiable and changes in the fair value of the jet fuel attributable to changes in the Brent crude oil price can be measured reliably.

The existence of a separate market structure for the Brent crude oil and the crack which represents the refining component corroborates with the management's assertion that these two risk components are separately identifiable and corresponding prices can be reliably measured, among others.

Estimates and Assumptions

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below:

a. Recognition of deferred tax assets

The Group assesses the carrying amounts of deferred income taxes at each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

As of December 31, 2021 and 2020, the Group has deferred tax assets amounting to ₱6,229.0 million and ₱4,564.8 million, respectively. Unrecognized deferred tax assets as of December 31, 2021 and 2020 amounted to ₱8,266.2 million and ₱4,941.4 million, respectively (see Note 28).



b. *Impairment of goodwill, intangible assets, property and equipment and right-of-use assets*

The Group determines whether goodwill, intangibles with indefinite useful lives, property and equipment and right-of-use assets are impaired. For goodwill and intangible assets with indefinite useful lives, the impairment testing is performed annually as at December 31 and when circumstances indicate that the carrying amount is impaired. For property and equipment and right-of-use assets, impairment testing is performed when circumstances indicate that the carrying amount is impaired. The impairment testing requires an estimation of the recoverable amounts, which is the FVLCD or VIU of the CGU whichever is higher, to which the goodwill, intangibles with indefinite useful lives, property and equipment and right-of-use assets belong.

In determining the recoverable amount of these assets, the management estimates the VIU of the CGU to which goodwill and intangible assets are allocated and/or the VIU of the CGU to which the property and equipment and right-of-use assets belong. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and applying an appropriate discount rate in order to calculate the present value of those cash flows. In discounting, the Group uses a discount rate based on the weighted average cost of capital adjusted to reflect the way that the market would assess the specific risks associated with the cash flow and exclude risks that are not relevant to the cash flow. Other assumptions used in projecting the future cash flows include passenger load factor, passenger yield and fuel costs, among others.

As of December 31, 2021 and 2020, the Group has determined that goodwill, intangibles with indefinite useful lives, property and equipment and right-of-use assets are recoverable based on VIU. Goodwill amounted to ₱721.6 million as of December 31, 2021 and 2020 (see Note 14). Brand and market opportunities, which are recorded under 'Other noncurrent assets' account amounted to ₱852.7 million as of December 31, 2021 and 2020 (see Notes 14 and 15). Property and equipment and right-of-use assets amounted to ₱74.3 billion and ₱30.3 billion and ₱91.3 billion and ₱17.7 billion as of December 31, 2021 and 2020, respectively (see Notes 12 and 33).

c. *Estimation of ARO*

The Group is contractually required under certain lease contracts to restore certain leased passenger aircraft to stipulated return condition or to bear a proportionate costs of restoration at the end of the contract period. Since the first operating lease entered by the Group in 2001, these costs are accrued based on an internal estimate which includes estimates of certain redelivery costs at the end of the operating aircraft lease. The contractual obligation includes regular aircraft maintenance, overhaul and restoration of the leased aircraft to its original condition. Regular aircraft maintenance is accounted for as expense when incurred, while overhaul and restoration are accounted on an accrual basis.

Assumptions used to compute ARO are reviewed and updated annually by the Group. As of December 31, 2021 and 2020, the cost of restoration is computed based on the Group's assessment on expected future aircraft utilization.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. The recognition of ARO would increase other noncurrent liabilities and repairs and maintenance expense.

As of December 31, 2021 and 2020, the Group's ARO (included under 'Other noncurrent liabilities' account in the consolidated statements of financial position) has a carrying value of ₱7,084.7 million and ₱6,539.0 million, respectively (see Note 20). The related repairs and maintenance expense for the years ended December 31, 2021, 2020 and 2019 amounted to ₱3,566.1 million, ₱3,132.2 million and ₱1,940.1 million, respectively (see Note 25).



d. *Estimation of HMV*

The Group is contractually required under various lease contracts to undertake the maintenance and overhaul of certain leased aircraft throughout the contract period. Major maintenance events are required to be performed on a regular basis based on historical or industry experience and manufacturer's advise. Estimated costs of major maintenance events are accrued and charged to profit or loss over the estimated period between overhauls as the leased aircraft is utilized.

As of December 31, 2021 and 2020, the Group's HMV (included other 'Other noncurrent liabilities' account in the consolidated statements of financial position) has a carrying value of ₱1,082.6 million and ₱346.0 million, respectively (see Note 20). The related repairs and maintenance expense for the years ended December 31, 2021, 2020 and 2019 amounted to ₱850.0 million, ₱346.0 million and nil, respectively (see Note 25).

e. *Fair values of financial instruments*

Where the fair values of certain financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques, including the discounted cash flow model. The inputs to these models are taken from observable market data where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. For derivatives, the Group generally relies on the counterparties' valuation.

The fair values of the Group's financial instruments are presented in Note 32.

f. *Estimation of liability under the Lifestyle Rewards Program*

A portion of passenger revenue attributable to the award of lifestyle reward program points, estimated based on expected utilization on these benefits, is deferred until utilized. The points expected to be redeemed are measured at fair value which is estimated using the Peso value of the points. Deferred revenue included as part of 'Other noncurrent liabilities' account amounted to nil and ₱1,062.1 million as of December 31, 2021 and 2020, respectively (see Note 20). Any remaining unredeemed points are recognized as revenue upon expiration.

g. *Lessee – estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating) (see Note 33).



h. Fair values of aircraft at sale and operating leaseback transaction

The Group determines the fair values of its aircraft by relying on a third party's valuation which has a global view of all area of the market which brings essential context of changes in the market and the opportunities and risks. The judgment includes determination whether the difference between the fair value of the aircraft and its selling price should be accounted as immediate gain in the profit or loss or be deferred over the operating lease term. The Group entered into sale and operating leaseback transactions in 2021 and 2020 (see Notes 12 and 33).

i. Estimation of retirement and other employee benefit obligation and costs

The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates (see Note 27).

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The Group's retirement liability amounted to ₱424.8 million and ₱590.1 million as of December 31, 2021 and 2020, respectively (see Note 27).

j. Estimation of useful lives of property and equipment

The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the EULs of property and equipment based on factors that include physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property and equipment would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

As of December 31, 2021 and 2020, the carrying values of the Group's property and equipment amounted to ₱74,292.3 million and ₱91,320.2 million, respectively (see Note 12).

The Group's depreciation and amortization expense on property and equipment amounted to ₱7,688.9 million, ₱9,325.7 million and ₱9,481.1 million in 2021, 2020 and 2019, respectively (see Note 12).

k. Estimation of allowance for credit losses on receivables

The Group maintains allowance for credit losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the agents, customers and other counterparties, the payment behavior of agents and customers, other counterparties and other known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis.

The balances of receivables and allowance for credit losses as of December 31, 2021 and 2020 are disclosed in Note 9.



l. Estimation of fair value for share-based payment transactions

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The Group initially measures the cost of equity-settled transactions with employees using a binomial model to determine the fair value of the liability incurred. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses Cox-Ross-Rubinstein Binomial Option Pricing Method taking into consideration the terms and conditions on which the share options were granted.

m. Estimation of impact of coronavirus pandemic

The impact of coronavirus pandemic to the Group's business operations relates to any potential interruptions or disruptions. The Group ensure that the impact of COVID-19 pandemic is appropriately reflected in its consolidated financial statements, and currently assessed the impact on its assets and liabilities as follows:

- The forecast used for impairment testing include the Group's best estimates of the potential future impact from coronavirus pandemic. Cash flow projections have been adjusted to reflect a range of possible outcomes.
- Collectability of accounts with customers continues to be closely monitored. A material change in the provision for impairment of trade receivables has not been identified.
- There were no onerous contracts or additional provisions that have been recognized resulting from the direct impact of coronavirus pandemic.
- The Group has also considered the increased uncertainty in determining key assumptions within the assessment of future taxable income of the Group upon which recognition of deferred tax assets is assessed, including forecast of revenue and expenses, among others.

The Group continues to monitor the risks and the ongoing impacts of COVID-19 pandemic on its business.

6. Segment Information

The Group has two reportable operating segments, which is the airline business (Parent Company and CEBGO) and line and light maintenance business (A-plus). This is consistent with how the Group's management internally monitors and analyzes the financial information for reporting to the CODM, who is responsible for allocating resources, assessing performance and making operating decisions. The CODM is the President and CEO of the Parent Company.

The revenue of the operating segments was mainly derived from rendering transportation services and line and light maintenance services.

The amount of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the consolidated statements of financial position, which is in accordance with PFRSs.



Segment information for the reportable segment is shown in the following table:

	2021	2020	2019
Revenue	₱17,303,963,629	₱25,421,074,392	₱85,818,935,141
Earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR)	(3,942,868,601)	(931,935,000)	30,274,117,388
Depreciation and amortization (Notes 12 and 33)	14,355,454,086	16,074,455,051	15,399,075,784
Interest expense (Notes 18 and 19)	2,511,760,313	2,203,355,297	3,059,708,885
Interest income	36,478,759	157,917,380	670,599,817
Earnings (loss) before interest and taxes (EBIT)	(23,157,858,620)	(20,769,259,127)	12,621,017,507
Pre-tax core net income (loss)	(25,807,571,186)	(23,130,812,125)	10,298,867,823
Net income (loss)	(24,898,602,887)	(22,236,441,976)	9,122,952,680
Capital expenditures (Note 12)	5,506,681,706	4,044,960,019	25,570,098,817
Market valuation losses on derivative financial instruments – net (Notes 8 and 19)	(1,318,117,077)	(2,149,932,480)	(63,352,472)
Equity in net income (loss) of JVs and associates (Note 13)	(174,431,012)	(316,115,081)	66,959,384
Income tax expense (benefit) (Note 28)	(2,027,958,421)	(659,089,849)	1,161,452,869

Pre-tax core net income (loss), EBIT and EBITDAR are considered as non-PFRSs measures.

Pre-tax core net income (loss) is the operating income (loss) after deducting net interest expense and adding equity in net income (loss) of joint ventures and associates.

EBIT is the operating income (loss) before interest and taxes.

EBITDAR is the operating income (loss) after adding depreciation and amortization, provision for ARO and HMV and aircraft and engine lease expenses.

Capital expenditure is the total paid acquisition of property and equipment for the period.

The reconciliation of the non-PFRSs measures to operating income follows:

	2021	2020	2019
Revenue (excluding nontransport revenue and other income)	₱15,740,756,856	₱22,617,967,165	₱84,806,810,363
Expenses	(38,898,615,476)	(43,387,226,292)	(72,185,792,856)
Operating income (loss)/EBIT	(23,157,858,620)	(20,769,259,127)	12,621,017,507
Interest expense - net	(2,475,281,554)	(2,045,437,917)	(2,389,109,068)
Equity in net income (loss) of JVs and associates	(174,431,012)	(316,115,081)	66,959,384
Pre-tax core net income (loss)	(₱25,807,571,186)	(₱23,130,812,125)	₱10,298,867,823
Operating income (loss)	(₱23,157,858,620)	(₱20,769,259,127)	₱12,621,017,507
Depreciation and amortization	14,355,454,086	16,074,455,051	15,399,075,784
Provision for ARO	3,566,104,161	3,132,239,751	1,940,084,130
Provision for HMV	849,950,290	345,964,168	–
Aircraft and engine lease expense	443,481,482	284,665,157	313,939,967
EBITDAR	(₱3,942,868,601)	(₱931,935,000)	₱30,274,117,388



The reconciliation of total revenue reported by reportable operating segment to revenue in the consolidated statements of comprehensive income is presented in the following table:

	2021	2020	2019
Total segment revenue of reportable operating segments	₱15,740,756,856	₱22,617,967,165	₱84,806,810,363
Nontransport revenue and other income	1,563,206,773	2,803,107,227	1,012,124,778
Total revenue	₱17,303,963,629	₱25,421,074,392	₱85,818,935,141

Total segment revenue of reportable operating segments includes A-Plus' revenue from rendering line and light maintenance services to third party customers amounting to ₱66.1 million and ₱4.0 million in 2021 and 2020, respectively.

Nontransport revenue and other income include interest income, share in net income of JVs and associates, gain from insurance claims, gain on disposal of property and equipment, gain from sale and re-measurement of investment in joint ventures and foreign exchange gains.

The reconciliation of total income (loss) reported by reportable operating segment to total comprehensive income (loss) in the consolidated statements of comprehensive income is presented in the following table:

	2021	2020	2019
Total segment income (loss) of reportable segment	(₱23,157,858,620)	(₱20,769,259,127)	₱12,621,017,507
Add (deduct) unallocated items:			
Nontransport revenue and other income	1,563,206,773	2,803,107,227	1,012,124,778
Nontransport expenses and other charges	(5,331,909,461)	(4,929,379,925)	(3,348,736,736)
Benefit from (provision for) income tax	2,027,958,421	659,089,849	(1,161,452,869)
Net income (loss)	(24,898,602,887)	(22,236,441,976)	9,122,952,680
Other comprehensive gain (loss), net of tax	175,113,882	71,103,594	2,890,726
Total comprehensive income (loss)	(₱24,723,489,005)	(₱22,165,338,382)	₱9,125,843,406

The Group's major revenue-producing assets are the aircraft it operates, which are employed across its route network (see Note 12).

There are no significant customers which contribute 10.00% or more to the revenue of the Group.

7. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash on hand	₱50,045,641	₱51,622,127
Cash in banks	2,036,053,363	2,663,050,383
Short-term placements	16,055,901,076	1,609,374,985
	₱18,142,000,080	₱4,324,047,495



Cash in banks earns interest at the respective bank deposit rates. Short-term placements, which represent money market placements, are made for varying periods depending on the immediate cash requirements of the Group. Short-term placements denominated in Peso earn an average annual interest of 0.83% and 0.25% in 2021 and 2020, respectively. Moreover, short-term placements in US dollar (USD) earn interest on an average annual interest rate of 0.13% and 0.22% in 2021 and 2020, respectively. In 2021, the Group also has outstanding short-term placements in Korean won (KRW) with an average annual interest rate of 0.15%.

Interest income earned on cash in banks and short-term placements, presented in the consolidated statements of comprehensive income, amounted to ₱36.5 million, ₱157.9 million and ₱670.6 million in 2021, 2020 and 2019, respectively.

Restricted Cash

As of December 31, 2021 and 2020, the Group has restricted cash amounting to ₱1,440.6 million and ₱1,096.4 million, respectively. Restricted cash represents deposits with certain banks to secure standby letters of credit issued in favor of lessors (see Note 33).

8. Derivative Financial Assets and Liabilities

This account consists of net derivative financial liabilities as of December 31, 2021 and 2020. Details follow:

	2021	2020
<i>Derivative financial liabilities at FVPL:</i>		
Conversion options arising from convertible bonds (Note 19)	₱1,730,960,768	₱–
<i>Derivative financial liabilities at FVOCI:</i>		
Designated hedges	₱–	₱32,214,937
Not designated hedges	–	–
	₱–	₱32,214,937

As of December 31, 2021, the derivative financial liabilities at FVPL consist of conversion options arising from convertible bonds.

As of December 31, 2020, the derivative financial liabilities at FVOCI consist of zero cost collars.

Fuel Derivatives

Designated hedges

The Group enters into zero cost collars and commodity swaps derivative contracts to manage its exposure to fuel price fluctuations. The notional quantity is the amount of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. These swaps and collars can be exercised at various calculation dates with specified quantities on each calculation date. Hedge accounting under PFRS 9 were applied on instruments with various maturity dates through 2020 until 2021 starting September 1, 2019.

The Group has designated for hedge accounting derivatives with net liability position amounting to nil and ₱32.2 million as of December 31, 2021 and 2020, respectively.



Not designated hedges

On March 16, 2020, the Group discontinued, for the first time, the application of hedge accounting on some of its fuel hedges following the suspension of flights in response to government-imposed enhanced community quarantine over the entire Luzon due to outbreak of COVID-19.

Following the Philippine Government announcing the easing of community quarantine after March 31, 2020, the Group's commercial flights during the next six months were either suspended or significantly reduced leading to lower forecasted fuel and USD-denominated purchases. With the new available information, management reassessed its hedging portfolio requiring discontinuation of hedge accounting for certain fuel and FX derivatives designated as cash flow hedges as corresponding hedged items were no longer highly probable and not expected to occur. Consequently, the related effective portion of the fair value losses recognized in OCI amounting to ₱2,250.1 million were immediately recycled from equity to profit or loss for the year ended December 31, 2020.

As of December 31, 2021 and 2020, the Group has no outstanding fuel derivatives treated as economic hedges.

Foreign Currency Forwards

Designated hedges

The Group enters into foreign currency forwards to manage its exposures to foreign currency-denominated transactions given its global operations. These forwards have various maturity dates through 2020 where hedge accounting under PFRS 9 were also applied beginning September 1, 2019.

As of December 31, 2021 and 2020, the Group has no outstanding FX derivatives designated for hedge accounting.

Not designated hedges

On March 16, 2020, the Group likewise discontinued, for the first time, the hedge accounting application on some FX forwards because of reduced forecasted fuel purchase following the suspension of flights in response to government-imposed enhanced community quarantine over the entire Luzon due to outbreak of COVID-19 and due to unforeseen drop in oil prices.

Following the Philippine Government announcing the easing of community quarantine after March 31, 2020, the Group's commercial flights during the next six months were either suspended or significantly reduced leading to lower forecasted fuel and USD-denominated purchases. With the new available information, Management reassessed its hedging portfolio requiring discontinuation of hedge accounting for certain fuel and FX derivatives designated as cash flow hedges as corresponding hedged items were no longer highly probable and not expected to occur. Consequently, the related effective portion of the fair value losses recognized in OCI amounting to ₱124.6 million were immediately recycled from equity to profit or loss for the year ended December 31, 2020.

As of December 31, 2021 and 2020, the Group has no outstanding FX derivatives treated as economic hedges.

Embedded Derivatives Arising from Convertible Bonds

On May 10, 2021, the Parent Company issued at face value US\$250.0 million convertible bonds (CB) to the International Finance Corporation (IFC), IFC Emerging Asia Fund LP and Indigo Philippines LLC (collectively known as "the CB Holders") due on May 10, 2027. The CBs bear an interest rate of 4.5% payable semi-annually in arrears on May 10 and November 10 of each year.



The CB contains conversion and redemption options which were identified as embedded derivatives and were separated and accounted for separately on issuance date of the CBs (see Note 19).

As of December 31, 2021, the fair value of the embedded derivatives, which is shown as 'Derivative financial liabilities at FVPL' in the consolidated statement of financial position, amounted to ₱1,731.0 million (Note 19). Net market valuation losses recognized by the Group in the 2021 consolidated statement of comprehensive income amounted to ₱1,318.1 million.

'Market valuation losses on derivative financial instruments – net' for the years ended December 31, 2021, 2020 and 2019 follows:

	2021	2020	2019
Embedded derivatives arising from convertible bonds (Note 19)			
Net changes in fair value	(₱1,318,117,077)	₱–	₱–
Attributable to accounting hedges:			
Reclassification adjustment (Note 31)	–	(2,305,802,659)	–
Hedge ineffectiveness	–	106,030,481	(629,132)
Attributable to economic hedges:			
Net changes in fair value	–	49,839,698	(62,723,340)
	(₱1,318,117,077)	(₱2,149,932,480)	(₱63,352,472)

As a result of hedge accounting discontinuation in 2020, portion of the losses deferred in the cash flow hedge reserve have been reclassified to 'Market valuation losses on derivative financial instruments-net' in the 2020 consolidated statement of comprehensive income amounting to ₱2,193.7 million and ₱112.1 million from fuel and FX hedges, respectively.

Fair Value Changes on Derivatives

The changes in fair value of derivative financial liabilities at fair value through other comprehensive income follow:

	2021	2020
Balance at January 1:		
Derivative assets	₱–	₱149,592,195
Derivative liabilities	(32,214,937)	(275,904,697)
	(32,214,937)	(126,312,502)
Net changes in fair value of derivatives:		
Designated	52,450,201	(2,312,201,654)
Not-designated	–	(711,742,642)
	52,450,201	(3,023,944,296)
	20,235,264	(3,150,256,798)
Fair value of settled instruments:		
Designated	(20,235,264)	2,312,201,654
Not-designated	–	805,840,207
	(20,235,264)	3,118,041,861

(Forward)



	2021	2020
Balance at December 31:		
Current	P-	(P32,214,937)
Non-current	-	-
	P-	(P32,214,937)
Attributable to:		
Derivative assets	P-	P-
Derivative liabilities	-	(32,214,937)
	P-	(P32,214,937)

Refer to Note 19 for the changes in fair value of derivative financial liabilities at fair value through profit or loss.

9. Receivables

This account consists of:

	2021	2020
Trade receivables	P1,377,305,176	P1,623,818,773
Due from related parties (Note 30)	672,062,255	589,545,735
Interest receivable	2,497,418	1,187,579
Others	203,591,924	201,465,582
	2,255,456,773	2,416,017,669
Less allowance for expected credit losses (ECL) (Note 31)	276,540,368	182,385,286
	P1,978,916,405	P2,233,632,383

Trade receivables are noninterest-bearing and generally have 30 to 90-day term.

Interest receivable pertains to accrual of interest income from short-term placements.

Others include receivable from insurance, employees and fuel hedge counterparties.

The changes in the allowance for expected credit losses on receivables follow:

	2021		
	Trade Receivables	Others	Total
Balances at January 1	P108,508,610	P73,876,676	P182,385,286
Provisions	130,515,762	805	130,516,567
Recovery	(35,000,000)	-	(35,000,000)
Write-off	(4,775,345)	-	(4,775,345)
Unrealized foreign exchange loss	81,266	3,332,594	3,413,860
Balances at December 31	P199,330,293	P77,210,075	P276,540,368



	2020		
	Trade Receivables	Others	Total
Balances at January 1	₱8,536,180	₱72,356,491	₱80,892,671
Provisions	102,043,756	–	102,043,756
Step acquisition of A-plus	–	3,662,367	3,662,367
Recovery	(2,000,000)	(90,218)	(2,090,218)
Unrealized foreign exchange gain	(71,326)	(2,051,964)	(2,123,290)
Balances at December 31	₱108,508,610	₱73,876,676	₱182,385,286

10. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

	2021	2020
At cost:		
Expendable parts	₱1,448,516,314	₱1,503,119,824
Fuel	270,946,245	337,883,798
Materials and supplies	57,112,510	65,060,200
	₱1,776,575,069	₱1,906,063,822

As of December 31, 2021 and 2020, the allowance for inventory write-down amounted to ₱90.2 million on expendable parts with cost of ₱90.2 million.

No expendable parts, fuel, material and supplies are pledged as security for liabilities.

The cost of expendable and consumable parts, and materials and supplies recognized as expense (included under 'Repairs and maintenance' account in the consolidated statements of comprehensive income) for the years ended December 31, 2021, 2020 and 2019 amounted to ₱454.9 million, ₱549.0 million and ₱780.0 million respectively (see Note 25). The cost of fuel reported as expense under 'Flying operations' account amounted to ₱5,074.9 million, ₱6,203.3 million and ₱24,591.7 million in 2021, 2020 and 2019, respectively (see Note 25).

11. Other Current Assets

This account consists of:

	2021	2020
Current portion of advances to suppliers	₱2,188,943,164	₱1,711,092,671
Input Value Added Tax (VAT)	302,523,550	407,520,371
Prepaid rent	59,183,328	29,591,664
Prepaid insurance	57,384,877	55,049,845
Others	380,794,525	375,262,852
	₱2,988,829,444	₱2,578,517,403

Current portion of advances to suppliers include advances to service maintenance provider for regular maintenance and restoration costs of the aircraft. Advances for regular maintenance are recouped from progress billings, which occurs within one year from the date the advances arose, whereas, advance payment for restoration costs is recouped when the expenses for restoration of aircraft have been incurred. These advances are unsecured and noninterest-bearing.



Excess of input over output VAT can be applied against the Group's VAT payable in future periods.

Prepaid rent pertains to advance rental on aircraft under lease and on office spaces in airports (see Note 33).

Prepaid insurance consists of aviation insurance, which represents insurance of hull, war and risk, passenger and cargo insurance for the aircraft and non-aviation insurance represents insurance payments for all employees' health and medical benefits, commission, casualty and marine insurance, as well as car/motor insurance.

Others include housing allowance and prepayments to other suppliers.



12. Property and Equipment

The composition and movements in this account follow:

	2021									
	Passenger Aircraft (Notes 18 and 33)	Engines	Rotables	Ground Support Equipment	EDP Equipment, Mainframe and Peripherals	Leasehold Improvements	Transportation Equipment	Sub-total		
Cost										
Balance at January 1, 2021	₱85,187,907,127	₱10,247,886,418	₱5,722,489,127	₱1,515,231,910	₱1,310,286,193	₱1,931,276,292	₱518,094,157	₱106,433,171,224		
Additions (Note 6)	233,896,773	93,790,267	180,270,422	20,579,976	27,821,521	—	—	556,358,959		
Reclassification	283,205,860	—	—	—	10,520,525	67,611,627	—	361,338,012		
Disposals/others	(15,133,613,942)	(2,636,775,875)	(296,667,267)	(89,417,547)	(1,093,062)	—	(36,976,029)	(18,194,543,722)		
Balance at December 31, 2021	70,571,395,818	7,704,900,810	5,606,092,282	1,446,394,339	1,347,535,177	1,998,887,919	481,118,128	89,156,324,473		
Accumulated Depreciation and Amortization										
Balance at January 1, 2021	20,120,958,437	6,022,277,033	2,000,715,316	941,184,426	1,197,492,030	1,050,014,672	361,302,626	31,693,944,540		
Depreciation and amortization	5,047,186,330	1,630,403,684	425,012,713	193,052,131	73,861,433	153,790,006	56,366,266	7,579,672,563		
Reclassification	—	—	—	—	—	—	—	—		
Disposals/others	(6,560,741,335)	(2,578,728,822)	(269,117,992)	(67,396,132)	(1,087,375)	—	(34,787,762)	(9,511,859,418)		
Balance at December 31, 2021	18,607,403,432	5,073,951,895	2,156,610,037	1,066,840,425	1,270,266,088	1,203,804,678	382,881,130	29,761,757,685		
Net Book Values	₱51,963,992,386	₱2,630,948,915	₱3,449,482,245	₱379,553,914	₱77,269,089	₱795,083,241	₱98,236,998	₱59,394,566,788		
	2021									
Cost										
Balance at January 1, 2021	₱360,541,485	₱50,706,060	₱136,535,378	₱367,047,591	₱259,280,583	₱16,304,761,534	₱123,912,043,855			
Additions (Note 6)	7,067,637	—	3,879,131	6,792,753	4,726,924	4,927,856,302	5,506,681,706			
Reclassification	—	—	—	—	—	—	(361,338,012)			
Disposals/others	(21,241)	—	—	—	(109,230)	(6,163,019,875)	(24,357,694,068)			
Balance at December 31, 2021	367,587,881	50,706,060	140,414,509	373,840,344	263,898,277	14,708,259,949	105,061,031,493			
Accumulated Depreciation and Amortization										
Balance at January 1, 2021	283,379,501	45,218,756	113,166,029	301,980,036	154,119,026	—	—	32,591,807,888		
Depreciation and amortization	36,391,346	3,346,507	13,246,104	23,472,800	32,747,516	—	—	7,688,876,836		
Reclassification	—	—	—	—	—	—	—	—		
Disposals/others	(21,241)	—	—	—	(75,265)	—	—	(9,511,955,924)		
Balance at December 31, 2021	319,749,606	48,565,263	126,412,133	325,452,836	186,791,277	—	—	30,768,728,800		
Net Book Values	₱47,838,275	₱2,140,797	₱14,002,376	₱48,387,508	₱77,107,000	₱14,708,259,949	₱14,708,259,949	₱74,292,302,693		



2020

Cost	2020							Sub-total
	Passenger Aircraft (Notes 18 and 33)	Engines	Rotables	Ground Support Equipment	EDP Equipment, Mainframe and Peripherals	Leasehold Improvements	Transportation Equipment	
Balance at January 1, 2020	₱99,497,499,767	₱9,956,975,780	₱5,720,058,737	₱1,378,275,384	₱1,228,632,642	₱1,698,995,217	₱474,984,566	₱119,955,422,093
Step acquisition of A-Plus (Note 13)	—	—	—	—	42,504,805	16,286,316	22,078,184	80,869,305
Additions (Note 6)	2,299,031,749	848,015,201	188,035,019	162,582,780	27,227,846	—	37,914,443	3,562,807,038
Reclassification	(6,968,250,737)	7,404,973,409	38,334,554	30,952	15,725,622	215,972,887	—	706,786,687
Disposals/others	(9,640,373,652)	(7,962,077,972)	(223,939,183)	(25,657,206)	(3,804,722)	21,872	(16,883,036)	(17,872,713,899)
Balance at December 31, 2020	83,187,907,127	10,247,886,418	5,722,489,127	1,515,231,910	1,310,286,193	1,931,276,292	518,094,157	106,433,171,224
Accumulated Depreciation and Amortization								
Balance at January 1, 2020	23,394,715,305	3,532,877,987	1,518,887,264	762,221,313	1,047,013,562	920,679,852	297,420,285	31,473,815,568
Step acquisition of A-Plus (Note 13)	—	—	—	—	36,623,050	10,555,588	13,735,581	60,914,219
Depreciation and amortization	5,352,917,272	2,909,249,518	479,613,832	204,117,911	116,639,743	118,757,358	62,866,091	9,244,161,725
Reclassification	(4,561,333,953)	4,350,182,281	211,151,672	—	—	—	—	—
Disposals/others	(4,065,340,187)	(4,770,032,753)	(208,937,452)	(25,154,798)	(2,784,325)	21,874	(12,719,331)	(9,084,946,972)
Balance at December 31, 2020	20,120,958,437	6,022,277,033	2,000,715,316	941,184,426	1,197,492,030	1,050,014,672	361,302,626	31,693,944,540
Net Book Values	₱65,066,948,690	₱4,225,609,385	₱3,721,773,811	₱574,047,484	₱112,794,163	₱881,261,620	₱156,791,531	₱74,739,226,684

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2020

Cost	2020					Total
	Furniture, Fixtures and Office Equipment	Communication Equipment	Special Tools	Maintenance and Test Equipment	Other Equipment	
Balance at January 1, 2020	₱323,795,865	₱33,899,255	₱17,702,669	₱6,529,597	₱252,167,485	₱17,825,274,704
Step acquisition of A-Plus (Note 13)	35,645,240	16,806,805	118,489,632	360,517,994	—	317,789
Additions (Note 6)	5,999,997	—	359,626	—	6,535,270	469,258,088
Reclassification	(3,628,046)	—	—	—	3,191,310	(706,349,951)
Disposals/others	(1,271,571)	—	(16,549)	—	(2,613,482)	(1,283,739,096)
Balance at December 31, 2020	360,541,485	50,706,060	136,535,378	367,047,591	259,280,583	16,304,761,534
Accumulated Depreciation and Amortization						
Balance at January 1, 2020	215,635,739	25,354,655	14,945,829	6,484,626	123,132,635	—
Step acquisition of A-Plus (Note 13)	29,702,035	15,680,137	95,549,258	293,430,537	—	—
Depreciation and amortization	39,353,424	4,183,964	2,682,129	2,064,873	33,228,693	—
Disposals/others	(1,311,697)	—	(11,187)	—	(2,242,302)	—
Balance at December 31, 2020	283,379,501	45,218,756	113,166,029	301,980,036	154,119,026	—
Net Book Values	₱77,161,984	₱5,487,304	₱23,369,349	₱65,067,555	₱105,161,557	₱16,304,761,534
						₱91,320,235,967



Passenger Aircraft and Engines Held as Securing Assets Under Various Loans

The Group entered into various commercial loan facilities to finance the purchase of its aircraft and engines. As of December 31, 2021 and 2020, the Group's passenger aircraft and engines held as securing assets under various commercial loans are as follows:

	2021	2020
Airbus A320 CEO	5	17
ATR 72-600	12	12
Airbus A321 CEO	7	7
Airbus A321 NEO	6	6
Airbus A330 CEO	2	2
	32	44

Under the terms of the commercial loan facilities (see Note 18), upon the event of default, the outstanding amount of loan (including accrued interest) will be payable by the SPEs (see Note 1). Under the terms of commercial loan facilities from local banks, upon event of default, the outstanding amount of loan will be payable, including interest accrued, by the Parent Company. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of December 31, 2021 and 2020, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱49.8 billion and ₱64.5 billion, respectively.

Forward Sale Agreement

On December 18, 2018, the Parent Company signed a forward sale agreement with Sunrise Asset Management, a subsidiary of Allegiant Travel Company (collectively known as "Allegiant") covering three (3) A320 aircraft. The aircraft were delivered on various dates within 2019 and the Parent Company recognized ₱352.1 million loss on sale in the consolidated statement of comprehensive income in 2019.

In 2019, the Parent Company entered into an engine sale agreement with RPPF Engine Leasing Limited for two (2) Rolls-Royce Trent 772B engines, delivered in August and September, which resulted to a gain of ₱126.4 million.

In September and October 2020, the Group sold eight (8) CFM56 engines as part of a sale and leaseback transaction with SMBC Aero Engine Lease B.V. The lease portion is an arrangement of short and long-term leases between 18 months to eight (8) years, respectively. The sale portion resulted to a gain of ₱152.9 million.

In November 2020, the Group sold five (5) A320 aircraft as part of a sale and leaseback transaction with EOS Aviation 6 (Ireland) Limited. The lease portion is an arrangement of leases ranging between three (3) to four (4) years. The sale portion resulted to a loss of ₱412.9 million.

In December 2021, the Group entered into a sale and leaseback agreement with Avolon Leasing Ireland 3 Limited, Vmo Aircraft Leasing 32 (Ireland) Limited and Vmo Aircraft Leasing 33 (Ireland) Limited for seven (7) A320 aircraft. The lease portion consists of leases between three (3) to five (5) years. The sale portion resulted to a gain of ₱1,388.7 million (see Note 33).

Proceeds from sale of property and equipment for the years ended December 31, 2021, 2020 and 2019 amounted to ₱10,705.9 million, ₱7,336.3 million and ₱4,406.6 million, respectively.



Gain from insurance claims

On various dates in 2021, the Group received ₱138.0 million pertaining to insurance proceeds claimed for several loss events involving three (3) ATRs, one (1) A320 and one (1) A330 which occurred in 2019 and 2018. In September 2020, the Group received ₱807.4 million pertaining to insurance proceeds claimed for damages sustained by an A320 aircraft during a runway excursion incident at Iloilo International Airport last October 2017. These are recorded as “Gain from Insurance Claims” in the 2021 consolidated statement of comprehensive income.

Operating Fleet

As of December 31, 2021 and 2020, the Group’s operating fleet follows:

	2021	2020
Leased aircraft:		
Airbus A320 CEO	18	22
Airbus A321 CEO	7	7
Airbus A330 CEO	4	6
Airbus A330 NEO	2	–
Airbus A321 NEO	9	7
Airbus A320 NEO	6	5
ATR 72-600	2	1
Owned aircraft:		
ATR 72-600	12	12
ATR 72-500	8	8
Airbus A320 CEO	4	4
Airbus A330 CEO	2	2
	74	74

Construction in-progress represents the cost of airframe and engine construction in-progress and buildings and improvements and other ground property under construction. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of December 31, 2021 and 2020, the Group’s capitalized pre-delivery payments as construction in-progress amounted to ₱14,692.4 million and ₱16,279.5 million, respectively. For the year ended December 31, 2021 and 2020, the Group received pre-delivery payment refunds for delivered aircrafts from Airbus which amounted to ₱5,911.3 million and ₱1,231.6 million, respectively.

As of December 31, 2021 and 2020, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱2,972.2 million and ₱2,408.0 million, respectively.

As of December 31, 2021 and 2020, the Group has six (6) and fifteen (15) aircraft parked for storage at Asia Pacific Aircraft Storage in Alice Springs, Australia as part of its cost-cutting measures amid the COVID-19 pandemic.



13. Investments in Joint Ventures and Associates

Investments in Joint Ventures

The Parent Company has investments in joint arrangements as follows:

Investment in PAAT

The Parent Company has subscribed to and owns 60% of the outstanding shares of PAAT accounted for as investment in shares of the joint venture. However, the joint venture agreement between the Parent Company and CAE International Holdings Limited (CAE) states that the Parent Company is entitled to 50% share on the net income/loss of PAAT. As such, the Parent Company recognizes 50% share in net income/loss of the joint venture.

PAAT was created to address the Group's training requirements and to pursue business opportunities for training third parties in the commercial fixed wing aviation industry, including other local and international airline companies. PAAT was formally incorporated in the Philippines on January 27, 2012 and started commercial operations in December 2012.

Investment in 1Aviation

Investment in 1Aviation refers to the Parent Company's 40% investment in shares of the joint venture. The joint venture agreement indicates that the agreed ownership ratio is 40% for the Parent Company and the remaining 60% shall be collectively owned by PAGSS and an individual. The Parent Company recognizes 40% share in net income of the joint venture. 1Aviation is engaged in the business of providing groundhandling services for all types of aircraft, whether for the transport of passengers or cargo, international or domestic flights, private, commercial, government or military purposes to be performed at the Ninoy Aquino International Airport and other airports in the Philippines as may be agreed by the co-venturers (see Note 1).

Investment in A-Plus and SIAEP

A-Plus and SIAEP were established for the purpose of providing line, light and heavy maintenance services to foreign and local airlines, utilizing the facilities and services at airports in the country, as well as aircraft maintenance and repair organizations.

A-Plus was incorporated in the Philippines on May 24, 2005 and started commercial operations on July 1, 2005 while SIAEP was incorporated on July 27, 2008 and started commercial operations on August 17, 2009.

Acquisition of Shares held by SIAEC in A-Plus

On October 26, 2020, the Parent Company signed a Share Sale and Purchase Agreement (SPA) with SIA Engineering Company Limited (SIAEC) for the acquisition of SIAEC's entire 51% shareholding in A-Plus. The consideration paid was US\$5,607,378 and consists of a one-time payment in cash. The consideration was arrived at after arm's length negotiations on a willing-buyer, willing-seller basis and took into account, inter alia, the net asset value and financial performance of A-Plus. The acquisition of A-Plus is in line with the Parent Company's overall strategy to more closely align its line maintenance operations and strategic objectives with its network and service requirements, for significant operational efficiencies and optimization of resources for an even stronger competitive advantage.

On November 3, 2020, the Parent Company and SIAEC has signed the Deed of Absolute Sale of Shares for this transaction making A-Plus a wholly owned subsidiary of the Parent Company (see Note 14).



The fair value of the Parent Company's 49% interest in A-Plus immediately prior to acquisition is amounted to ₱269.5 million. The Group recognized ₱71.3 million gain from re-measurement of its investment in A-Plus at fair value immediately prior to acquisition. This is included under 'Gain from re-measurement of investment in joint venture' in the 2020 consolidated statement of comprehensive income.

The fair value of A-Plus' identifiable assets and liabilities as at the date of acquisition are shown below. The net assets recognized in the 2020 consolidated financial statements were based on a provisional assessment of their fair value while the Group sought an independent valuation for the net assets by A-plus. In 2021, an appraisal of A-Plus' net assets was conducted by a third party to finalize the purchase price allocation of said acquisition. Based on this, the net assets recognized in 2020 approximates its fair value, thus, no adjustment is necessary.

	Fair value recognized on acquisition
Cash	₱69,622,242
Trade receivables	321,488,712
Property and equipment (Note 12)	117,370,579
Right-of-use asset (Note 33)	2,778,033
Other assets	130,563,165
Total assets	641,822,731
Trade payables	113,381,635
Retirement liability (Note 27)	107,441,205
Lease liability (Note 33)	2,902,849
Other liabilities	32,993,547
Total liabilities	256,719,236
Total identifiable net assets at fair value	385,103,495
Less: Fair value of previously held interest	269,471,017
Acquisition cost	270,499,915
Goodwill from acquisition	₱154,867,437

Goodwill comprises the fair value of expected synergies arising from the acquisition. This is presented under 'Goodwill' in the consolidated statements of the financial position. None of the goodwill recognized is expected to be deductible for income tax purposes.

Net cash outflow on acquisition is as follows:

Cash consideration	₱270,499,915
Less - cash acquired with the subsidiary*	69,622,242
Net cash outflow	₱200,877,673

*Cash acquired with the subsidiary is included in cash flows from investing activities.

If the acquisition had taken place at the beginning of 2020, revenue contribution for the year ended December 31, 2020 would have been ₱57.3 million. Moreover, had the transaction taken place at the beginning of 2020, the decremental contribution to the net income attributable to the Parent Company would have amounted to ₱51.3 million. Since this is a step acquisition, the decremental contribution to the net income attributable to the Parent Company for the one-month period ended December 31, 2020 amounted to ₱0.6 million from the date of acquisition.



Sale of Shares held by the Parent Company in SIAEP

On October 26, 2020, the Parent Company entered into a SPA with SIAEC to divest the Parent Company's 35% shareholding in SIAEP. This divestment is in line with the Parent Company's strategy to streamline its fleet management and rationalize its aircraft base maintenance, repair and overhaul offerings to optimize its operational efficiency and further strengthen its core competencies. On November 3, 2020, the Parent Company and SIAEC has signed the Deed of Absolute Sale of Shares for this transaction, thus, the Parent Company no longer has any equity interest in SIAEP. The consideration received was US\$7,740,000 (₱373.38 million) via a one-time cash receipt. The consideration was arrived at after arm's length negotiations on a willing-buyer, willing-seller basis and took into account, inter alia, the net asset value and financial performance of SIAEP. The sale resulted to a gain of ₱34.5 million.

Investment in Associates

The Parent Company has investments in associates as follows:

Investment in DAVI

Investment in DAVI refers to the Parent Company's 40% interest. DAVI is a data services firm which aims to create a digital rewards program and a robust data infrastructure and analytics enterprise to empower the conglomerate's consumer-oriented businesses.

Investment in Value Alliance Travel System Pte. Ltd. (formerly Air Block Box Asia Pacific Pte. Ltd.)

In May 2016, the Parent Company entered into Value Alliance Agreement with other low-cost carriers (LCCs), namely, Scoot Tigerair Pte. Ltd. (formerly known as Scoot Pte. Ltd.), Nok Airlines Public Company Limited, CEBGO, and Vanilla Air Inc. The alliance aims to increase passenger traffic by creating interline partnerships and parties involved have agreed to create joint sales and support operations to expand services and products available to passengers. This is achieved through LCCs' investment in Air Block Box Asia Pacific Pte. Ltd. (ABB)

In November 2016, the Parent Company acquired shares of stock in ABB amounting to ₱43.7 million. ABB is an entity incorporated in Singapore in 2016 and started operations in 2018 to manage the ABB settlement system, which facilitates the settlement of sales proceeds between the issuing and carrying airlines, and of the transaction fee due to ABB. On April 30, 2021, ABB changed its name to Value Alliance Travel System Pte. Ltd. (VATS). The Parent Company has a 13% shareholding in VATS. The Parent Company has assessed that it has significant influence over VATS through its representation in the BOD and participation in the policy-making process of VATS. Accordingly, the investment was classified as an investment in an associate and is accounted for at equity method. The investment is recognized at cost and is subject to any remeasurement within the measurement period.

In 2021, the Group assessed that its investment in VATS was impaired. VATS has incurred operating losses since it started its operations and is currently on a capital deficiency. The target growth turned significantly lower than actual, and expectation has also been further tempered due to the impact of the ongoing COVID-19 pandemic. On this basis and following the key requirements of PAS 36, *Impairment of Assets* wherein assets can be carried at no more than their recoverable amount, the Group has recognized impairment provisions of ₱36.9 million. As of December 31, 2021 and 2020, the net carrying amount of the Group's investment with VATS amounted to nil and ₱43.7 million, respectively.



The movements in the carrying values of the Group's investments in joint ventures and associates follow:

2021

	Investment in joint ventures			Investment in associates			Total
	PAAT	IAviation	Subtotal	VATS	DAVI	Subtotal	
Cost							
Balance at January 1 and December 31, 2021	₱134,873,645	₱46,000,000	₱180,873,645	₱43,713,923	₱432,000,000	₱475,713,923	₱656,587,568
Accumulated Equity in Net Income (Loss)							
Balance at January 1, 2021	83,969,463	(46,000,000)	37,969,463	-	(148,040,964)	(148,040,964)	(110,071,501)
Equity in net loss during the period	(31,397,712)	-	(31,397,712)	(6,798,108)	(136,235,192)	(143,033,300)	(174,431,012)
Balance at December 31, 2021	52,571,751	(46,000,000)	6,571,751	(6,798,108)	(284,276,156)	(291,074,264)	(284,502,513)
Allowance for impairment loss	187,445,396	-	187,445,396	36,915,815	147,723,844	184,639,659	372,085,055
	-	-	-	(36,915,815)	-	(36,915,815)	(36,915,815)
Net Carrying Value	₱187,445,396	₱-	₱187,445,396	₱-	₱147,723,844	₱147,723,844	₱335,169,240

2020

	Investment in joint ventures			Investment in associates			Total		
	A-plus	SIAEP	PAAT	IAviation	Subtotal	ABB		DAVI	Subtotal
Cost									
Balances at January 1, 2020	₱87,012,572	₱486,168,900	₱134,873,645	₱46,000,000	₱754,055,117	₱43,713,923	₱240,000,000	₱283,713,923	₱1,037,769,040
Investment during the year	-	-	-	-	-	-	192,000,000	192,000,000	192,000,000
Step acquisition	(87,012,572)	-	-	-	(87,012,572)	-	-	-	(87,012,572)
Disposal	-	(486,168,900)	-	-	(486,168,900)	-	-	-	(486,168,900)
Balance at December 31, 2020	-	-	134,873,645	46,000,000	180,873,645	43,713,923	432,000,000	475,713,923	656,587,568
Accumulated Equity in Net Income (Loss)									
Balance at January 1, 2020	160,428,007	(15,565,255)	102,811,308	(15,341,698)	232,332,362	-	(48,649,384)	(48,649,384)	183,682,978
Equity in net loss during the year	(49,293,789)	(117,929,565)	(18,841,845)	(30,658,302)	(216,723,501)	-	(99,391,580)	(99,391,580)	(316,115,081)
Step acquisition	(111,134,218)	-	-	-	(111,134,218)	-	-	-	(111,134,218)
Disposal	-	133,494,820	-	-	133,494,820	-	-	-	133,494,820
Balance at December 31, 2020	-	-	83,969,463	(46,000,000)	37,969,463	-	(148,040,964)	(148,040,964)	(110,071,501)
Net Carrying Value	₱-	₱-	₱218,843,108	₱-	₱218,843,108	₱43,713,923	₱283,959,036	₱327,672,959	₱546,516,067



Selected financial information of PAAT, 1Aviation and DAVI as of December 31, 2021 follow:

	PAAT	1Aviation	DAVI
Total current assets	₱156,947,495	₱167,298,602	₱964,868,491
Noncurrent assets	1,647,289,562	121,643,565	364,137,572
Current liabilities	(229,674,092)	(646,948,130)	(926,354,652)
Noncurrent liabilities	(1,199,672,174)	(11,333,621)	(33,341,798)
Equity (Capital Deficiency)	374,890,791	(369,339,584)	369,309,613
Proportion of the Group's ownership	50%	40%	40%
Carrying amount of the investments	₱187,445,396	₱-	₱147,723,844
Cash and cash equivalents	₱69,815,784	₱32,586,368	₱485,150,563
Current financial liabilities (excluding trade and other payables and provisions)	172,992,779	582,199,863	62,051
Non-current financial liabilities (excluding trade and other payables and provisions)	1,199,672,174	11,333,621	33,341,798

Selected financial information of PAAT, 1Aviation and DAVI as of December 31, 2020 follow:

	PAAT	1Aviation	DAVI
Total current assets	₱105,066,249	₱199,140,441	₱562,826,247
Noncurrent assets	1,657,022,957	80,945,674	748,282,492
Current liabilities	(135,745,273)	(566,852,023)	(247,238,375)
Noncurrent liabilities	(1,188,657,718)	-	(353,972,773)
Equity (Capital Deficiency)	437,686,215	(286,765,908)	709,897,591
Proportion of the Group's ownership	50%	40%	40%
Carrying amount of the investments	₱218,843,108	₱-	₱283,959,036
Cash and cash equivalents	₱14,864,751	₱36,480,896	₱141,792,919
Current financial liabilities (excluding trade and other payables and provisions)	49,925,335	597,156,157	224,060
Non-current financial liabilities (excluding trade and other payables and provisions)	1,269,770,524	-	43,751,726

Summary of statements of comprehensive income (loss) of A-plus, SIAEP, PAAT, 1Aviation and DAVI:

	2021		
	PAAT	1Aviation	DAVI
Revenue	₱129,751,154	₱565,709,774	₱199,605,698
Expenses	(159,693,379)	(694,404,393)	(541,345,264)
Other income (charges)	(32,844,097)	266,987	1,547,883
Loss before tax	(62,786,322)	(128,427,632)	(340,191,683)
Income tax expense	9,102	-	396,297
Net loss	(₱62,795,424)	(₱128,427,632)	(₱340,587,980)
Group's share of net loss for the year	(₱31,397,712)	(₱51,371,053)	(₱136,235,192)
Depreciation and amortization	₱99,539,336	₱28,963,841	₱152,179,014
Interest income	(35,684,066)	-	(2,835,229)
Interest expense	2,718	5,218	1,985,056



	2020				
	A-plus	SIAEP	PAAT	1Aviation	DAVI
Revenue	₱469,921,712	₱659,739,796	₱181,443,236	₱314,870,394	₱150,866,846
Expenses	(580,274,071)	(974,295,023)	(175,746,566)	(471,721,133)	(402,112,270)
Other income (charges)	(24,826,668)	(19,047,430)	(40,981,420)	55,820	3,441,775
Income (loss) before tax	(135,179,027)	(333,602,657)	(35,284,750)	(156,794,919)	(247,803,649)
Income tax expense	(34,579,457)	3,338,957	2,398,939	(80,149,164)	675,300
Net loss	(₱100,599,570)	(₱336,941,614)	(₱37,683,689)	(₱76,645,755)	(₱248,478,949)
Group's share of net loss for the year	(₱49,293,789)	(₱117,929,565)	(₱18,841,845)	(₱30,658,302)	(₱99,391,580)
Depreciation and amortization	₱41,178,748	₱144,891,643	₱97,883,648	₱5,505,953	₱49,795,042
Interest income	(1,105,439)	7,602,686	(403,489)	(2,085)	(3,377,205)
Interest expense	4,529,977	120,204	23,987,440	-	3,536,794

The fiscal year-end of A-Plus and SIAEP is every March 31 while that of PAAT, 1Aviation, VATS (ABB) and DAVI is every December 31.

As of December 31, 2021 and 2020, the share of the Group in the net loss of PAAT included in the consolidated retained earnings amounted to ₱52.6 million and ₱84.0 million, respectively, which is not currently available for dividend distribution unless declared by PAAT.

As of December 31, 2021 and 2020, the share of the Group in the accumulated losses recognized by DAVI amounted to ₱284.3 million and ₱148.0 million, respectively.

The share of the Group in the accumulated losses recognized by VATS amounted to ₱6.8 million and nil as of December 31, 2021 and 2020, respectively.

The share of the Group in the accumulated losses recognized by 1Aviation amounted to ₱46.0 million.

14. Goodwill

This account consists of goodwill arising from the acquisition of the following entities:

	2021	2020
CEBGO	₱566,781,533	₱566,781,533
A-Plus (Note 13)	154,867,437	154,867,437
	₱721,648,970	₱721,648,970

Goodwill from acquisition of CEBGO is attributed to the following:

Achievement of Economies of Scale

Using the Parent Company's network of suppliers and other partners to improve cost and efficiency of CEBGO, thus, improving CEBGO's overall profit, given its existing market share.

Defensive Strategy

Acquiring a competitor enables the Parent Company to manage overcapacity in certain geographical areas/markets.



The Parent Company also identified intangible assets amounting to ₱852.7 million representing costs to establish brand and market opportunities under the strategic alliance with Tiger Airways Holding Limited (see Note 15).

Refer to Note 13 for details of goodwill arising from step acquisition of A-Plus.

Impairment testing of Goodwill and Intangible Assets with Indefinite Useful Lives

CEBGO

For purposes of impairment testing of goodwill and other intangible assets from acquisition of CEBGO, the Group considered CEBGO as the CGU. In 2021 and 2020, management assessed that no impairment losses should be recognized for these intangible assets with indefinite useful lives.

Key assumptions used in the VIU calculation

As of December 31, 2021 and 2020, the recoverable amount of the CGU has been determined based on a VIU calculation using five-year cash flow projections. Key assumptions in the VIU calculation of the CGU are most sensitive to the following:

- Future revenue, fuel cost, passenger load factor, passenger yield: These assumptions are based on the past performance of CEBGO, market developments and expectations in the industry.
- Discount rates: The discount rate used for the computation of the net present value is the weighted average cost of equity and was determined by reference to comparable entities.

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying values of goodwill and intangible assets arising from the acquisition of CEBGO to materially exceed their recoverable amounts.

A-Plus

In 2021 and 2020, management assessed that no impairment loss should be recognized for goodwill from acquisition of A-Plus. For purposes of impairment testing, the Group considered A-Plus as the CGU.

Key assumptions used in the VIU calculation

As of December 31, 2021 and 2020, the recoverable amount of the CGU has been determined based on a VIU calculation using five-year cash flow projections. Key assumptions in the VIU calculation of the CGU are most sensitive to the following:

- Future revenue, profit margins and revenue growth rates: These assumptions are based on the past performance of A-Plus and market developments.
- Discount rates: The discount rate used for the computation of the net present value is the weighted average cost of equity and was determined by reference to comparable entities.

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying values of goodwill arising from the acquisition of A-Plus to materially exceed their recoverable amounts.



15. Other Noncurrent Assets

This account consists of:

	2021	2020
Refundable deposits	₱1,191,665,074	₱626,806,386
Intangible assets	852,691,870	852,691,870
Receivables - net of current portion	418,234,873	408,574,002
Advances to suppliers - net of current portion	–	2,453,580,099
Others	356,298,276	248,405,682
	₱2,818,890,093	₱4,590,058,039

Refundable deposits mostly refer to the amount provided to aircraft lessors as security in various operating lease agreements.

Intangible assets represent portion of the cost on the acquisition of CEBGO which pertains to the established brand and market opportunities under the strategic alliance of CEBGO at the time of acquisition. Refer to Note 14 for the impairment test of these intangible assets with indefinite useful lives.

Noncurrent receivables pertain to training costs paid by the Group for its “study-now, pay-later” Cadet Pilot Program.

Noncurrent portion of advances to suppliers refers to advances made for the purchase of various aircraft parts, service maintenance for regular maintenance and restoration costs of the aircraft which are expected to be consumed beyond one year from the reporting date.

Others include commitment fees provided to aircraft manufacturer of A321 NEO to be capitalized as part of the cost of A321 NEO upon delivery.

16. Accounts Payable and Other Accrued Liabilities

This account consists of:

	2021	2020
Accounts payable	₱3,742,796,362	₱3,366,349,112
Accrued expenses	5,725,194,589	5,226,551,990
Travel fund payable (Note 21)	2,802,831,614	103,168,471
Airport and other related fees payable	2,410,022,682	2,284,416,132
Advances from agents and others	508,356,772	779,423,722
Accrued interest payable (Note 18)	317,218,642	307,478,597
Refunds payable	117,200,174	1,430,451,596
Other payables	87,967,155	52,708,701
	₱15,711,587,990	₱13,550,548,321

Accounts Payable

Accounts payable consists mostly of payables related to the purchase of inventories, are noninterest-bearing and are normally settled on a 60-day term. These inventories are necessary for the daily operations and maintenance of the aircraft, which include aviation fuel, expendables parts, equipment and in-flight supplies. It also includes other nontrade payables.



Accrued Expenses

The Group's accrued expenses include accruals for:

	2021	2020
Maintenance (Note 33)	₱3,160,687,922	₱2,443,943,302
Compensation and benefits	457,664,776	507,703,530
Navigational charges	454,196,932	297,370,240
Repairs and services	426,465,014	517,971,590
Advertising and promotion	319,091,123	658,960,128
Rent (Note 33)	194,133,287	125,310,958
Ground handling charges	144,345,692	47,714,760
Professional fees	92,103,567	143,726,170
Aircraft insurance	91,400,102	108,554,172
Training costs	59,319,237	126,360,583
Fuel	11,864,295	12,533,887
Reservation costs	6,619,666	56,589,365
Catering supplies	4,251,397	3,493,253
Landing and take-off fees	3,876,725	12,688,850
Others	299,174,854	163,631,202
	₱5,725,194,589	₱5,226,551,990

Others represent accrual of security, utilities, insurance and other expenses.

Airport and Other Related Fees Payable

Airport and other related fees payable are amounts payable to the Philippine Tourism Authority, Air Transportation Office, Mactan-Cebu International Airport and Manila International Airport Authority arising from aviation security, terminal fees and travel taxes.

Advances from Agents and Others

Advances from agents and others represent cash bonds required from major sales and ticket offices or agents.

Accrued Interest Payable

Accrued interest payable pertains to accrual of interest on short-term debt due within the year, interest on long-term debt normally settled quarterly throughout the year and interest on bonds payable settled semi-annually.

Refunds payable

In light of the significant increase in flight cancellations due to the COVID-19 outbreak and consequent grounding of the Group's commercial operations, customers were given options for their cancelled flights, which included free rebooking, full cash refund or conversion to a full travel fund. Refunds payable pertain to cash due to be returned to customers.

Other Payables

Other payables are noninterest-bearing and have an average term of two months. This account includes commissions payable and other tax liabilities such as withholding taxes.



17. Unearned Transportation Revenue

This account consists of:

	2021	2020
Unearned revenue	₱4,104,719,094	₱3,446,358,928
Deferred ancillary revenue	463,921,481	225,108,836
	₱4,568,640,575	₱3,671,467,764

Recognized deferred ancillary revenue as of December 31, 2021 and 2020 follows:

	2021	2020
Balance at January 1	₱225,108,836	₱1,724,335,550
Deferred during the year	2,454,894,641	2,185,433,298
Recognized to income during the year	(2,216,081,996)	(3,684,660,012)
Balance at December 31	₱463,921,481	₱225,108,836

18. Long-term and Short-term Debt

Long-term Debt

This account consists of:

			2021		
	Annual Interest Rates Range (Note 31)	Maturities	US Dollar	Japanese Yen	Philippine Peso Equivalent
US Dollar commercial loans	1.00% to 8.00% (US Dollar LIBOR)	Various dates through 2030	US\$400,547,362	JPY–	₱20,427,514,938
Japanese Yen commercial loans	Less than 1.00% (JPY LIBOR)	Various dates through 2029	–	15,141,157,756	6,681,792,919
Philippine Peso commercial loans	2.00% to 5.00% (PH BVAL)	Various dates through 2028	–	–	16,290,236,203
Philippine Peso term loan	4.8% fixed interest rate	2023	–	–	2,555,555,556
			US\$400,547,362	JPY15,141,157,756	₱45,955,099,616
			2020		
	Annual Interest Rates Range (Note 31)	Maturities	US Dollar	Japanese Yen	Philippine Peso Equivalent
US Dollar commercial loans	1.00% to 8.00% (US Dollar LIBOR)	Various dates through 2030	US\$527,523,843	JPY–	₱25,333,277,530
Japanese Yen commercial loans	Less than 1.00% (JPY LIBOR)	Various dates through 2029	–	16,693,739,060	7,727,531,814
Philippine Peso commercial loans	2.00% to 5.00% (PH BVAL)	Various dates through 2028	–	–	16,290,236,203
Philippine Peso term loan	4.8% fixed interest rate	2023	–	–	3,888,888,889
			US\$527,523,843	JPY16,693,739,060	₱53,239,934,436



The current and noncurrent portion of long-term debt are shown below:

2021			
	US Dollar	Japanese Yen	Philippine Peso Equivalent
Current			
US Dollar loans	US\$35,948,795	JPY–	₱1,833,352,596
Japanese Yen loans	–	1,560,736,932	688,753,208
Philippine Peso loans	–	–	1,333,333,333
	35,948,795	1,560,736,932	3,855,439,137
Noncurrent			
US Dollar loans	364,598,567	–	18,594,162,342
Japanese Yen loans	–	13,580,420,824	5,993,039,711
Philippine Peso loans	–	–	17,512,458,426
	364,598,567	13,580,420,824	42,099,660,479
	US\$400,547,362	JPY15,141,157,756	₱45,955,099,616
2020			
	US Dollar	Japanese Yen	Philippine Peso Equivalent
Current			
US Dollar loans	US\$58,056,478	JPY–	₱2,788,046,239
Japanese Yen loans	–	1,552,581,304	718,689,889
Philippine Peso loans	–	–	1,333,333,330
	58,056,478	1,552,581,304	4,840,069,458
Noncurrent			
US Dollar loans	469,467,365	–	22,545,231,291
Japanese Yen loans	–	15,141,157,756	7,008,841,925
Philippine Peso loans	–	–	18,845,791,762
	469,467,365	15,141,157,756	48,399,864,978
	US\$527,523,843	JPY16,693,739,060	₱53,239,934,436

Long-term debt rollforward is presented as follows:

2021					
	US Dollar Loans	Japanese Yen Loans	Philippine Peso Equivalent	Philippine Peso Loans	Total
Balances at					
January 1, 2021	US\$527,523,843	JPY16,693,739,060	₱33,060,809,344	₱20,179,125,092	₱53,239,934,436
Payments	(126,976,481)	(1,552,581,304)	(7,034,939,014)	(1,333,333,333)	(8,368,272,347)
	400,547,362	15,141,157,756	26,025,870,330	18,845,791,759	44,871,662,089
Unrealized foreign exchange loss	–	–	1,083,437,527	–	1,083,437,527
Balances at December 31, 2021	US\$400,547,362	JPY15,141,157,756	₱27,109,307,857	₱18,845,791,759	₱45,955,099,616
2020					
	US Dollar Loans	Japanese Yen Loans	Philippine Peso Equivalent	Philippine Peso Loans	Total
Balances at					
January 1, 2020	US\$601,764,535	JPY18,200,294,064	₱38,895,263,376	₱18,249,257,900	₱57,144,521,276
Availments	44,093,874	–	2,210,960,215	4,000,000,000	6,210,960,215
Payments	(118,334,566)	(1,506,555,004)	(6,514,423,553)	(2,070,132,808)	(8,584,556,361)
	527,523,843	16,693,739,060	34,591,800,038	20,179,125,092	54,770,925,130
Unrealized foreign exchange gain	–	–	(1,530,990,694)	–	(1,530,990,694)
Balances at December 31, 2020	US\$527,523,843	JPY16,693,739,060	₱33,060,809,344	₱20,179,125,092	₱53,239,934,436



ECA Loans

From 2005 to 2012, the Group entered into ECA-backed loan facilities to partially finance the purchases of ten (10) Airbus A319 aircraft, seven (7) ATR 72-500 turboprop aircraft, and ten (10) Airbus A320 aircraft. The security trustee of these ECA loans established SPEs – CALL, BLL, SLL, SALL, VALL, and POALL - which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to (a) ten-year finance lease arrangement for the ATR 72-500 turboprop aircraft and (b) twelve-year finance lease arrangement for the Airbus A319 and A320 aircraft, both with an option to purchase the aircraft for a nominal amount at the end of such leases. The lease rentals made by the Group to these SPEs correspond to the loan payments made by the SPEs to the ECA-backed lenders.

In 2015 to 2017, the Group exercised the purchase option on ten Airbus A319 aircraft, which were then sold to a third party as part of a forward sale arrangement. The purchase required the prepayment of the balance of the loan facility attributed to the sold Airbus A319 aircraft.

In 2017, the Group prepaid the ECA Loans covering four (4) Airbus A320 CEO.

In 2018, the Group exercised the option to purchase five (5) ATR 72-500 aircraft upon maturity and full payment of their corresponding loan facilities and prepaid the ECA loans covering three (3) Airbus A320 CEO.

The terms of the remaining ECA-backed facilities follow:

- Term of twelve (12) years starting from the delivery date of each Airbus A320 aircraft and ten (10) years for each ATR 72-500 turboprop aircraft.
- Combination of annuity style and equal principal repayments made on a semi-annual basis and a quarterly basis.
- Mixed interest rates with fixed annual interest rates ranges from 3.00% to 5.00% and variable rates based on US dollar LIBOR plus margin.
- Other than what is permitted by the transaction documents or the ECA administrative parties, the SPEs cannot create or allow to exist any other security interest.
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the ECA lenders will foreclose on secured assets, namely the aircraft.

In 2019, the Group exercised the option to purchase the remaining two (2) ATR 72-500 upon maturity and full payment of their corresponding loan facilities and prepaid the ECA loans covering three (3) more Airbus A320 CEO. The loan was paid in 2019.

Interest expense amounted to nil both in 2021 and 2020 and ₱39.7 million in 2019.

US Dollar Commercial Loans

From 2007 to 2019, the Group entered into commercial loan facilities to partially finance the purchase of 19 Airbus A320 aircraft, seven (7) Airbus A321 CEO aircraft, five (5) aircraft engines, and one (1) Airbus A321 NEO aircraft. The security trustees of these commercial loan facilities established SPEs – PTALL, PTHALL, SAALL, SBALL, SCALL, SDALL, TOADAC and RALL – which purchased the aircraft from the Parent Company pursuant to (a) five to ten-year finance lease arrangement for the Airbus A320, A321 CEO, and A321 NEO aircraft; and (b) six-year finance lease arrangement for the engines. The Parent Company has the option to purchase the aircraft and the engines for a nominal amount at the end of such leases. The lease rentals made by the Parent Company to these SPEs correspond to the loan payments made by the SPEs to the commercial facility lenders.



In 2018, the Group entered into four (4) Philippine peso commercial loan facilities and six (6) USD commercial loans. The proceeds of the loan were used to prepay the outstanding US dollar loan facilities for ten (10) Airbus A320 aircraft resulting to dissolution of PTHALL, SAALL and SBALL (see Note 1). The Group also prepaid the loan facilities of the engines and entered into US dollar commercial loans to finance the acquisition of seven (7) Airbus A321 CEO aircraft.

In 2019, the Group entered into a US dollar commercial loan facility to finance the acquisition of one (1) Airbus A321NEO aircraft.

In 2020, the Group entered into a US dollar commercial loan facility to finance the acquisition of one (1) Airbus A321NEO aircraft.

As of December 31, 2021 and 2020, the terms of the remaining commercial loan facilities follow:

- Term of six (6) to ten (10) years starting from the delivery date of each aircraft.
- Combination of annuity style and equal principal repayments made on a semi-annual and quarterly basis.
- Mixed interest rates with fixed annual interest rates ranges from 3.00% to 5.00% and variable rates based on US dollar LIBOR plus margin.
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the lenders will foreclose on secured assets, namely the aircraft.

As of December 31, 2021 and 2020, the total outstanding balance of the US dollar commercial loans amounted to ₱20,427.5 million (USD\$400.5 million) and ₱25,333.3 million (US\$527.5 million), respectively. Interest expense amounted to ₱579.8 million, ₱846.1 million and ₱1,255.4 million in 2021, 2020 and 2019, respectively.

Japanese Yen Commercial Loans

In 2019, the Group entered into Japanese commercial loans covering four (4) Airbus A321NEO aircraft. The loan requires semi-annual installments with a maturity not longer than 14 years at a variable interest rate based on JPY LIBOR plus margin.

As of December 31, 2021 and 2020, the total outstanding balance of the Japanese yen commercial loans amounted to ₱6,681.8 million (¥15.1 billion) and ₱7,727.5 million (¥16.7 billion). Interest expense amounted to ₱18.4 million, ₱22.1 million and ₱174.1 million in 2021, 2020 and 2019, respectively.

Philippine Peso Commercial Loans

From 2016 to 2017, the Group entered into Philippine peso commercial loan facilities to partially finance the acquisition of eight (8) ATR 72-600 and two (2) Airbus A330 aircraft.

In 2018, the Group entered into Philippine peso commercial loan facilities to partially finance the acquisition of four (4) ATR 72-600 aircraft and refinance four (4) Airbus A320 aircraft.

The terms of the commercial loan facilities follow:

- Term of seven (7) to ten (10) years starting from the delivery dates of each aircraft.
- Twenty-eight (28) to forty (40) equal consecutive principal repayments made on a quarterly basis.
- Interests on loans are variable rates based on Philippines Bloomberg Valuation (PH BVAL).
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the lenders will foreclose on secured assets, namely the aircraft.



As of December 31, 2021 and 2020, the total outstanding Philippine Peso commercial loans amounted to ₱16,290.2 million. Interest expense incurred from these loans amounted to ₱559.9 million, ₱627.7 million and ₱1,129.4 million in 2021, 2020 and 2019, respectively.

The commercial loans of the Group are secured by the related aircraft. The Group is required to comply with affirmative and negative covenants until termination of loans. As of December 31, 2021 and 2020, the Group is not in breach of any loan covenants.

Philippine Peso Term Loan

In 2020, the Group entered into an unsecured, Philippine peso-denominated loan amounting to ₱4.0 billion with Security Bank Corporation due in 2023. The loan was obtained to support the working capital requirements of the Group.

As of December 31, 2021 and 2020, the total outstanding Philippine Peso term loan amounted to ₱2,555.6 million and ₱3,888.9 million, respectively. Interest expense incurred from this loan amounted to ₱156.3 million and ₱179.8 million in 2021 and 2020, respectively. The Group is required to maintain certain financial ratios until termination of loans. As of December 31, 2021, the Group obtained a waiver from the bank in relation to debt service coverage ratio requirement. Accordingly, the related loan is classified as non-current as at December 31, 2021. As of December 31, 2020, the Group is not in breach of any loan covenants.

Short-term Debt

On October 29, 2020, the Parent Company entered into a ₱4,839.6 million (US\$100.0 million) unsecured promissory note with JG Summit Philippines, Limited (JGSPL), a subsidiary of JGSHI, the Parent Company's ultimate parent, bearing interest at the rate of 5% per annum until maturity date. The principal plus interest was paid last June 1, 2021.

On February 18, 2021, March 1, 2021 and March 4, 2021, the Parent Company entered into unsecured promissory notes with JGSPL totaling to ₱4,234.1 million (US\$87.5 million) bearing interest at the rate of 5% per annum until maturity date on August 18, 2021. The promissory note has been amended to extend the maturity date to October 18, 2022 and to set the payment of interest on a semi-annual basis starting October 18, 2021 (see Note 30).

The proceeds from these promissory notes will be used for the Group's working capital requirements. Interest expense incurred from these notes amounted to ₱287.8 million and ₱41.4 million in 2021 and 2020, respectively.

The short-term debt rollforward is presented as follows:

	2021		2020	
	US Dollar	Philippine Peso Equivalent	US Dollar	Philippine Peso Equivalent
Balances at January 1	US\$100,000,000	₱4,802,300,000	US\$-	₱-
Availments	87,500,000	4,234,107,500	100,000,000	4,839,600,000
Payments	(100,000,000)	(4,791,800,000)	-	-
	87,500,000	4,244,607,500	100,000,000	4,839,600,000
Unrealized foreign exchange loss (gain)	-	217,805,000	-	(37,300,000)
Balances at December 31	US\$87,500,000	₱4,462,412,500	US\$100,000,000	₱4,802,300,000



Syndicated Term Loan

On March 5, 2021, the Parent Company signed on a ₱16.0 billion Ten-Year Term Loan Facility Agreement with the following domestic banks: Development Bank of the Philippines, Land Bank of the Philippines, Asia United Bank Corporation-Trust and Investments Group, BPI Capital Corporation, Metropolitan Bank & Trust Company and Union Bank of the Philippines. The proceeds of the loan will be used by the Parent Company to fund its capital expenditures and other general corporate purposes. As of December 31, 2021, no drawdown has been made yet on the said facility.

19. Bonds Payable

On May 10, 2021, the Parent Company issued at face value US\$250.0 million convertible bonds (CBs) to the International Finance Corporation (IFC), IFC Emerging Asia Fund LP and Indigo Philippines LLC (collectively known as “the CB Holders”) due on May 10, 2027. The bonds bear an interest rate of 4.5% payable semi-annually in arrears on May 10 and November 10 of each year.

The CBs have a conversion option features which entitles the CB Holders to convert any or all of the outstanding CBs that they hold for the Parent Company’s common shares at any time within the conversion period which shall begin 40 days after the issue date of the CB and shall end 20 business days before the maturity date. The price at which the common shares will be issued upon conversion will initially be at ₱38.00 per share, as translated to U.S. Dollars at the fixed exchange rate of USD\$1.00 = ₱48.45 and subject to any adjustments from time to time in accordance with the adjustment provisions included in the terms and conditions of the CBs. None of the CB Holders have exercised their conversion option as of December 31, 2021. The CBs also have an optional redemption features which give the CB Holders the option to require the Parent Company to redeem the CBs upon the occurrence of any of the early redemption and regulatory events as specified in the terms of the CBs.

The CBs were assessed to be a hybrid instrument containing a host financial liability component and embedded derivative components for the equity conversion and redemption options. The embedded derivatives were separated from the CBs and accounted for as a single compound derivative on the issuance date of the CBs.

In subsequent periods, the host financial liability component of CBs will be carried at amortized cost using the EIR method. Interest expense recognized from the CBs, which is included under ‘Financing and others’ in the consolidated statement of comprehensive income, amounted to ₱415.7 million.

The fair value at initial recognition and carrying amount as at December 31, 2021 of the host financial liability component of the CBs are presented below:

	In	
	In US Dollar	Philippine Peso
Issue price of bonds payable	US\$250,000,000	₱11,955,500,000
Bond issue cost	(3,571,242)	(173,026,665)
Net proceeds	246,428,758	₱11,782,473,335
Less: Fair value of embedded derivative liability at initial recognition (Note 8)	(8,632,924)	(412,843,691)
Initial carrying amount of bonds payable	237,795,834	11,369,629,644
Unrealized foreign exchange loss	–	759,069,399
Bond amortization	1,127,206	56,137,083
Carrying value of bonds payable	US\$238,923,040	₱12,184,836,126



The bifurcated embedded derivatives have an initial fair value of ₱412.8 million and is presented as 'Derivative financial liabilities at fair value through profit or loss' in the 2021 consolidated statement of financial position. These bifurcated derivatives are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

The changes in the fair value in 2021 of the derivative liabilities at FVPL follows:

	In	
	In US Dollar	Philippine Peso
Fair value at initial recognition	US\$8,632,924	₱412,843,691
Market valuation losses	25,308,149	1,318,117,077
Carrying value of embedded derivative liability	US\$33,941,073	₱1,730,960,768

The fair value of the embedded derivatives was determined by the Group using the Jarrow-Rudd model.

The inputs used for the calculation of fair value as of specific valuation date are as follows:

	December 31, 2021
Stock price	₱42.15
Risk free rate	1.29%
Conversion price	₱38.00
Term	5.9 years
Volatility	47.27%

20. Other Noncurrent Liabilities

This account consists of:

	2021	2020
Asset retirement obligation	₱7,084,719,291	₱6,538,951,651
Heavy maintenance visits	1,082,628,412	345,964,168
Deferred revenue on rewards program	-	1,062,052,990
Other noncurrent liabilities	87,810,283	52,760,508
	₱8,255,157,986	₱7,999,729,317

Asset Retirement Obligation (ARO)

The Group is contractually required under various lease contracts to restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. These costs are accrued based on estimates made by the Group's engineers, which include estimates of future aircraft utilization and certain redelivery costs at the end of the lease period.



The rollforward analysis of the Group's ARO follow:

	2021	2020
Balance at beginning of year	₱6,538,951,651	₱5,942,401,451
Provision for ARO	3,566,104,161	3,132,239,751
Applications	(3,020,336,521)	(2,535,689,551)
Balance at end of year	₱7,084,719,291	₱6,538,951,651

In 2021, 2020 and 2019, ARO expenses included as part of repairs and maintenance amounted to ₱3,566.1 million, ₱3,132.2 million and ₱1,940.1 million, respectively (see Note 25).

Heavy Maintenance Visits (HMV)

The Group is contractually required under various lease contracts to undertake the maintenance and overhaul of certain leased aircraft throughout the contract period. Major maintenance events are required to be performed on a regular basis based on historical or industry experience and manufacturer's advise. Estimated costs of major maintenance events are accrued and charged to profit or loss over the estimated period between overhauls as the leased aircraft is utilized.

The rollforward analysis of the Group's HMV follow:

	2021	2020
Balance at beginning of year	₱345,964,168	₱–
Provision for HMV	849,950,290	345,964,168
Applications	(113,286,046)	–
Balance at end of year	₱1,082,628,412	₱345,964,168

In 2021 and 2020, HMV expenses included as part of repairs and maintenance amounted ₱850.0 million and ₱346.0 million, respectively (see Note 25).

Deferred Revenue on Rewards Program

This account pertains to estimated liability under the Getgo lifestyle rewards program.

Starting January 1, 2020, the management and ownership of the Getgo points issued in 2020 has been transferred to DAVI. As such, all revenue and expenses in relation to the Getgo points issued in 2020 will be recognized by DAVI. The Group accounts for such issued and redeemed points as a payable to and receivable from DAVI, respectively.

Getgo points outstanding as of December 31, 2019, however, are permanently ring-fenced in the Group's books. The Group continued to account for these points in the consolidated financial statements.

Last July 26, 2021, the Group's Getgo program was replaced by Go Rewards. With this change, the remaining unredeemed ring-fenced points in the Group's books were all converted to Cebu Pacific Travel Fund, a virtual wallet that can be used as a form of payment for booking new flights and purchasing add-ons (see Note 21).



21. Travel Fund Payable

In light of the significant increase in flight cancellations due to the COVID-19 outbreak and consequent to the grounding of the Group's commercial operations, customers were given options for their cancelled flights which included, among others, conversion to a full travel fund which is a virtual wallet equivalent to the amount paid for an existing booking. A travel fund is valid for two (2) years and can be used as payment for future bookings.

Last July 26, 2021, the Group transferred the value of its unredeemed ring-fenced Getgo points amounting to ₱1,048.3 million from 'Deferred revenue on rewards program' to Travel fund payable (see Note 20).

The current portion of travel fund payable amounted to ₱2,802.8 million and ₱103.2 million as of December 31, 2021 and 2020, respectively, and is presented under "Accounts payable and other accrued liabilities" account in the consolidated statements of financial position (see Note 16). The noncurrent portion of travel fund payable amounted to ₱1,851.0 million and ₱3,432.8 million as of December 31, 2021 and 2020, respectively.

22. Equity

The Group's authorized capital stock as of December 31, 2021 and 2020 consists of the following (in number of shares):

	2021	2020
Common stock – at ₱1 par value	1,340,000,000	1,340,000,000
Convertible preferred stock – at ₱1 par value	400,000,000	–
Authorized capital stock	1,740,000,000	1,340,000,000

The details of the Group's issued and outstanding number of common and preferred shares and the movements thereon follow:

	2021		
	Common	Preferred	Total
Subscribed and issued	613,236,550	328,947,368	942,183,918
Conversion of shares	11,739,027	(11,739,027)	–
Subscribed and issued, after conversion	624,975,577	317,208,341	942,183,918
Treasury shares	(12,919,850)	–	(12,919,850)
	612,055,727	317,208,341	929,264,068

	2020		
	Common	Preferred	Total
Subscribed and issued	613,236,550	–	613,236,550
Treasury shares	(12,919,850)	–	(12,919,850)
	600,316,700	–	600,316,700



Amendment of the Articles of Incorporation

On October 7 and November 20, 2020, the BOD and the stockholders of the Parent Company approved the amendment of Article Seven of the Parent Company's Articles of Incorporation. This have also been duly approved by the Securities and Exchange Commission (SEC) last March 19, 2021. The amendments are as follows:

- a. Increase the Parent Company's authorized capital stock from ₱1.340 billion to ₱1.740 billion;
- b. Create a new class of convertible preferred shares and delegate the authority to the BOD of the Parent Company to determine the features, rights and privileges of these shares;
- c. Include a denial of pre-emptive rights for equity-linked instruments to be issued by the Parent Company, which include, but not limited to, convertible bonds, exchangeable bonds, warrants, bonds with detachable warrants and convertible preferred shares;

The following matters have also been approved by the stockholders of the Parent Company last November 20, 2020:

- a. The offer for sale or subscription of the convertible preferred shares via a stock rights offering and delegation of authority to the BOD to determine the terms and conditions of the offering, including the transaction price, the number of shares to be offered, and to engage the services of underwriters, advisors, legal counsel, and other agents as may be necessary, proper or desirable to ensure the success of the offering;
- b. The listing of the (a) Convertible Preferred Shares and the (b) underlying common shares of the Convertible Preferred Shares with the PSE;
- c. The offer for sale and issuance of convertible bonds, warrants, bonds with detachable warrants or any other similar security instrument to such number of investors to be determined by the BOD, and the delegation of authority to the BOD to negotiate and determine the terms and conditions of the issuance, including the transaction price, the terms and conditions of the issuance, and to engage the services of arrangers, advisors, legal counsel, and other agents as may be necessary, proper or desirable for the transaction;
- d. The listing of the underlying common shares of the convertible bonds or warrants or bonds plus warrants with the PSE;
- e. The listing of the warrants with the PSE; and
- f. The waiver of the requirement to conduct a rights or public offer in the event that the holder of the convertible bonds/warrants/bonds plus warrants and convertible preferred shares will result in the issuance of at least 10% of the Parent Company's total issued and outstanding shares pursuant to Article V Part A of the PSE Revised Listing Rules.

Common Stock

On October 26, 2010, the Parent Company listed with the PSE its common stock, by way of primary and secondary share offerings, wherein it offered 212,419,700 shares to the public at ₱125.00 per share (see Note 1). Of the total shares sold, 30,661,800 shares are newly issued shares with total proceeds amounting to ₱3,800.0 million. The Parent Company's share in the total transaction costs incurred incidental to the IPO amounted to ₱100.4 million, which is charged against 'Capital paid in excess of par value' in the consolidated statements of financial position. The registration statement



was approved on October 11, 2010. After its listing with the PSE, there have been no subsequent offerings of common stock to the public.

The Parent Company's total number of common stockholders is 109 and 101 as of December 31, 2021 and 2020, respectively.

Convertible Preferred Stock

On March 3, 2021, the Parent Company announced the start of its stock rights offer (SRO) for sale or subscription of its cumulative, non-voting, non-participating Convertible Preferred Shares (CPS) with a par value of ₱1.00 per share at an offer price of ₱38.00 per entitlement right. The CPS is convertible to common shares at a conversion price of ₱38.00 per share. The SRO was made available to the Parent Company's eligible shareholders of record as of February 26, 2021 with an entitlement ratio of one entitlement right for every 1.8250 common shares held as of record date. The SRO was completed and closed on March 9, 2021 with a total of 328,947,368 shares issued. Total proceeds from the SRO amounted to ₱12.5 billion. The Parent Company incurred transaction costs incidental to the SRO amounting to ₱32.5 million, which is charged against 'Capital paid in excess of par value' in the consolidated statements of financial position. The CPS were successfully listed with the PSE last March 29, 2021. As of December 31, 2021, 11,739,027 CPS have been converted to common shares with ₱1.00 par value at the conversion price of ₱38.00 per share.

The Parent Company's total number of preferred stockholders is 12 and nil as of December 31, 2021 and 2020, respectively.

The rollforward of the Parent Company's capital stock and capital paid in excess of par value follows:

	2021					
	Capital Stock			Capital Paid in Excess of Par Value		
	Common	Preferred	Total	Common	Preferred	Total
Balances at January 1	₱613,236,550	₱-	₱613,236,550	₱8,405,568,120	₱-	₱8,405,568,120
Issuance of shares	-	328,947,368	328,947,368	-	12,171,052,616	12,171,052,616
Conversion of shares	11,739,027	(11,739,027)	-	434,343,999	(434,343,999)	-
Transaction cost	-	-	-	-	(32,466,743)	(32,466,743)
Balances at December 31	₱624,975,577	₱317,208,341	₱942,183,918	₱8,839,912,119	₱11,704,241,874	₱20,544,153,993

	2020					
	Capital Stock			Capital Paid in Excess of Par Value		
	Common	Preferred	Total	Common	Preferred	Total
Balances at January 1 and at December 31	₱613,236,550	₱-	₱613,236,550	₱8,405,568,120	₱-	₱8,405,568,120

Treasury Stock

On February 28, 2011, the BOD of the Parent Company approved the creation and implementation of a share buyback program (SBP) up to ₱2.0 billion worth of the Parent Company's common stock. The SBP shall commence upon approval and shall end upon utilization of the said amount, or as may be otherwise determined by the BOD. In August 2018, the Parent Company has decided to resume its SBP.

In 2020 and 2019, the Parent Company recorded additional treasury shares with cost of ₱44.8 million and ₱120.6 million, respectively, from SBP. The Parent Company has 12,919,850 shares held in treasury with cost of ₱950.9 million as of December 31, 2021 and 2020, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.



Appropriation of Retained Earnings

On September 7, 2020, December 4, 2019 and December 12, 2018, the Parent Company's BOD appropriated ₱12.0 billion, ₱26.0 billion and ₱22.0 billion, respectively, from its unrestricted retained earnings for purposes of the Group's re-fleeting program. Appropriations as of December 31, 2020 and 2019 were reversed in the following year. The appropriated amount as of December 31, 2020 will be used for the settlement of aircraft and engine lease commitments in 2021 (see Note 33).

As of December 31, 2021, 2020 and 2019, the Group has appropriated retained earnings totaling to nil, ₱12.0 billion and 26.0 billion, respectively.

Unappropriated Retained Earnings

The income of the subsidiaries and JVs that are recognized in the consolidated statements of comprehensive income are not available for dividend declaration unless these are declared by the subsidiaries and JVs (see Note 13). As of December 31, 2021 and 2020, the Group's subsidiaries have no retained earnings available for dividends declaration. Likewise, retained earnings are restricted for the payment of dividends to the extent of the cost of common stock held in treasury amounting to ₱950.9 million, ₱950.9 million and ₱906.1 million as of December 31, 2021, 2020 and 2019, respectively.

The Parent Company did not declare dividends in 2021 and 2020.

On May 20, 2019, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱1,201.8 million or ₱2.00 per share and a special cash dividend in the amount of ₱3,004.6 million or ₱5.00 per share from the unrestricted retained earnings of the Parent Company to all stockholders of record as of June 14, 2019 and payable on July 10, 2019. Total dividends declared and paid amounted to ₱4,206.4 million for the year ended December 31, 2019.

After reconciling items which include fair value adjustments on financial instruments, unrealized foreign exchange loss, recognized deferred tax assets and others, and cost of common stocks held in treasury, the Parent Company has no retained earnings available for dividend declaration as of December 31, 2021 and 2020.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group considers its equity of ₱10,609.7 million and ₱22,690.9 million as of December 31, 2021 and 2020, respectively, presented in the consolidated statements of financial position, as its capital. The Group manages its capital structure, which is composed of paid-up capital and retained earnings, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

The Group's ultimate parent monitors the use of capital structure using a debt-to-equity ratio, which is gross debt divided by total capital. JGSHI includes within gross debt all interest-bearing loans and borrowings, while capital represents total equity.



23. Share-based payments

On March 29, 2021, the BOD of the Parent Company approved its Long-Term Incentive Plan (LTIP). The LTIP involves the grant of any one or a combination of Restricted Stock Units and Stock Options to eligible persons.

Upon issuance by the Securities and Exchange Commission of a Confirmation of Exempt Transaction on November 26, 2021, the Philippine Stock Exchange approved the application of the Parent Company to list additional 11,165,846 common shares, consisting of 5,582,923 common shares for Restricted Stock Units and 5,582,923 common shares for Stock Options and with a par value of ₱1.00 per share, to cover the Parent Company's LTIP last December 2, 2021.

Restricted Stock Units (RSU)

On November 26, 2021, 4,710,000 RSUs were granted to 82 eligible persons with 1 to 3 years vesting period. These will vest in three (3) tranches; 20%, 30% and 50% at the end of 2021, 2022, 2023, respectively except for three (3) grantees which will vest in full at the end of 2021. Vesting is conditional on the eligible person's employment and achievement of a minimum individual performance rating within the vesting period. The fair value of each share is ₱48.40 which is the stock price at grant date. The Group does not pay cash as a form of settlement.

On December 31, 2021, 1,094,000 RSUs have vested. The shares were subsequently listed with the Philippine Stock Exchange on January 21, 2022 (see Note 38).

Stock Options

On November 26, 2021, 5,205,000 stock options were granted to 16 eligible persons with one (1) to three (3) years vesting period which can be exercised at a strike price of ₱48.575 once vested. These will vest in three (3) tranches; 20%, 30% and 50% at the end of 2021, 2022 and 2023, respectively except for two (2) grantees which will vest in full at the end of 2021. Vesting is conditional on the eligible person's employment and achievement of a minimum individual performance rating within the vesting period. These options will expire on December 31, 2027. The Group does not pay cash as a form of settlement.

On December 31, 2021, 1,265,000 stock options have vested. No options were exercised, forfeited or expired during the year. Thus, as of December 31, 2021, the 1,265,000 vested stock options remain to be outstanding and exercisable.

The fair value of each option at grant date is ₱21.79 which was determined using the Cox-Ross-Rubinstein Binomial Option Pricing Method. The inputs in the valuation of the stock option are as follows:

Stock price at grant date	₱48.40
Exercise price	₱48.575
Expected volatility	47.24%
Option life	6.10 years
Dividend yield	2.93%
Risk-free interest rate	4.53%

The option life is the period between the November 26, 2021 grant date to December 31, 2027 expiry date. The expected volatility was based on the historical daily stock prices for the past five years. Daily stock price data used did not include non-trading days. Standard deviation was used to measure volatility which is a measure of risk associated with the degree of fluctuations in stock price over a period of time.



In 2021, the cost of RSUs and stock options charged to operations under the “General and administrative” in the consolidated statements of comprehensive income amounted to ₱116.5 million and ₱58.3 million, respectively. Correspondingly, a credit was made to equity which is presented under “Share-based payments” in the 2021 consolidated statement of financial position amounting to ₱174.8 million.

24. Ancillary Revenues

Ancillary revenues consist of:

	2021	2020	2019
Baggage fees	₱1,052,549,979	₱1,795,385,199	₱8,237,585,725
Rebooking, refunds, cancellation fees, etc.	878,703,012	1,729,209,710	6,381,316,817
Others	1,049,333,691	1,062,285,174	2,760,410,780
	₱2,980,586,682	₱4,586,880,083	₱17,379,313,322

Others pertain to revenue from in-flight sales, advanced seat selection fees, reservation booking fees and others.

25. Operating Expenses

Repairs and Maintenance

Repairs and maintenance expenses relate to the cost of maintaining, repairing and overhauling of all aircraft and engines, technical handling fees on pre-flight inspections and cost of aircraft spare parts and other related equipment.

The account includes related costs of other contractual obligations under aircraft lease agreements (see Note 33). Total amount of repairs and maintenance includes provision for aircraft return condition amounting to ₱3,566.1 million, ₱3,132.2 million and ₱1,940.1 million in 2021, 2020 and 2019, respectively (see Notes 5 and 20).

For the year ended December 31, 2020, the Group charged as an addition to maintenance expense the effective portion of some FX hedging relationships classified as cash flow hedges amounting to ₱53.2 million (see Note 31). These amounts were previously accumulated in OCI and have been reclassified to profit or loss in the same period the payment of maintenance expense affected profit or loss. There were no similar charges for the year ended December 31, 2019.

Flying Operations

This account consists of:

	2021	2020	2019
Aviation fuel expense (Note 10)	₱5,074,851,774	₱6,203,299,065	₱24,591,651,508
Flight deck	1,272,460,967	2,339,567,554	4,590,316,625
Aviation insurance	332,878,292	341,328,993	322,729,132
Others	417,223,899	483,782,325	756,660,022
	₱7,097,414,932	₱9,367,977,937	₱30,261,357,287



For the year ended December 31, 2021, the Group charged as a deduction to aviation fuel expense the effective portion of its cash flow hedges amounting to ₱24.5 million. For the year ended December 31, 2020, the Group charged as an addition to aviation fuel expense the effective portion of its cash flow hedges amounting to ₱572.4 million (see Note 31). These amounts were previously accumulated in OCI and have been reclassified to profit or loss in the same period the purchase of fuel affected profit or loss. There was no amount charged for the years ended December 31, 2021 and 2019.

Flight deck expenses consist of salaries of pilots and co-pilots, training costs, meals and allowances, insurance and other pilot-related expenses.

Aviation insurance pertains to insurance costs incurred directly for aircraft.

Aircraft and Traffic Servicing

This account consists of:

	2021	2020	2019
Airport charges	₱1,198,504,958	₱1,558,420,756	₱4,674,113,045
Ground handling	1,166,429,990	1,310,453,583	3,755,778,991
Others	304,661,968	505,385,695	832,588,322
	₱2,669,596,916	₱3,374,260,034	₱9,262,480,358

Airport charges are fees which are paid to airport authorities relating to landing and take-off of aircraft on runways, as well as for the use of airport facilities.

Ground handling refers to expenditures incurred for services rendered at airports, which are paid to departure stations or ground handling agents.

Others pertain to staff expenses incurred by the Group such as basic pay, employee training cost and allowances.

Reservation and Sales

Reservation and sales relate to the cost to sell or distribute airline tickets and other ancillaries provided to passengers such as costs to maintain the Group's web-based booking channel, reservation ticketing office costs and advertising expenses. These amounted to ₱899.3 million, ₱1,499.2 million and ₱4,059.2 million in 2021, 2020 and 2019, respectively.

26. General and Administrative Expenses

This account consists of:

	2021	2020	2019
IT and other professional fees	₱1,369,831,417	₱1,251,125,136	₱976,592,978
Staff costs	710,193,599	769,651,272	1,003,057,243
Security	294,209,382	270,712,137	411,533,945
Utilities	125,928,772	145,916,831	136,749,683
Rent expense (Note 33)	33,705,315	38,980,162	60,917,142
Travel and transportation	12,125,546	15,975,190	55,942,843
Others	574,094,997	727,527,102	331,648,047
	₱3,120,089,028	₱3,219,887,830	₱2,976,441,881



Others include membership dues, annual listing maintenance fees, supplies, bank charges and others.

For the year ended December 31, 2020, the Group charged as an addition to IT and other professional fees the effective portion of some FX hedging relationships classified as cash flow hedges amounting to nil and ₱21.3 million (see Note 31). These amounts were previously accumulated in OCI and have been reclassified to profit or loss in the same period the payment of IT subscription fees affected profit or loss. There were no similar charges for the years ended December 31, 2021 and 2019.

27. Employee Benefits

The Group has funded, noncontributory, defined benefit pension plans covering substantially all of its regular employees.

The pension funds of the Parent Company and CEBGO are being administered and managed through JG Summit Multi-Employer Retirement Plan (the “Plan”), with Robinsons Bank Corporation (RBC) as Trustee. The plans provide for retirement, separation, disability and death benefits to their members. The Group, however, reserves the right to discontinue, suspend or change the rates and amounts of their contributions at any time on account of business necessity or adverse economic conditions. The retirement plan has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the Plan. Certain members of the BOD and Parent Company are represented in the Executive Retirement Committee. RBC manages the plan based on the mandate as defined in the trust agreement.

The retirement plan of A-Plus is of the final salary defined benefit type. The plan provides a retirement benefit equal to one hundred percent (100%) of plan salary for every year of credited service. Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the plan. Since A-Plus does not have a formal, trustee retirement plan, there are no Trustees yet. Under the existing regulatory framework, Republic Act (RA) No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee’s retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Employee Benefit Cost

Total personnel expenses, consisting of salaries, expense related to defined benefit plans and other employee benefits, are included in flying operations, aircraft and traffic servicing, repairs and maintenance, reservation and sales, general and administrative, and passenger service.

Defined Benefit Plans

The Group has funded, noncontributory, defined benefit plans covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

The range of assumptions used to determine retirement benefits of the Group in 2021, 2020 and 2019 are as follows:

	2021	2020	2019
Average remaining working life	24 - 27 years	24 - 29 years	7 - 10 years
Discount rate	4.94% - 5.18%	3.67% - 3.99%	4.98% - 5.02%
Salary increase rate	4.00% - 5.00%	5.00 - 5.70%	5.70%



As of December 31, 2021 and 2020, the discount rate used in determining the retirement liability is determined by reference to market yields at the reporting date on Philippine government bonds.

The amounts recognized as retirement liability follow:

	2021	2020
Present value of defined benefit obligation	₱1,012,255,510	₱1,248,382,737
Fair value of plan assets	(587,435,074)	(658,294,560)
	₱424,820,436	₱590,088,177

Remeasurement gains (losses) recognized in OCI follow:

	2021	2020	2019
Actuarial gains (losses) from benefit obligation	₱286,173,372	₱296,000,500	(₱197,637,916)
Return on plan assets, excluding amount included in net interest cost	(75,729,564)	90,098,393	(55,049,471)
Amount to be recognized in OCI	₱210,443,808	₱386,098,893	(₱252,687,387)

Movements in the fair value of plan assets follow:

	2021	2020
Balance at January 1	₱658,294,560	₱729,004,724
Interest income included in net interest cost	23,836,939	31,522,275
Return on plan assets, excluding amount included in net interest cost	(75,729,564)	90,098,393
Benefits paid	(18,966,861)	(192,330,832)
Balance at December 31	₱587,435,074	₱658,294,560

The plan assets consist of:

	2021	%	2020	%
Cash	₱9,337,347	1.6%	₱1,171,292	0.2%
Investment in debt securities	108,632,377	18.5%	140,207,089	21.3%
Investment in equity securities	31,597,634	5.4%	4,424,608	0.7%
Unit investment trust funds	371,175,099	63.2%	453,732,843	68.9%
Receivables	66,692,617	11.3%	58,776,212	8.9%
	587,435,074		658,312,044	
Liabilities	-	-	(17,484)	-
	₱587,435,074	100.0%	₱658,294,560	100.0%

The Group expects to contribute about ₱107.0 million into the retirement fund for the year ending 2022.

The actual returns on plan assets amounted to ₱51.9 million losses and ₱121.6 million gains in 2021 and 2020, respectively.



Changes in present value of the defined benefit obligation follow:

	2021	2020
Balance at January 1	P1,248,382,737	P1,652,947,542
Step acquisition of A-Plus (Note 13)	–	107,441,205
Current service cost	111,312,231	104,217,958
Interest cost	44,779,722	85,695,945
Benefits paid	(130,162,910)	(275,903,272)
Settlement loss (gain)	24,117,102	(130,016,141)
Actuarial loss (gain) due to:		
Experience adjustments	(253,378,726)	110,568,928
Changes in financial assumption	29,898,912	(196,981,713)
Changes in demographical assumption	(62,693,558)	(209,587,715)
Balance at December 31	P1,012,255,510	P1,248,382,737

The defined benefit plan of the Parent Company and CEBGO was amended effective April 1 and June 1, 2019. The effect of this change is reflected as past service cost. The curtailment and settlement resulted from the involuntary separation of certain employees in 2020 and 2019.

Out of the P275.9 million benefits paid in 2020, P254.0 million pertain to payments to retrenched employees in line with the Group's right-sizing measures undertaken to navigate the current environment brought about by the COVID-19 pandemic.

Movements in retirement liability follow:

	2021	2020
Balance at January 1	P590,088,177	P923,942,818
Step acquisition of A-Plus (Note 13)	–	107,441,205
Retirement expense	156,372,116	28,375,487
Recognized in OCI	(210,443,808)	(386,098,893)
Benefits paid	(111,196,049)	(83,572,440)
Balance at December 31	P424,820,436	P590,088,177

The benefits paid during 2021 and 2020 were paid out of the Group's operating funds.

Components of retirement expense included in the Group's consolidated statements of comprehensive income follow:

	2021	2020	2019
Current service cost	P111,312,231	P104,217,958	P145,684,534
Past service cost	–	–	265,243,016
Settlement loss (gain)	24,117,102	(130,016,141)	91,402,155
Net interest cost (income)	20,942,783	54,173,670	(34,453,583)
Total retirement expense	P156,372,116	P28,375,487	P467,876,122



Shown below are the sensitivity analyses that has been determined based on reasonably possible changes of the assumption occurring as of the end of the reporting period, assuming if all other assumptions were held constant:

	2021	
		PVO
Discount rates	+100 basis points	(₱65,037,541)
	-100 basis points	74,223,472
Salary increase rates	+100 basis points	74,371,992
	-100 basis points	(66,320,878)
	2020	
		PVO
Discount rates	+100 basis points	(₱100,268,628)
	-100 basis points	116,427,021
Salary increase rates	+100 basis points	113,066,137
	-100 basis points	(99,484,873)

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. As of December 31, 2021 and 2020, the Group's investment consists of 87% of debt and equity instruments and 13% of cash and receivables and 91% of debt and equity instruments and 9% of cash and receivables, respectively. The principal technique of the Group's ALM is to ensure the expected return on assets to be sufficient to support the desired level of funding arising from the defined benefit plans.

Shown below is the maturity profile of the undiscounted benefit payments of the Group as of December 31, 2021 and 2020:

	2021	2020
Less than one year	₱126,363,061	₱133,993,103
One to less than five years	519,333,984	499,963,122
Five to less than 10 years	588,835,025	685,277,793
10 to less than 15 years	618,670,609	670,508,525
15 to less than 20 years	617,060,144	633,876,404
20 years and above	953,162,949	1,088,115,463

The average duration of the expected benefit payments as of December 31, 2021 and 2020 is 9.8 years and 10.3 years, respectively.

28. Income Taxes

Provision for (benefit from) income tax consists of:

	2021	2020	2019
Current	₱1,270,183	₱268,373	₱467,986,478
Deferred	(2,029,228,604)	(659,358,222)	693,466,391
	(₱2,027,958,421)	(₱659,089,849)	₱1,161,452,869



Details of current taxes follow:

	2021	2020	2019
RCIT	₱–	₱–	₱467,986,478
MCIT	1,270,183	268,373	–
	₱1,270,183	₱268,373	₱467,986,478

Income taxes include corporate income tax. The NIRC of 1997 provides for rules on the imposition of MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Group commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

Under Section 11 of R.A. No. 7151 (Parent Company’s Congressional Franchise) known as the “ipso facto clause”, the Parent Company is allowed to benefit from the tax privileges being enjoyed by competing airlines. The Parent Company’s major competitor, by virtue of P.D. No. 1590, is enjoying tax exemptions which are likewise being claimed by the Parent Company, if applicable, including but not limited to the following:

- To depreciate its assets to the extent of not more than twice as fast the normal rate of depreciation; and
- To carry over as a deduction from taxable income any NOLCO incurred in any year up to five years following the year of such loss.

In addition, pursuant to Section 4 (bbbb) of R.A. No. 11494 (Bayanihan to Recover as One Act) and as implemented under Revenue Regulations (RR) No. 25-2020, the NOLCO of a business or enterprise incurred for taxable years 2020 and 2021 can be carried over as deduction from gross income for the next five consecutive taxable years immediately following the year of such loss. In compliance with the disclosure requirements of RR No. 25-2020, below shows the unused NOLCO of the Group:

Parent Company NOLCO

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2021	₱18,403,734,817	₱–	₱–	₱18,403,734,817	2026
2020	21,026,735,635	–	–	21,026,735,635	2025
	₱39,430,470,452	₱–	₱–	₱39,430,470,452	

CEBGO NOLCO

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2021	₱1,348,925,483	₱–	₱–	₱1,348,925,483	2026
2020	1,111,045,562	–	–	1,111,045,562	2025
	₱2,459,971,045	₱–	₱–	₱2,459,971,045	

APLUS NOLCO

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2021	₱188,837,864	₱37,721,802	₱–	₱151,116,062	2026



Furthermore, details of remaining excess MCIT are as follows:

CEBGO MCIT

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2018	₱3,184,853	₱-	₱3,184,853	₱-	2021

APLUS MCIT

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2021	₱1,270,183	₱-	₱-	₱1,270,183	2024

The components of the Group's deferred tax assets and liabilities follow:

	2021	2020
Items recognized in profit or loss		
Deferred tax assets:		
ARO	₱1,771,179,823	₱1,961,685,495
NOLCO	2,244,170,055	1,724,540,624
Deferred revenue - Lifestyle rewards program	-	318,615,897
Retirement liability	148,830,366	165,043,619
Lease liability, net of ROU asset	990,900,769	214,749,052
Provision for HMV	270,657,103	103,789,250
Allowance for credit losses	69,135,092	54,715,586
Unrealized loss on net derivative liabilities	432,740,192	1,352,880
Unrealized foreign exchange losses - net	269,656,206	-
Share-based payment transactions	30,468,691	-
Excess MCIT	1,270,183	-
	6,229,008,480	4,544,492,403
Deferred tax liability:		
Unrealized foreign exchange gain - net	-	115,149,864
Unamortized bond issue costs	29,222,395	-
Double depreciation	2,564,476,957	2,792,321,088
Excess of fair value of assets acquired over cost	154,704,634	185,645,561
	2,748,403,986	3,093,116,513
	3,480,604,494	1,451,375,890
Item recognized directly in other comprehensive income or loss		
Deferred tax asset:		
Reserve for retirement plan	-	11,982,834
Hedge reserve	-	8,311,601
Deferred tax liability:		
Reserve for retirement plan	(42,740,826)	-
	(42,740,826)	20,294,435
	₱3,437,863,668	₱1,471,670,325

The Group's recognized deferred tax assets and deferred tax liabilities are expected to be reversed more than 12 months after the reporting date.



Movement in accrued retirement cost and hedge reserves amounted to ₱63.0 million, ₱30.5 million and ₱1.2 million in 2021, 2020 and 2019, respectively, is presented under OCI.

As of December 31, 2021 and 2020, the Parent Company has not recognized deferred tax assets on NOLCO of ₱33,064.9 million and ₱16,471.4 million, respectively. The deferred tax assets on NOLCO were not recognized because management believes that the Parent Company may not have sufficient taxable profits available to allow all or part of these deferred income tax assets to be utilized in the future and prior to their expiration. Unrecognized deferred tax assets on NOLCO as of December 31, 2021 and 2020 amounted to ₱8,266.2 million and ₱4,941.4 million, respectively.

On February 1, 2021, the Bicameral Conference Committee, under the 18th Congress of the Philippines, approved the reconciled version of the House Bill No. 4157 and Senate Bill No.1357 (the “Corporate Recovery and Tax Incentives for Enterprises” or CREATE bill). The CREATE bill seeks to reform corporate income taxes and incentives in the country by implementing certain changes to the current tax regulations. These changes include:

- Reduction in the RCIT from 30% to 20% for domestic corporations with net taxable income not exceeding ₱5.0 million and with total assets not exceeding ₱100.0 million excluding the value of land on which the particular business entity’s office, plant and equipment are situated;
- Reduction in the RCIT from 30% to 25% for all other corporations;
- Lowering of MCIT from 2% to 1% of gross income for 3 years;
- Instead of 10% of taxable income, application of RCIT on regional operating headquarters;
- Standardization of final taxes on foreign corporations to 15%;
- Exemption of foreign sourced dividends received by domestic corporations subject to certain conditions;
- Additional deduction of one-half (1/2) of the value of labor training expenses subject to certain conditions;
- Repeal of the 10% improperly accumulated earnings tax (IAET);
- VAT exemption for medicines for certain critical illnesses; and
- VAT-free importation and sale for 3 years of COVID-19 medicines, personal protective equipment and materials used for their production.

Under the bill, the above changes will be implemented for periods beginning July 1, 2020.

On February 24, 2021, the final version of the CREATE bill as passed by the Bicameral Conference Committee was transmitted to the Office of the President for signing or approval into law. On March 26, 2021, the Office of the President approved the CREATE bill and is now called Republic Act No. 11534 or CREATE Act. The CREATE Act became effective last April 11, 2021 or 15 days after complete publication in the Official Gazette or any newspaper of general circulation in the Philippines.

For the current year, the impact of the implementation of the CREATE Act on the Group’s deferred income tax benefit and net deferred tax asset arising from the reduction of corporate income tax rate from 30% to 25% amounted to ₱245.3 million. There is no impact on the current income tax of the Group since it is still on a taxable loss position.

The Parent Company has outstanding registrations with the BOI as a new operator of air transport on a non-pioneer status under the Omnibus Investments Code of 1987 (Executive Order 226) (see Note 35). On all existing registrations, the Parent Company can avail of bonus years in certain specified cases but the aggregate ITH availments (basic and bonus years) shall not exceed eight years.



As of December 31, 2021 and 2020, the Parent Company has complied with capital requirements set by the BOI in order to avail the ITH incentives for aircraft of registered activity (see Note 35).

The Parent Company has formally requested from the BOI for a 2-year deferral of its ITH incentives (effectively, for years 2020 and 2021), for 26 registered aircraft currently in operation, thereby preserving their remaining ITH entitlement period. This has been duly approved by the BOI on March 10, 2021. This will provide the Parent Company with improved financial resiliency as it navigates the challenges brought about by the COVID-19 pandemic.

A reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2021	2020	2019
Statutory income tax rates	(25.00%)	(30.00%)	30.00%
Adjustments resulting from:			
Unrecognized deferred tax on			
NOLCO and MCIT	15.41	26.84	–
Nontaxable items	(0.03)	(0.43)	(1.89)
Nondeductible items	0.05	0.17	0.50
Change in tax rate	1.00	–	–
Income subject to ITH	–	–	(19.70)
Others	1.04	0.54	2.38
Effective income tax rates	(7.53%)	(2.88%)	11.29%

Entertainment, Amusement and Recreation (EAR) Expenses

Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.50% of net sales for sellers of goods or properties or 1.00% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. The Group recognized EAR expenses (allocated under different expense accounts in the consolidated statements of comprehensive income) amounting to ₱1.1 million, ₱6.4 million, ₱6.8 million in 2021, 2020, and 2019, respectively.

29. Earnings (Loss) Per Share

The following reflects the income and share data used in the basic/diluted EPS computations:

	2021	2020	2019
Net income (loss)	(₱24,898,602,887)	(₱22,236,441,976)	₱9,122,952,680
Less: Cumulative preferred dividends	(550,847,493)	–	–
Net income (loss) attributable to common shareholders for basic EPS	(25,449,450,380)	(22,236,441,976)	9,122,952,680
Divided by: Weighted average number of common shares	604,095,978	598,728,537	599,504,920
Basic EPS	(₱42.13)	(₱37.14)	₱15.22

The Group has no dilutive potential common shares in 2021, 2020 and 2019, respectively.



30. Related Party Transactions

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The Group has entered into transactions with its ultimate parent, its JVs and affiliates principally consisting of advances, sale of passenger tickets, reimbursement of expenses, regular banking transactions, maintenance and administrative service agreements. In addition to the related information disclosed elsewhere in the consolidated financial statements, the following are the balances in respect of transactions with related parties, which were carried out in the normal course of business on terms agreed with related parties during the year.

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plans.

The significant transactions and outstanding balances of the Group with the related parties follow:

Related Party	2021		Terms	Conditions
	Amount/ Volume	Outstanding Balance		
Ultimate Parent				
(1) JG Summit Holdings, Inc.				
Due to related parties	(₱32,313,888)	(₱5,896,052)	Non-interest bearing	Unsecured
Trade payables	(34,716,247)	(3,598,474)	Non-interest bearing	Unsecured
Joint ventures and associates				
(2) PAAT, Inc.				
Due from related parties				
Loans	–	95,531,040	2% interest per annum	Unsecured; No impairment
Sublease agreement	26,346,473	40,225,307	Payable monthly	Unsecured; No impairment
Trade payables	(102,913,160)	(9,611,986)	Non-interest bearing	Unsecured
(3) 1Aviation				
Due from related parties	55,094,799	536,305,908	Non-interest bearing	Unsecured; No impairment
Trade payables	(628,288,496)	(1,736,145)	Non-interest bearing	Unsecured
Sublease agreement	18,288,066	–	Non-interest bearing	Unsecured; No impairment
(4) Value Alliance Travel System Pte. Ltd.				
Trade payables	(2,319,132)	(12,902,983)	Non-interest bearing	Unsecured
(5) Data Analytics Ventures, Inc.				
Due to related parties	(3,363,491)	(3,981,789)	Non-interest bearing	Unsecured
Trade payables	(11,545,348)	–	Non-interest bearing	Unsecured
Trade receivables	24,833,435	6,859,961	Non-interest bearing	Unsecured; No impairment
Entities under common control				
(6) Robinsons Bank Corporation (RBank)				
Non-trade receivables	163,345	4,553,740	Non-interest bearing	Unsecured; No impairment
Trade receivables	150,730	105,787	Non-interest bearing	Unsecured; No impairment
Long-term debt	–	2,447,667,500	Interest bearing	Secured
Sub-lease agreement	1,101,507	–	Non-interest bearing	Unsecured; No impairment
Cash in bank	–	1,441,897,045	Interest bearing	Unsecured; No impairment
(7) Universal Robina Corporation (URC)				
Trade receivables	1,224,655	761,264	Non-interest bearing	Unsecured; No impairment
Trade payables	(2,472,897)	(354,188)	Non-interest bearing	Unsecured
Due to related parties	(89,220,348)	(17,977,448)	Non-interest bearing	Unsecured



2021				
Related Party	Amount/ Volume	Outstanding Balance	Terms	Conditions
(8) Robinsons Land Corporation (RLC)				
Trade receivables	208,329	121,965	Interest bearing	Unsecured; No impairment
Trade payables	(1,225,879)	-	Non-interest bearing	Unsecured
(9) Robinsons Handyman, Inc				
Trade receivables	1,277,431	481,863	Interest bearing	Unsecured; No impairment
Trade payables	(4,965,425)	(362,928)	Non-interest bearing	Unsecured
(10) Robinsons Appliances				
Trade payables	(281,851)	-	Non-interest bearing	Unsecured
(11) Robinsons Supermarket Corporation				
Trade receivables	38,819,330	1,481,435	Non-interest bearing	Unsecured; No impairment
(12) Robinsons Convenience Store				
Sublease agreement	909,684	123,081	Non-interest bearing	Unsecured; No impairment
(13) ASPEN Business Solutions, Inc.				
Trade payables	(16,780,906)	-	Non-interest bearing	Unsecured
(14) JG Summit Philippines Limited				
Short-term debt (Note 18)	4,462,412,500	4,462,412,500	5% interest per annum	Unsecured
2020				
Related Party	Amount/ Volume	Outstanding Balance	Terms	Conditions
Ultimate Parent				
(1) JG Summit Holdings, Inc.				
Trade payables	(₱80,662,680)	(₱39,524,528)	Non-interest bearing	Unsecured
Joint ventures and associates				
(2) PAAT, Inc.				
Due from related parties				
Loans	-	94,133,516	2% interest per annum	Unsecured; No impairment
Sublease agreement	19,704,923	13,878,834	Payable monthly	Unsecured; No impairment
Others	127,328	238,575	Non-interest bearing	Unsecured; No impairment
Trade receivables	90,858	-	Non-interest bearing	Unsecured; No impairment
Trade payables	(113,947,742)	(9,768,957)	Non-interest bearing	Unsecured
(3) IAviation				
Due from related parties				
Trade payables	263,379,308	481,294,810	Non-interest bearing	Unsecured; No impairment
Sublease agreement	(506,727,397)	(82,043,286)	Non-interest bearing	Unsecured
	1,741,721	-	Non-interest bearing	Unsecured; No impairment
(4) Air Black Box Asia Pacific Pte, Ltd				
Trade payables	(8,329,917)	(10,973,905)	Non-interest bearing	Unsecured
(5) Data Analytics Ventures, Inc.				
Due to related parties				
Trade receivables	(82,401,075)	(12,489,769)	Non-interest bearing	Unsecured; No impairment
	11,039,456	2,883,325	Non-interest bearing	Unsecured; No impairment
Entities under common control				
(6) Robinsons Bank Corporation (RBank)				
Non-trade receivables				
Long-term debt	33,161	12,355	Non-interest bearing	Unsecured; No impairment
Sub-lease agreement	-	2,447,667,500	Interest bearing	Secured
Cash in bank	793,566	-	Non-interest bearing	Unsecured; No impairment
	-	261,752,078	Interest bearing	Unsecured; No impairment
(7) Universal Robina Corporation (URC)				
Trade receivables				
Trade payables	11,385,396	304,665	Non-interest bearing	Unsecured; No impairment
Due to related parties	(23,194,824)	(624,562)	Non-interest bearing	Unsecured
	(86,655,610)	(82,517,470)	Non-interest bearing	Unsecured



2020					
Related Party	Amount/ Volume	Outstanding Balance		Terms	Conditions
(8) Robinsons Land Corporation (RLC)					
Trade receivables	₱109,472	₱141,621		Interest bearing	Unsecured; No impairment
Trade payables	(7,121,644)	(43,880)		Non-interest bearing	Unsecured
(9) Robinsons Handyman, Inc					
Trade receivables	3,595,899	330,344		Interest bearing	Unsecured; No impairment
Trade payables	(4,972,811)	(811,294)		Non-interest bearing	Unsecured
(10) Summit Publishing Inc. (SPI)					
Trade receivables	1,442	2,185		Non-interest bearing	Unsecured; No impairment
Trade payables	(2,746,872)	–		Non-interest bearing	Unsecured
(11) Robinsons Appliances					
Trade payables	(1,354,235)	(5,193)		Non-interest bearing	Unsecured
(12) Robinsons Supermarket Corporation (RSC)					
Trade receivables	1,302,960	1,686,367		Non-interest bearing	Unsecured; No impairment
Trade payables	(57,453,933)	(5,821,118)		Non-interest bearing	Unsecured
(13) Robinsons Convenience Store					
Sublease agreement	726,074	–		Non-interest bearing	Unsecured; No impairment
(14) ASPEN Business Solutions, Inc.					
Trade receivables	28,403	–		Non-interest bearing	Unsecured; No impairment
Trade payables	(24,974,687)	(1,898,639)		Non-interest bearing	Unsecured
(15) JG Summit Philippines Limited					
Short-term debt (Note 18)	4,802,300,000	4,802,300,000	5%	interest per annum	Unsecured

Consolidated Statements of Comprehensive Income

	Year	Sale of Air Transportation Service	Ground handling	Ancillary Revenues	Interest Expense
JV in which the Parent Company is a venturer					
PAAT	2021	₱–	₱–	₱25,257,847	₱–
	2020	₱90,858	₱–	₱19,704,923	₱–
	2019	₱696,390	₱–	₱34,985,420	₱–
1 Aviation	2021	–	628,288,496	–	–
	2020	–	506,727,397	–	–
	2019	–	997,587,203	–	–
Entities under common control					
RBank	2021	–	–	–	–
	2020	33,161	–	–	–
	2019	163,124	–	–	–
URC	2021	–	–	–	–
	2020	11,385,396	–	–	–
	2019	60,423,063	–	–	–
RLC	2021	–	–	–	–
	2020	109,472	–	–	–
	2019	277,781	–	–	–
RHI	2021	–	–	–	–
	2020	3,595,899	–	–	–
	2019	24,908,582	–	–	–
SPI	2021	–	–	–	–
	2020	1,442	–	–	–
	2019	736,236	–	–	–

(Forward)



Consolidated Statements of Comprehensive Income					
	Year	Sale of Air Transportation Service	Ground handling	Ancillary Revenues	Interest Expense
JGPC	2021	₱-	₱-	₱-	₱-
	2020	-	-	-	-
	2019	2,574,962	-	-	-
RSC	2021	-	-	-	-
	2020	1,302,960	-	-	-
	2019	11,172,358	-	-	-
Aspen	2021	-	-	-	-
	2020	28,403	-	-	-
	2019	-	-	-	-
JG Summit Philippines Limited	2021	-	-	-	287,759,404
	2020	-	-	-	41,360,000
	2019	-	-	-	-
Total	2021	₱-	₱628,288,496	₱25,257,847	₱287,759,404
	2020	₱16,547,591	₱506,727,397	₱19,704,923	₱41,360,000
	2019	₱100,952,496	₱997,587,203	₱34,985,420	₱-

Terms and conditions of transactions with related parties

Outstanding balances at year-end are unsecured, interest-free and settlement occurs in cash. Also, these transactions are short-term in nature. There have been no guarantees provided or received for any related party receivables or payables. The Group has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2021, 2020 and 2019. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. No provision for expected credit losses has been recognized in 2021, 2020 and 2019.

The Group's significant transactions with related parties follow:

1. The Group entered into a Shared Services Agreement with A-plus. Under the aforementioned agreement, the Group will render certain administrative services to A-plus, which include payroll processing and certain information technology-related functions.
2. For the aircraft maintenance program, the Group engaged A-plus to render line maintenance, light aircraft checks and technical ramp handling services at various domestic and international airports, and to maintain and provide aircraft heavy maintenance services which was performed by SIAEP.
3. The Group maintains deposit accounts and short-term investments with RBank which is reported under 'Cash and cash equivalents' account.
4. The Group also incurs liabilities to URC primarily for the rendering of payroll service to the Group which are recorded under 'Due to related parties' account.
5. The Group provides air transportation services to certain related parties, for which unpaid amounts are recorded as trade receivables under 'Receivables' account in the consolidated statements of financial position.

The Group also purchases goods from URC for in-flight sales and recorded as trade payable, if unpaid, in the consolidated statements of financial position. Total amount of purchases in 2021, 2020 and 2019 amounted to ₱3.7 million, ₱7.9 million and ₱52.3 million, respectively.



6. In 2012, the Group entered into a sub-lease agreement with PAAT for its office space. The lease agreement is for a period of 15 years from November 29, 2012 until November 19, 2027.
7. In 2013 and 2012, under the shareholder loan agreement, the Group provided a loan to PAAT to finance the purchase of its Full Flight Simulator, other equipment and other working capital requirements. Aggregate loans provided by the Group amounted to ₱155.4 million (US\$3.5 million). The loans are subject to two percent (2%) interest per annum. In 2014, the Group collected ₱41.7 million (US\$0.9 million) from PAAT as partial payment of the loan. As of December 31, 2021 and 2020, loan to PAAT amounted to ₱91.0 million (US\$2.3 million).
8. In 2015, the Parent Company entered into sublease arrangements with CEBGO for the lease of its eight (8) ATR 72-500 aircraft. The sublease period for each aircraft is for three years.
9. In 2016, the Parent Company entered into lease arrangements with CEBGO for the lease of its two (2) ATR 72-600 aircraft. The lease period for each aircraft is for six years.
10. In 2017, the Parent Company entered into a loan agreement with RBank to finance the acquisition of four (4) ATR 72-600 aircraft.
11. In 2017, the Parent Company entered into lease arrangements with CEBGO for the lease of its six (6) ATR 72-600 aircraft. The lease period for each aircraft is for six years.
12. In 2018, the Parent Company entered into sublease arrangements with CEBGO for the lease of its four (4) ATR 72-600 aircraft. The sublease period for each aircraft is for six years.
13. In 2019, the Parent Company entered into a sublease arrangement with CEBGO for the lease of one (1) ATR 72-600 aircraft. The sublease period for the aircraft is for ten years.
14. In 2021, the Parent Company entered into a sublease arrangement with CEBGO for the lease of one (1) ATR 72-600 aircraft. The sublease period for the aircraft is for ten years.
15. On March 21, 2018, the Parent Company entered into a Standard Groundhandling Service Agreement (SGHA) with 1Aviation to provide groundhandling service to Manila and Davao stations.
16. Starting January 1, 2020, the management of the Group's loyalty program has been transferred to DAVI. As such, all revenue and expenses in relation to the Getgo loyalty points issued in 2020 will be recognized by DAVI. The Group accounts for such issued and redeemed points as a payable to and receivable from DAVI, respectively.

The compensation of the Group's key management personnel by benefit type follows:

	2021	2020	2019
Short-term employee benefits	₱324,863,258	₱280,148,222	₱387,739,878
Post-employment benefits	6,688,069	57,542,832	20,586,207
	₱331,551,327	₱337,691,054	₱408,326,085

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plans.



Approval requirements and limits on the amount and extent of related party transactions

Material related party transactions (MRPT) refers to any related party transactions, either individually, or in aggregate over a twelve (12)–month period with the same related party, amounting to ten percent (10%) or higher of the Group’s total consolidated assets based on its latest audited consolidated financial statements.

All individual MRPTs shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the Independent Directors voting to approve the MRPT. In case that a majority of the Independent Directors’ vote is not secured, the MRPT may be ratified by the vote of the stockholders representing at least two thirds (2/3) of the outstanding capital stock.

Aggregate RPT transactions within a 12-month period that meets or breaches the materiality threshold shall require the same BOD approval mentioned above.

31. Financial Risk Management Objectives and Policies

The Group’s principal financial instruments, other than derivatives, comprise cash and cash equivalents, restricted cash, derivative financial assets and liabilities, receivables, payables and interest-bearing borrowings. The main purpose of these financial instruments is to finance the Group’s operations and capital expenditures. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into fuel derivatives and foreign currency forward contracts to manage its exposure to fuel price and foreign exchange rate fluctuations, respectively.

The Group’s BOD reviews and approves policies for managing each of these risks and these are summarized in the succeeding paragraphs, together with the related risk management structure.

Risk Management Structure

The Group’s risk management structure is closely aligned with that of JGSHI. The Group has its own BOD, which is ultimately responsible for the oversight of the Group’s risk management process, and is involved in identifying, measuring, analyzing, monitoring and controlling risks.

The risk management framework encompasses environmental scanning, the identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

Each BOD has created the board-level Audit Committee to spearhead the managing and monitoring of risks.

Audit Committee

The Group’s Audit Committee assists the Group’s BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems, and the internal audit functions of the Group. Furthermore, it is the Audit Committee’s purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The Audit Committee also aims to ensure that:

- a. Financial reports comply with established internal policies and procedures, pertinent accounting and auditing standards and other regulatory requirements;



- b. Risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;
- c. Audit activities of internal and external auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal and external auditors; and
- d. The Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

Enterprise Risk Management (ERM) Division

The ERM Division ensures that a sound ERM framework is in place to effectively identify, monitor, assess and manage key business risks. The risk management framework guides the Board in identifying units/business lines and enterprise level risk exposures, as well as the effectiveness of risk management strategies.

The ERM framework revolves around the following eight interrelated risk management approaches:

1. Internal Environmental Scanning - it involves the review of the overall prevailing risk profile of the Business Unit (BU) to determine how risks are viewed and addressed by the management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the BU.
2. Objective Setting - the Company's BOD mandates Management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives that are aligned with the Group's goals.
3. Event Identification - it identifies both internal and external events affecting the Group's set targets, distinguishing between risks and opportunities.
4. Risk Assessment - the identified risks are analyzed relative to the probability and severity of potential loss that serves as basis for determining how the risks will be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's action or monitoring, and risks that may materially weaken the Company's earnings and capital.
5. Risk Response - the Group's BOD, through the oversight role of the Internal Control Group ensures action plan is executed to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.
6. Control Activities - policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
7. Information and Communication - relevant risk management information is identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
8. Monitoring - the Internal Control and Internal Audit Groups constantly monitor the management of risks through audit reviews, compliance checks, revalidation of risk strategies and performance reviews.

Internal Controls

With the leadership of the Chief Financial Officer (CFO), internal control is embedded in the Group's operations thus increasing their accountability and ownership in the execution of the internal control framework. To accomplish the established goals and objectives, the Group implement robust and efficient process controls to ensure:

1. Compliance with policies, procedures, laws and regulations;
2. Economic and efficient use of resources;
3. Check and balance and proper segregation of duties;
4. Identification and remediation control weaknesses;



5. Reliability and integrity of information; and
6. Proper safeguarding of company resources and protection of company assets through early detection and prevention of fraud.

Treasury Risk Management (TRM) Group

The TRM Group is mainly responsible for the monitoring of market risk exposures and effectively manage these risks. TRM Group is headed by the CFO and is subdivided into two (2) main offices: Front and Middle Offices, with support from the Comptroller and Treasury Departments for the back-office functions.

The TRM Group follows a risk management program with the primary objectives of reducing undesirable risk exposures, improving cash flow predictability, protecting margins from excessive volatility, and aligning with industry peers to prevent being at a competitive disadvantage. Internal controls and processes are in place to ensure adherence to this risk management program as approved by the Company's Executive Committee. Part of the program is to mainly manage these market risks using derivatives that are solely for the purpose of hedging. Hedging activities are regularly reviewed and monitored by the Chief Executive Adviser and Chief Strategy Officer to ensure alignment of hedging strategies and objectives with the Company's overall purpose.

This risk management program includes the following four key areas:

1. Risk identification involves review of the business and its processes to identify associated market risks.
2. Risk assessment refers to the quantification of the identified risk exposures and the maximum probable losses and cash outflows the Company may incur within a certain frequency over a certain time frame.
3. Risk control represents the activities and programs the Company undertakes in order to eliminate or minimize these market risk exposures. This mainly involves the determination of hedge levels and level of core risks the Company is willing to retain given key stakeholders' risk tolerance.
4. Risk monitoring pertains to the assessment of the risk control activities against established metrics and tracking of the compliance to limits and thresholds set.

Risk Assessment Tool

To help the Group in the Risk Assessment Process, the Risk Assessment Tool which is a database driven web application was developed for departments to help in the assessment, monitoring and management of risks.

The Risk Assessment Tool documents the following activities:

1. Risk Identification - is the critical step of the risk management process. The objective of risk identification is the early identification of events that may have negative impact on the Group's ability to achieve its goals and objectives.
 - 1.1. Risk Indicator - is a potential event or action that may prevent the continuity/action
 - 1.2. Risk Driver - is an event or action that triggers the risk to materialize
 - 1.3. Value Creation Opportunities - is the positive benefit of addressing or managing the risk
2. Identification of Existing Control Measures - activities, actions or measures already in place to control, prevent or manage the risk.
3. Risk Rating/Score - is the quantification of the likelihood and impact to the Group if the risk materialized. The rating has two (2) components:
 - 3.1. Probability - the likelihood of occurrence of risk
 - 3.2. Severity - the magnitude of the consequence of risk



4. Risk Management Strategy - is the structured and coherent approach to managing the identified risk.
5. Risk Mitigation Action Plan - is the overall approach to reduce the risk impact severity and/or probability of occurrence.

Results of the Risk Assessment Process are summarized in a Dashboard that highlights risks that require urgent actions and mitigation plan. The dashboard helps Management to monitor, manage and decide a risk strategy and needed action plan.

Risk management support groups

The Group's BOD created the following departments within the Group to support the risk management activities of the Group and the other business units:

- a. Corporate Security and Safety Board (CSSB) - Under the supervision of ERM Division, the CSSB administers enterprise-wide policies affecting physical security of assets exposed to various forms of risks.
- b. Corporate Supplier Accreditation Team (CORPSAT) - Under the supervision of ERM Division, the CORPSAT administers enterprise-wide procurement policies to ensure availability of supplies and services of high quality and standards to all business units.
- c. Finance Division - The Finance Division is responsible for the oversight of strategic planning, budgeting and performance review processes of the business units as well as for administration of the insurance program of the Group.

Risk Management Policies

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk, namely foreign currency risk, commodity price risk and interest rate risk. The Group's policies for managing the aforementioned risks are summarized below.

Credit risk

Credit risk is defined as the risk of loss due to uncertainty in a third party's ability to meet its obligation to the Group. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are being subjected to credit verification procedures. In addition, receivable balances are monitored on a continuous basis resulting in an insignificant exposure in bad debts.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash in banks and cash equivalents, restricted cash and financial assets at FVOCI and FVPL, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.



Maximum exposure to credit risk without taking account of any credit enhancement

The table below shows the gross maximum exposure to credit risk (including financial assets at FVPL) of the Group as of December 31, 2021 and 2020, without considering the effects of collaterals and other credit risk mitigation techniques.

	2021	2020
Cash and cash equivalents*	₱18,091,954,439	₱4,272,425,368
Restricted cash	1,440,604,130	1,096,422,485
Receivables		
Trade receivables	1,377,305,176	1,623,818,773
Due from related parties	672,062,255	589,545,735
Interest receivable	2,497,418	1,187,579
Others**	203,591,924	201,465,582
Refundable deposits***	1,191,665,074	626,806,386
	₱22,979,680,416	₱8,411,671,908

* Excluding cash on hand

** Include nontrade receivables from insurance, employees and counterparties

***Included under 'Other noncurrent assets' account in the consolidated statements of financial position

Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence. In order to avoid excessive concentrations of risk, identified concentrations of credit risks are controlled and managed accordingly.

The Group's credit risk exposures, before taking into account any collateral held or other credit enhancements are categorized by geographic location as follows:

	2021				
	Philippines	Asia (excluding Philippines)	Europe	Others	Total
Cash and cash equivalents*	₱5,396,677,514	₱12,671,445,349	₱-	₱23,831,576	₱18,091,954,439
Restricted cash	1,440,604,130	-	-	-	1,440,604,130
Receivables					
Trade receivables	864,209,842	423,544,595	47,041,346	42,509,393	1,377,305,176
Due from related parties	672,062,255	-	-	-	672,062,255
Interest receivable	2,497,418	-	-	-	2,497,418
Others**	103,770,627	76,022,820	21,496,384	2,302,093	203,591,924
Refundable deposits***	-	1,191,665,074	-	-	1,191,665,074
	₱8,479,821,786	₱14,362,677,838	₱68,537,730	₱68,643,062	₱22,979,680,416

*Excluding cash on hand

**Include nontrade receivables from insurance, employees and counterparties

***Included under 'Other noncurrent assets' account in the consolidated statement of financial position



2020

	Philippines	Asia (excluding Philippines)	Europe	Others	Total
Cash and cash equivalents*	₱2,867,802,886	₱1,382,188,534	₱–	₱22,433,948	₱4,272,425,368
Restricted cash	1,096,422,485	–	–	–	1,096,422,485
Receivables					
Trade receivables	1,023,167,758	433,739,035	81,689,168	94,222,812	1,632,818,773
Due from related parties	589,545,735	–	–	–	589,545,735
Interest receivable	1,187,579	–	–	–	1,187,579
Others**	194,576,922	6,887,700	960	–	201,465,582
Refundable deposits***	–	626,806,386	–	–	626,806,386
	₱5,772,703,365	₱2,449,621,655	₱81,690,128	₱116,656,760	₱8,420,671,908

*Excluding cash on hand

**Include nontrade receivables from insurance, employees and counterparties

***Included under 'Other noncurrent assets' account in the consolidated statement of financial position

The Group has no concentration of risk with regard to various industry sectors. The major industry relevant to the Group is the transportation sector and financial intermediaries.

Credit quality per class of financial assets

The Group maintains internal credit rating system relating to its revenue distribution channel credit risk management. Credit limits have been set based on the assessment of rating identified. Letters of credit and other forms of credit insurance such as cash bonds are considered in the calculation of expected credit losses.

Other financial assets include cash and cash equivalents and refundable deposits. The Group implements external credit rating system which uses available public information and international credit ratings. The management does not expect default from its counterparty banks given their high credit standing.

The tables below show the credit quality by class of financial assets based on internal credit rating of the Group (gross of allowance for impairment losses) as of December 31, 2021 and 2020:

	2021				
	Neither Past Due Nor Specifically Impaired			Past Due or Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
Cash and cash equivalents*	₱18,091,954,439	₱–	₱–	₱–	₱18,091,954,439
Restricted cash	1,440,604,130	–	–	–	1,440,604,130
Receivables					
Trade receivables	1,174,502,973	–	–	202,802,203	1,377,305,176
Due from related parties	672,062,255	–	–	–	672,062,255
Interest receivable	2,497,418	–	–	–	2,497,418
Others**	129,853,759	–	–	73,738,165	203,591,924
Refundable deposits***	1,191,665,074	–	–	–	1,191,665,074
	₱22,703,140,048	₱–	₱–	₱276,540,368	₱22,979,680,416

*Excluding cash on hand

**Include nontrade receivables from insurance, employees and counterparties

***Included under 'Other noncurrent assets' account in the consolidated statement of financial position

	2020				
	Neither Past Due Nor Specifically Impaired			Past Due or Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
Cash and cash equivalents*	₱4,272,425,368	₱–	₱–	₱–	₱4,272,425,368
Restricted cash	1,096,422,485	–	–	–	1,096,422,485
Receivables					
Trade receivables	1,450,533,728	–	–	182,285,045	1,632,818,773
Due from related parties	589,545,735	–	–	–	589,545,735
Interest receivable	1,187,579	–	–	–	1,187,579
Others**	201,365,342	–	–	100,240	201,465,582
Refundable deposits***	626,806,386	–	–	–	626,806,386
	₱8,238,286,623	₱–	₱–	₱182,385,285	₱8,420,671,908

*Excluding cash on hand

**Include nontrade receivables from insurance, employees and counterparties

***Included under 'Other noncurrent assets' account in the consolidated statement of financial position



High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks of which some belong to the top ten banks in terms of resources and profitability.

High grade accounts are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

The following tables show the aging analysis of the Group's receivables:

	2021							Total
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Over 180 Days	Past Due and Impaired	
		1-30 Days	31-60 Days	61-90 Days	91-180 Days			
Trade receivables	₱1,174,502,973	₱-	₱-	₱-	₱-	₱-	₱202,802,203	₱1,377,305,176
Due from related parties	672,062,255	-	-	-	-	-	-	672,062,255
Interest receivable	2,497,418	-	-	-	-	-	-	2,497,418
Others	129,853,759	-	-	-	-	-	73,738,165	203,591,924
	₱1,978,916,405	₱-	₱-	₱-	₱-	₱-	₱276,540,368	₱2,255,456,773

Include nontrade receivables from insurance, employees and counterparties.

	2020							Total
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Over 180 Days	Past Due and Impaired	
		1-30 Days	31-60 Days	61-90 Days	91-180 Days			
Trade receivables	₱1,515,310,163	₱-	₱-	₱-	₱-	₱-	₱108,508,610	₱1,623,818,773
Due from related parties	589,545,735	-	-	-	-	-	-	589,545,735
Interest receivable	1,187,579	-	-	-	-	-	-	1,187,579
Others	127,588,906	-	-	-	-	-	73,876,676	201,465,582
	₱2,233,632,383	₱-	₱-	₱-	₱-	₱-	₱182,385,286	₱2,416,017,669

Include nontrade receivables from insurance, employees and counterparties.

Past due but not specifically impaired receivables are secured by cash bonds from major sales and ticket offices recorded under 'Accounts payable and other accrued liabilities' account in the consolidated statements of financial position. For the past due and impaired receivables, allowance for impairment losses amounted to ₱276.5 million and ₱182.4 million as of December 31, 2021 and 2020, respectively (see Note 9).

Collateral or credit enhancements

As collateral against trade receivables from sales ticket offices or agents, the Group requires cash bonds from major sales ticket offices or agents ranging from ₱50,000 to ₱2.1 million depending on the Group's assessment of sales ticket offices and agents' credit standing and volume of transactions. As of December 31, 2021 and 2020, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities' account in the consolidated statements of financial position) amounted to ₱89.0 million and ₱191.5 million, respectively (see Note 16).

There are no collaterals for impaired receivables.



Impairment assessment

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (that is, per revenue distribution channel). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

For other debt financial instruments such as cash and cash equivalents (excluding cash on hand) and refundable deposits ECLs, the Group applies the general approach of which it tracks changes in credit risk at every reporting date. The probability of default (PD) and loss given defaults (LGD) are estimated using external and benchmark approaches for listed and non-listed financial institutions, respectively. For listed financial institutions, the Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs. For non-listed financial institutions, the Group uses benchmark approach where the Group finds comparable companies in the same industry having similar characteristics. The Group obtains the credit rating of comparable companies to determine the PD and determines the average LGD of the selected comparable companies to be applied as LGD of the non-listed financial institutions.

The two methodologies applied by the Group in assessing and measuring impairment include: (1) specific/individual assessment; and (2) collective assessment.

Under specific/individual assessment, the Group assesses each individually significant credit exposure for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment. Among the items and factors considered by the Group when assessing and measuring specific impairment allowances are: (a) the timing of the expected cash flows; (b) the projected receipts or expected cash flows; (c) the going concern of the counterparty's business; (d) the ability of the counterparty to repay its obligations during financial crises; (e) the availability of other sources of financial support; and (f) the existing realizable value of collateral. The impairment allowances, if any, are evaluated as the need arises, in view of favorable or unfavorable developments.

With regard to the collective assessment of impairment, allowances are assessed collectively for losses on receivables that are not individually significant and for individually significant receivables when there is no apparent nor objective evidence of individual impairment yet. A particular portfolio is reviewed on a periodic basis in order to determine its corresponding appropriate allowances. The collective assessment evaluates and estimates the impairment of the portfolio in its entirety even though there is no objective evidence of impairment yet on an individual assessment. Impairment losses are estimated by taking into consideration the following deterministic information:

- (a) historical losses/write-offs;
- (b) losses which are likely to occur but have not yet occurred; and
- (c) the expected receipts and recoveries once impaired.

Liquidity risk

Liquidity is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they become due without recurring unacceptable losses or costs.



The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Fund raising activities may include obtaining bank loans and availing of export credit agency facilities.

Financial assets

The analysis of financial assets held for liquidity purposes into relevant maturity grouping is based on the remaining period at the reporting date to the contractual maturity date or, if earlier, the expected date the assets will be realized.

Financial liabilities

The relevant maturity grouping is based on the remaining period at the reporting date to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in installments, each installment is allocated to the earliest period in which the Group can be required to pay.

The tables below summarize the maturity profile of financial instruments based on remaining contractual undiscounted cash flows as of December 31, 2021 and 2020:

	2021					Total
	Less than one month to 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	>5 years	
Financial Assets						
Cash and cash equivalents	₱18,142,000,080	₱-	₱-	₱-	₱-	₱18,142,000,080
Restricted cash	1,440,604,130	-	-	-	-	1,440,604,130
Receivables:						
Trade receivables	1,377,305,176	-	-	-	-	1,377,305,176
Due from related parties*	672,062,255	-	-	-	-	672,062,255
Interest receivable	2,497,418	-	-	-	-	2,497,418
Others **	203,591,924	-	-	-	-	203,591,924
Refundable deposits	-	-	-	-	1,191,665,074	1,191,665,074
	₱21,838,060,983	₱-	₱-	₱-	₱1,191,665,074	₱23,029,726,057
Financial Liabilities						
Accounts payable and other accrued liabilities***	₱13,970,396,820	₱477,805,265	₱74,305,360	₱-	₱-	₱14,522,507,445
Due to related parties*	27,855,289	-	-	-	-	27,855,289
Derivative financial liabilities at FVPL	1,730,960,768	-	-	-	-	1,730,960,768
Lease liability****	858,691,888	962,123,458	4,031,002,474	18,325,933,706	12,335,248,423	36,512,999,949
Short-term debt*****	-	-	4,685,533,126	-	-	4,685,533,126
Long-term debt*****	310,624,581	1,053,541,603	3,682,328,604	31,578,659,940	14,381,149,837	51,006,304,565
Bonds payable*****	-	-	573,738,750	2,294,955,000	13,036,619,375	15,905,313,125
	₱16,898,529,346	₱2,493,470,326	₱13,046,908,314	₱52,199,548,646	₱39,753,017,635	₱124,391,474,267

*Receivable and payable on demand

**Include nontrade receivables from insurance, employees and counterparties

***Excluding government-related payables

****Consist of undiscounted minimum lease payments

*****Including future interest payments



	2020					Total
	Less than one month to 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	>5 years	
Financial Assets						
Cash and cash equivalents	₱4,324,047,495	₱-	₱-	₱-	₱-	₱4,324,047,495
Restricted cash	1,096,422,485	-	-	-	-	1,096,422,485
Receivables:						
Trade receivables	1,623,818,773	-	-	-	-	1,623,818,773
Due from related parties*	589,545,735	-	-	-	-	589,545,735
Interest receivable	1,187,579	-	-	-	-	1,187,579
Others **	201,465,582	-	-	-	-	201,465,582
Refundable deposits	-	-	-	-	626,806,386	626,806,386
	₱7,836,487,649	₱-	₱-	₱-	₱626,806,386	₱8,463,294,035
Financial Liabilities						
Accounts payable and other accrued liabilities***	₱10,289,961,505	₱858,024,197	₱-	₱-	₱-	₱11,147,985,702
Due to related parties*	95,007,239	-	-	-	-	95,007,239
Derivative financial liabilities	1,269,388	3,658,586	27,286,963	-	-	32,214,937
Lease liability****	706,356,879	1,344,869,129	5,426,436,661	10,530,764,239	3,883,209,085	21,891,635,993
Short-term debt*****	-	4,923,691,472	-	-	-	4,923,691,472
Long-term debt*****	262,180,379	1,164,411,688	5,029,816,116	38,425,442,524	13,832,619,669	58,714,470,376
	₱11,354,775,390	₱8,294,655,072	₱10,483,539,740	₱48,956,206,763	₱17,715,828,754	₱96,805,005,719

*Receivable and payable on demand

**Include nontrade receivables from insurance, employees and counterparties

***Excluding government-related payables

****Consist of undiscounted minimum lease payments

*****Including future interest payments

Refer to Note 1 on the measures taken by the Group to address liquidity gap as at December 31, 2021 and 2020.

Market risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates, interest rates, commodity prices or other market changes. The Group's market risk originates from its holding of foreign exchange instruments, interest-bearing instruments and derivatives.

Foreign currency risk

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. It is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the Group's functional currency. For the twelve-months period ended December 31, 2021, 2020 and 2019, approximately 27.2%, 23.0% and 25.0% respectively, of the Group's total sales are denominated in currencies other than the functional currency. Furthermore, the Group's capital expenditures are substantially denominated in USD. As of December 31, 2021 and 2020, 40.8% and 43.0% of the Group's financial liabilities were denominated in USD, respectively.



The tables below summarize the Group's exposure to foreign currency risk. Included in the tables are the Group's financial assets and liabilities at carrying amounts, categorized by currency.

	2021					Total
	US Dollar	Hong Kong Dollar	Singaporean Dollar	Japanese Yen	Other Currencies*	
Financial Assets						
Cash and cash equivalents	₱12,097,656,000	₱388,371,602	₱54,576,300	₱21,413,670	₱828,754,973	₱13,390,772,545
Restricted cash	1,440,604,130	–	–	–	–	1,440,604,130
Receivables	668,061,233	186,186,047	67,669,799	48,542,322	162,018,744	1,132,478,145
Refundable deposits**	1,191,655,074	–	–	–	–	1,191,655,074
	₱15,397,976,437	₱574,557,649	₱122,246,099	₱69,955,992	₱990,773,717	₱17,155,509,894
Financial Liabilities						
Accounts payable and other accrued liabilities***	₱970,769,718	₱16,247,237	₱2,067,953	₱16,893,319	₱178,638,384	₱1,184,616,611
Bonds payable	12,184,836,126	–	–	–	–	12,184,836,126
Derivative financial liabilities at FVPL	1,730,960,768	–	–	–	–	1,730,960,768
Short-term debt	4,462,412,500	–	–	–	–	4,462,412,500
Long-term debt	20,427,514,936	–	–	6,681,792,918	–	27,109,307,854
	₱39,776,494,048	₱16,247,237	₱2,067,953	₱6,698,686,237	₱178,638,384	₱46,672,133,859

*Other currencies include Malaysian ringgit, Korean won, New Taiwan dollar, Australian dollar and Euro

**Included under 'Other noncurrent assets' account in the consolidated statements of financial position

***Excluding government-related payables

	2020					Total
	US Dollar	Hong Kong Dollar	Singaporean Dollar	Japanese Yen	Other Currencies*	
Financial Assets						
Cash and cash equivalents	₱1,342,963,102	₱10,758,253	₱24,031,002	₱43,550,992	₱1,713,313,528	₱3,134,616,877
Restricted cash	1,001,204,323	–	–	–	–	1,001,204,323
Receivables	702,667,415	27,552,957	61,149,850	7,470,436	58,893,479	857,734,137
Refundable deposits**	626,806,386	–	–	–	–	626,806,386
	₱3,673,641,226	₱38,311,210	₱85,180,852	₱51,021,428	₱1,772,207,007	₱5,620,361,723
Financial Liabilities						
Accounts payable and other accrued liabilities***	₱769,386,177	₱19,439,788	₱7,688,589	₱45,733,572	₱247,376,168	₱1,089,624,294
Derivative financial liability	32,214,937	–	–	–	–	32,214,937
Short-term debt	4,802,300,000	–	–	–	–	4,802,300,000
Long-term debt	25,333,277,530	–	–	7,727,531,814	–	33,060,809,344
	₱30,937,178,644	₱19,439,788	₱7,688,589	₱7,773,265,386	₱247,376,168	₱38,984,948,575

*Other currencies include Malaysian ringgit, Korean won, New Taiwan dollar, Australian dollar and Euro

**Included under 'Other noncurrent assets' account in the consolidated statements of financial position

***Excluding government-related payables

The exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of December 31, 2021 and 2020 follow:

	December 31, 2021	December 31, 2020
US dollar	₱50.999 to US\$1.00	₱48.023 to US\$1.00
Singapore dollar	₱37.555 to SGD1.00	₱36.120 to SGD1.00
Hong Kong dollar	₱6.5101 to HKD1.00	₱6.1935 to HKD1.00
Japanese yen	₱0.4413 to JPY1.00	₱0.4629 to JPY1.00

The following table sets forth the impact of the range of reasonably possible changes in the USD - Peso exchange value on the Group's pre-tax income for the years ended December 31, 2021 and 2020 (in thousands):

	2021		2020		2019	
	₱2	(₱2)	₱2	(₱2)	₱2	(₱2)
Changes in foreign exchange value						
Change in pre-tax income	(₱2,150,031)	₱2,150,031	(₱1,729,036)	₱1,729,036	(₱1,710,759)	₱1,710,759

Other than the potential impact on the Group's pre-tax income, there is no other effect on equity.

The Group does not expect the impact of the volatility on other currencies to be material.



Commodity price risk

The Group enters into commodity derivatives to hedge its exposure to jet fuel price risks arising from its forecasted fuel purchases. Commodity hedging allows stability in prices, thus, offsetting the risk of volatile market fluctuations. Depending on the economic hedge cover, the price changes on the commodity derivative positions are offset by higher or lower purchase costs on fuel. A change in price by US\$10.00 per barrel of jet fuel affects the Group's fuel costs in pre-tax income by ₱576.2 million and ₱758.5 million for the years December 31, 2021 and 2020, respectively, in each of the covered periods, assuming no change in volume of fuel is consumed.

Derivative financial instruments which are part of hedging relationships do not expose the Group to market risk since changes in the fair value of the derivatives are offset by the changes in the fair value of the hedged items.

These hedging activities are in accordance with the risk management strategy and objectives outlined in the TRM policies and guidelines which have been approved by the Executive Committee on September 1, 2019.

There is an economic relationship between the hedged items and hedging instruments as the terms of the foreign exchange forward contracts and commodity swaps and zero cost collars match the terms of the expected highly probable forecast transactions. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign currency forward contracts and commodity derivatives are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of hedging instruments against the changes in the fair value of hedged items attributable to the hedged risks.

Hedge ineffectiveness arises from the use of off-market derivatives when hedge accounting is first applied on September 1, 2019. The hedge ineffectiveness arising from the differences on the counterparty and own credit risk incorporated in the hedging instrument and zero credit risk on the hedged item are deemed insignificant given that all counterparties are given investment grade ratings by the major credit rating agencies.

The tables below summarize the maturity profile of outstanding derivative contracts as of December 31, 2020 (nil in 2021):

	December 31, 2020					Total
	1 to 3 months	4 to 6 months	7 to 12 months	13 to 15 months	More than 15 months	
Foreign exchange forward contracts:						
Notional amount (in US\$)	\$-	\$-	\$-	\$-	\$-	\$-
Average forward rate	-	-	-	-	-	-
Commodity derivatives:						
Notional amount (in barrels)	30,000	30,000	60,000	-	-	120,000
Notional amount (in US\$)	\$1,864,450	\$1,864,450	\$3,729,000	-	-	\$7,457,900
Average hedged rate	62.15	62.15	62.15	-	-	62.15

The impact of the hedge accounting on the consolidated statements of financial position as of December 31, 2021 and 2020 follows:

December 31, 2021

	Change in fair value used in measuring ineffectiveness for the period	Cash flow hedge reserve
Commodity derivatives	(₱406,948)	(₱406,948)



December 31, 2020

	Change in fair value used in measuring ineffectiveness for the period	Cash flow hedge reserve
Commodity derivatives	(₱134,142,765)	(₱28,112,284)

Roll forward of each component of equity and the analysis of the other comprehensive income (loss) follows:

	2021	2020
Balances at January 1	(₱66,291,759)	(₱137,395,353)
Effective portion of cash flow hedges:		
FX hedges	–	494,706,088
Fuel hedges	3,177,320	2,173,570,932
Amounts reclassified to profit or loss under the following accounts:		
Aviation fuel expense (Note 25)	24,528,015	(572,449,929)
Repairs and maintenance (Note 25)	–	(53,223,984)
General and administrative expenses (Note 26)	–	(21,322,779)
Hedging losses (Note 8)	–	(2,305,802,659)
Actuarial gain on retirement liability	210,443,808	386,098,893
Tax effect	(63,035,261)	(30,472,968)
Balances at December 31	₱108,822,123	(₱66,291,759)

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments recognized in the consolidated statements of financial position and on some financial instruments not recognized in the consolidated statements of financial position (i.e., some loan commitments, if any). The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt (see Note 18).



The following tables show information about the Group's long-term debt that are exposed to interest rate risk as of December 31, 2021 and 2020 and are presented by maturity profile (see Note 18):

		2021							
		<1-1 year	>1-2 years	>2-3 years	>3-4 years	>4-5 years	>5 years	Total	Fair Value
Commercial loans from banks									
(in US Dollar; Note 18)		US\$35,948,795	US\$33,247,555	US\$33,513,360	US\$34,542,373	US\$95,175,603	US\$168,119,676	US\$400,547,362	US\$434,871,505
US \$ loans (in Philippine Peso)		₱1,833,352,596	₱1,695,592,055	₱1,709,147,844	₱1,761,626,496	₱4,853,860,602	₱8,573,935,345	₱20,427,514,938	₱22,178,011,872
Commercial loans from banks									
(in JPY; Note 18)		JPY1,560,736,932	JPY1,568,936,150	JPY1,577,004,749	JPY1,585,465,365	JPY1,593,796,773	JPY7,255,217,787	JPY15,141,157,756	JPY15,373,351,732
JPY loans (in Philippine Peso)		₱688,753,208	₱692,371,523	₱695,932,196	₱699,665,866	₱703,342,516	₱3,201,727,610	₱6,681,792,919	₱6,784,260,119
Commercial loans from banks									
(Note 18)		1,333,333,333	2,501,773,388	5,403,111,290	4,374,354,865	3,303,561,565	1,929,657,318	18,845,791,759	18,996,307,204
		₱3,855,439,137	₱4,889,736,966	₱7,808,191,330	₱6,835,647,227	₱8,860,764,683	₱13,705,320,273	₱45,955,099,616	₱47,958,579,195
2020									
		<1-1 year	>1-2 years	>2-3 years	>3-4 years	>4-5 years	>5 years	Total	Fair Value
Commercial loans from banks									
(in US Dollar; Note 18)		US\$58,056,478	US\$61,687,707	US\$55,937,634	US\$48,045,784	US\$40,500,961	US\$263,295,279	US\$527,523,843	US\$608,544,420
US \$ loans (in Philippine Peso)		₱2,788,046,239	₱2,962,428,745	₱2,686,293,007	₱2,307,302,675	₱1,944,977,670	₱12,644,229,194	₱25,333,277,530	₱29,224,128,671
Commercial loans from banks									
(in JPY; Note 18)		JPY1,552,581,304	JPY1,560,736,932	JPY1,568,936,150	JPY1,577,004,749	JPY1,585,465,365	JPY8,849,014,560	JPY16,693,739,060	JPY16,924,517,070
JPY loans (in Philippine Peso)		₱718,689,886	₱722,465,126	₱726,260,544	₱729,995,498	₱733,911,917	₱4,096,208,843	₱7,727,531,814	₱7,834,358,952
Commercial loans from banks									
(Note 18)		1,333,333,333	1,333,333,333	2,501,773,388	5,403,111,290	4,374,354,865	5,233,218,883	20,179,125,092	22,156,344,184
		₱4,840,069,458	₱5,018,227,204	₱5,914,326,939	₱8,440,409,463	₱7,053,244,452	₱21,973,656,920	₱53,239,934,436	₱59,214,831,807



The following table sets forth the impact of the range of reasonably possible changes in interest rates on the Group's pre-tax income for the years ended December 31, 2021 and 2020.

	2021		2020		2019	
Changes in interest rates	1.50%	(1.50%)	1.50%	(1.50%)	1.50%	(1.50%)
Changes in pre-tax income	(₱1,278,400,992)	₱1,278,400,992	(₱1,392,220,900)	₱1,392,220,900	(₱1,763,244,706)	₱1,763,244,706

Fair value interest rate risk

Fair value interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk relates primarily to the Group's financial assets and financial liabilities at fair value through profit or loss.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before tax and the relative impact on the Group's net assets as of December 31, 2021 and 2020:

	Change in Basis Points	Effect on Profit Before Tax
2021	+200%	(₱48,358,442)
	-200%	49,595,495
2020	+200%	(₱111,906,346)
	-200%	116,266,818

32. Fair Value Measurement

The carrying amounts approximate fair values for the Group's financial assets and liabilities due to its short-term maturities, except for the following financial assets and other financial liabilities as of December 31, 2021 and December 31, 2020:

	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Asset				
Refundable deposits* (Note 15)	₱1,191,665,074	₱1,190,442,968	₱626,806,386	₱624,569,407
Financial Liability:				
Other financial liability:				
Long-term debt**(Note 18)	₱45,955,099,616	₱47,958,579,195	₱53,239,934,436	₱59,214,831,807

*Included under 'Other noncurrent assets' account in the consolidated statements of financial position.

**Including current portion.

The methods and assumptions used by the Group in estimating the fair value of financial assets and other financial liabilities are:

Refundable deposits

The fair values are determined based on the present value of estimated future cash flows using prevailing market rates. The Group used discount rates of 1% to 2% in 2021 and 2020, respectively.

Long-term debt

The fair value of long-term debt is determined using the discounted cash flow methodology, with reference to the Group's current incremental lending rates for similar types of loans. The discount rates used range from 1% to 6% as of December 31, 2021 and 2020.



The tables below show the Group's financial instruments carried at fair value hierarchy classification:

	2021			
	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value:				
Derivative financial liabilities at fair value through profit or loss	₱-	₱1,730,960,768	₱-	₱-
Assets and liabilities for which fair values are disclosed:				
Refundable deposits	₱-	₱-	₱1,190,442,968	₱-
Long-term debt	-	₱47,958,579,196	-	-
	2020			
	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value:				
Derivative financial liability through other comprehensive income	₱-	₱32,214,937	₱-	₱32,214,937
Assets and liabilities for which fair values are disclosed:				
Refundable deposits	₱-	₱-	₱624,569,407	₱-
Long-term debt	-	56,307,096,965	-	-

There were no transfers within any hierarchy level of fair value measurements for the years ended December 31, 2021 and 2020, respectively.

33. Commitments and Contingencies

Leases

The Group has aircraft and non-aircraft leases. Leases of aircraft generally have lease terms between 1.25 and 8 years, while leases of non-aircraft items generally have lease terms between 3 and 18 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain non-aircraft leases with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemptions for these leases.

The movements in right-of-use asset follow:

	2021	2020
Balance at January 1	₱29,427,181,754	₱23,729,035,072
Additions	19,890,217,462	6,729,568,011
Deferred gain on sale and leaseback	(572,447,299)	(124,837,991)
Retirement	(4,448,126,365)	(909,361,371)
Effect of step acquisition of A-Plus (Note 13)	-	2,778,033
	44,296,825,552	29,427,181,754
Accumulated depreciation		
Balance at January 1	11,757,413,134	5,917,994,262
Depreciation expense	6,666,577,250	6,748,780,243
Retirement	(4,448,126,365)	(909,361,371)
	13,975,864,019	11,757,413,134
	₱30,320,961,533	₱17,669,768,620



The movement in lease liability follows:

	2021	2020
Balance at January 1	₱18,353,651,000	₱17,509,475,504
Additions during the year	19,890,217,462	6,729,568,011
Accretion of interest	493,863,414	486,414,472
Foreign exchange gains	–	(12,499,679)
Payment	(6,267,349,863)	(6,362,210,157)
Effect of step acquisition of A-Plus (Note 13)	–	2,902,849
Ending balance	32,470,382,013	18,353,651,000
Less: Current portion	5,048,003,499	6,799,231,370
Noncurrent portion	₱27,422,378,514	₱11,554,419,630

The following are the amounts recognized in the consolidated statements of comprehensive income for the years ended December 31, 2021 and 2020:

	2021	2020	2019
Depreciation expense on right-of-use asset	₱6,666,577,250	₱6,748,780,243	₱5,917,994,262
Interest expense on lease liability	493,863,414	486,414,472	460,948,480
Rent expense on short-term leases	796,340,708	696,833,566	1,016,018,064
	₱7,956,781,372	₱7,932,028,281	₱7,394,960,806

The Group had total cash outflows for leases of ₱6,267.3 million, ₱6,362.2 million and ₱6,680.5 million in 2021, 2020 and 2019, respectively. The Group also had non-cash additions to right-of-use asset and lease liability of ₱19,890.2 million, ₱6,729.6 million and ₱7,302.2 million as of December 31, 2021, 2020 and 2019, respectively.

Aircraft Lease Commitments

The Group entered into operating lease agreements with certain leasing companies, which cover the following aircraft:

A320 aircraft

The following table summarizes the specific lease agreements on the Group's Airbus A320 aircraft:

<u>Date of Lease Agreement</u>	<u>Lessors</u>	<u>No. of Units</u>	<u>Lease Expiry</u>
March 2008	Aircraft MSN 3762 LLC	1	January 2022
March 2008	Wells Fargo Trust Company, N.A.	1	October 2023
July 2018	JPA No. 117 Co. Ltd	1	September 2021
July 2018	JPA No. 118 Co. Ltd	1	December 2021
August 2018	JPA No. 119 Co. Ltd	1	June 2022
November 2020	EOS Aviation 6 (Ireland) Limited	3	April 2023 – March 2024
November 2020	EOS Aviation 9 (Ireland) Limited	2	April 2023 – July 2023
December 2021	Avolon Leasing Ireland 3 Limited	5	August 2025- September 2027
December 2021	Vmo Aircraft Leasing 32 and 33 (Ireland) Limited	2	July 2025- October 2026



From 2007 to 2008, the Group entered into operating lease agreements with Celestial Aviation Trading 17/19/23 Limited for five (5) Airbus A320 which were delivered on various dates from 2007 to 2011. The lease agreements were later on amended to effect the novation of lease rights from the original lessors to current lessors: Inishcrean Leasing Limited for (1) Airbus A320, GY Aviation Lease 0905 Co. Limited for two (2) Airbus A320, APTREE Aviation Trading 2 Co. Limited for one (1) Airbus A320, and Wells Fargo Trust Company, N.A. for one (1) Airbus A320.

In 2015 to 2016, the Group extended the lease agreement with Inishcrean for three years and with GY Aviation Lease 0905 Co. Limited for two (2) years.

In 2017, the Group entered into lease agreements with ILL for two (2) Airbus A320 and with JPA No. 78/79/80/81 Co., Ltd for four (4) Airbus A320.

In 2018, the Group separately extended the lease agreements with APTREE Aviation Trading 2 Co. Ltd for two (2) years, with Wells Fargo Trust Company, N.A for four (4) years, and with GY Aviation Lease 0905 Co. Limited for another two (2) years on one aircraft and three years on the other.

In July and August 2018, the Group entered into lease agreements with JPA No. 117/118/119 Co., Ltd for three (3) Airbus A320.

In May and August 2019, the lease agreements of the two aircraft under GY Aviation Lease 0905 Co. Limited were amended to effect the novation of lease rights to their current lessors, Aircraft MSN 3762 LLC and Lunar Aircraft Trading Company Limited.

In November 2020, the Group entered into a sale and leaseback agreement with EOS Aviation 6 (Ireland) Limited for five (5) Airbus A320. The lease portion consists of leases for three (3) to four (4) years.

In June 2021, the lease agreements of the two aircrafts under EOS Aviation 6 (Ireland) Limited were novated to the current lessors, EOS Aviation 9 (Ireland) Limited.

In December 2021, the Group entered into a sale and leaseback agreement with Avolon Leasing Ireland 3 Limited, Vmo Aircraft Leasing 32 (Ireland) Limited and Vmo Aircraft Leasing 33 (Ireland) Limited for seven (7) Airbus A320. The lease portion consists of leases between three (3) to five (5) years (see Note 12).

A320NEO aircraft

On July 26, 2018, the Group entered into 8-year lease agreements with Avolon Aerospace Leasing Limited for five (5) Airbus A320NEO for delivery on various dates within 2019.

The first four (4) Airbus A320NEO aircraft were delivered in June, July, September and October 2019 under Avolon Leasing Ireland 1 Limited as lessor. In November 2019, two (2) out of the four (4) A320NEO aircraft were amended to effect the novation of lease rights to their current lessor, Orix Aviation Systems Limited.

In January 2020, the fifth Airbus A320NEO aircraft was delivered with Avolon Leasing Ireland 1 Limited as lessor. In August 2020, the fifth A320NEO aircraft was amended to effect the novation of lease rights to its current lessor, Avolon Aerospace AOE 184 Limited.

In November 2021, the sixth Airbus A320NEO aircraft was delivered with SMBC Aviation Capital Limited as lessor.



In December 2021, three (3) A320NEO aircraft were amended to effect the novation of lease rights to current lessor, SMBC Aviation Capital limited.

A321NEO aircraft

In November 2020, the Group entered into a 10-year lease agreement with Connolly Aviation Capital 5 Limited for one (1) A321NEO aircraft which was delivered on November 17, 2020.

In March 2021, the Group entered into a 10-year lease agreement with JSA Cayman Leasing, Ltd. for one (1) A321NEO aircraft which was delivered on March 31, 2021.

In May 2021, the Group entered into a 10-year lease agreement with SMBC Aviation Capital Limited for one (1) A321NEO aircraft which was delivered on May 17, 2021.

ATR 72-600 aircraft

On May 10, 2019, the Group entered into a 10-year lease agreement with AVAP AIRCRAFT TRADING III PTE. LTD. for one (1) ATR 72-600 aircraft which was delivered in May 2019.

On December 2021, the Group entered into a 10-year lease agreement with MSO 1628 Leasing Designated Activity Company for one (1) ATR-600 delivered on December 15, 2021.

A330 aircraft

The following table summarizes the specific lease agreements on the Group's Airbus A330 aircraft:

Date of Lease Agreement	Lessors	No. of Units	Lease Term
February 2012	CIT Aerospace International	1	
February 2012	Avolon Aerospace AOE 165 Limited	1	
July 2013	A330 MSN 1552 Limited and A330 MSN 1602 Limited	2	12 years with pre-termination option

In February 2012, the Group entered into operating lease agreements with Wells Fargo Bank Northwest, N.A. for the lease of four (4) Airbus A330. The lease agreements were later on amended to effect the novation of lease rights from the original lessor to their current lessors: Wells Fargo Trust Company, N.A. (not in its individual capacity but solely as Owner Trustee), CIT Aerospace International, and Avolon Aerospace AOE 165 Limited.

In July 2013, the Group entered into aircraft operating lease agreements with Intrepid Aviation Management Ireland Limited for the lease of two (2) Airbus A330. The lease agreements have been amended to effect the novation of lease rights by the original lessor to current lessors, A330 MSN 1552 Limited and A330 MSN 1602 Limited.

The first two (2) Airbus A330 aircraft were delivered in June 2013 and September 2013. Three (3) Airbus A330 aircraft were delivered in February 2014, May 2014, and September 2014 and one (1) Airbus A330 aircraft was delivered in March 2015. As of December 31, 2021, the Group has four (4) Airbus A330 aircraft under operating lease (see Note 12).



A330NEO aircraft

In November and December 2021, the Group entered into 12-year leases with Avolon Leasing Ireland 3 Limited for two (2) A330Neo aircraft delivered in the same months.

Engine Lease Commitments

The following table summarizes the specific lease agreements on the Group's engines:

<u>Date of Lease Agreement</u>	<u>Lessors</u>	<u>No. of Units</u>	<u>Lease Term</u>
May 2019	RRPF Engine Leasing Limited	3	6 years with pre-termination option
September 2020	SMBC Aero Engine Lease B.V.	8	18 months – 8 years

In May 2019, the Group entered into operating lease agreements with RRPF Engine Leasing Limited for the lease of three (3) Trent 700 engines.

In September and October 2020, the Group entered into operating lease agreements as part of a sale and leaseback transaction with SMBC Aero Engine Lease B.V for eight (8) CFM56 engines. The leases have short and long-term lease arrangements between 18 months to eight (8) years, respectively. In December 2021, one (1) CFM56 engine was amended to effect the novation of lease rights to current lessor, SUNRISE NON-US PO 1 LTD.

As of December 31, 2021 and 2020, the Group has restricted cash deposited with certain banks to secure standby letters of credit issued in favor of lessors (see Note 7).

Lease expenses relating to aircraft leases (included in 'Aircraft and engine lease' account in the consolidated statements of comprehensive income) amounted to ₱443.5 million, ₱284.7 million and ₱313.9 million in 2021, 2020 and 2019, respectively.

Future minimum lease payments under the above-indicated operating aircraft leases follow:

	2021		2020		2019	
	US Dollar	Philippine Peso Equivalent	US Dollar	Philippine Peso Equivalent	US Dollar	Philippine Peso Equivalent
Within one year	US\$116,348,826	₱5,933,673,803	US\$133,699,675	₱6,420,659,489	US\$116,225,507	₱5,886,821,930
After one year but not more than five years	353,191,108	18,012,393,320	184,604,128	8,865,244,056	179,328,322	9,082,979,509
Over five years	237,732,932	12,124,141,820	54,027,209	2,594,548,640	43,871,340	2,222,083,371
	US\$707,272,866	₱36,070,208,943	US\$372,331,012	₱17,880,452,185	US\$339,425,169	₱17,191,884,810

Operating Non-Aircraft Lease Commitments

The Group has entered into various lease agreements for its hangar, office spaces, ticketing stations and certain equipment. These leases have remaining lease terms ranging from one to ten years. Certain leases include a clause to enable upward revision of the annual rental charge ranging from 5.00% to 10.00%.



Future minimum lease payments under these noncancellable operating leases follow:

	2021	2020	2019
Within one year	₱217,233,256	₱224,965,425	₱211,101,521
After one year but not more than five years	920,545,458	948,093,648	928,126,925
Over five years	4,596,404,352	4,644,065,119	4,514,028,565
	₱5,734,183,066	₱5,817,124,192	₱5,653,257,011

Lease expenses relating to both cancellable and noncancellable non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱352.9 million, ₱412.2 million and ₱702.1 million in 2021, 2020 and 2019, respectively.

Service Maintenance Commitments

On June 21, 2012, the Parent Company entered into a 10-year charge per aircraft landing (CPAL) agreement with Messier-Bugatti-Dowty (Safran group) to purchase wheels and brakes for its fleet of Airbus A319 and A320 aircraft. The contract covers the current fleet, as well as future aircraft to be acquired.

On June 22, 2012, the Parent Company entered into a service contract with Rolls-Royce Total Care Services Limited (Rolls-Royce) for service support for the engines of the Airbus A330 aircraft. Rolls-Royce will provide long-term Total Care service support for the Trent 700 engines on up to eight Airbus A330 aircraft. Contract term shall be from delivery of the first A330 until the redelivery of the last Airbus A330.

On March 28, 2017, the Parent Company entered into a maintenance service contract with Societe Air France for the lease, repair and overhaul services of parts and components of its Airbus A319, Airbus A320 and Airbus A321 aircraft. These services include provision of access to inventories under lease basis, access to pooled components on a flat rate basis, and repairs of aircraft parts and components.

Aircraft and Spare Engine Purchase Commitments

In August 2011, the Group entered in a commitment with Airbus S.A.S. to purchase firm orders of 32 new Airbus A321NEO aircraft and ten additional option orders. These aircraft are scheduled to be delivered from 2019 to 2025.

On June 28, 2012, the Group has entered into an agreement with United Technologies International Corporation Pratt & Whitney Division to purchase new PurePower® PW1100G-JM engines for its 32 firm and ten (10) optional A321NEO aircraft. The agreement also includes an engine maintenance services program for a period of ten (10) years from the date of entry into service of each engine.

On October 20, 2015, the Group entered into a Sale and Purchase Contract with Avions Transport Regional G.I.E. to purchase 16 firm ATR 72-600 aircraft and up to ten additional option orders. These aircraft are scheduled for delivery from 2016 to 2024. Two (2) ATR 72-600 were delivered in 2016, six (6) in 2017, four (4) in 2018, one (1) in 2019 and one (1) in 2021 totaling to 14 ATR 72-600 aircraft delivered as of December 31, 2021.

On June 6, 2017, the Group placed an order with Airbus S.A.S to purchase seven (7) new Airbus A321 CEO aircraft, all of which were delivered in 2018.



On June 14, 2018, the Parent Company has entered into an Aircraft Conversion Services Agreement with IPR Conversions (Switzerland) Limited to convert two (2) ATR 72-500 aircraft from passenger to freighter. The first converted ATR 72-500 freighter aircraft was delivered in August 2019 while the second was delivered in December 2020.

On July 26, 2018, the Parent Company entered into operating lease agreements with Avolon Aerospace Leasing Limited for five (5) Airbus A320NEO aircraft, four of which were delivered on various dates within 2019 and one in January 2020.

On October 31, 2019 the Parent Company placed an order with Airbus S.A.S to purchase sixteen (16) Airbus A330 NEO aircraft. Consequently, on November 29, 2019, the Parent Company entered into agreements with Rolls-Royce PLC for the purchase of spare Trent 7000 engines and for the provision of Total Care life services and other services required in connection with the sixteen (16) A330NEO aircraft.

On December 19, 2019, the Parent Company placed an additional order with Airbus S.A.S for fifteen (15) A320NEO family aircraft which includes up to ten (10) A321XLR.

As of December 31, 2021, the Group is set to take delivery of fourteen (14) A330 NEO aircraft, twelve (12) A321 NEO aircraft, fifteen (15) A320 NEO aircraft, ten (10) A321XLR aircraft and two (2) ATR 72-600 aircraft until 2027.

The above-indicated commitments relate to the Group's re-fleeting and expansion programs. These agreements remain in effect as of December 31, 2021.

Capital Expenditure Commitments

The Group's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱183,849.0 million and ₱154,139.7 million as of December 31, 2021 and 2020, respectively.

	2021	
	US Dollar	Philippine Peso Equivalent
Within one year	US\$644,167,004	₱32,851,873,013
After one year but not more than five years	2,960,785,854	150,997,117,770
	US\$3,604,952,858	₱183,848,990,783
	2020	
	US Dollar	Philippine Peso Equivalent
Within one year	US\$659,224,287	₱31,657,927,948
After one year but not more than five years	2,550,481,846	122,481,789,707
	US\$3,209,706,133	₱154,139,717,655

The Group is actively engaged in planning and executing various measures to mitigate the impact of COVID-19 pandemic on its business operations, including negotiations with key suppliers on its capital expenditure commitments and related cash flows disclosed above.



Contingencies

The Group has pending suits, claims and contingencies which are either pending decisions by the courts or being contested or under evaluation, the outcome of which are not presently determinable. The information required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed until final settlement, on the ground that it might prejudice the Group's position (see Note 16).

34. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The changes in liabilities arising from financing activities in 2021 and 2020 follow:

	January 1, 2021	Cash Flows	Foreign Exchange Movement	Others*	December 31, 2021
Short-term debt	₱4,802,300,000	(₱557,692,500)	₱217,805,000	₱-	₱4,462,412,500
Current portion of long-term debt	4,840,069,458	(8,368,272,347)	94,487,067	7,289,154,959	3,855,439,137
Long-term debt - net of current portion	48,399,864,978	-	988,950,460	(7,289,154,959)	42,099,660,479
Bonds payable	-	11,782,473,335	759,069,399	(356,706,608)	12,184,836,126
Lease liability	18,353,651,000	(6,267,349,863)	-	20,384,080,876	32,470,382,013
Total liabilities from financing activities	₱76,395,885,436	(₱3,410,841,375)	₱2,060,311,926	₱20,027,374,268	₱95,072,730,255

*Others consist of reclassification of loans and borrowings from noncurrent to current, additional lease liability, accretion of interest, bifurcation of embedded derivative from convertible bonds and amortization of bond issue costs

	January 1, 2020	Cash Flows	Foreign Exchange Movement	Others*	December 31, 2020
Short-term debt	₱-	₱4,839,600,000	(₱37,300,000)	₱-	₱4,802,300,000
Current portion of long-term debt	6,885,155,619	(8,584,556,361)	(164,708,631)	6,704,178,831	4,840,069,458
Long-term debt - net of current portion	50,259,365,657	6,210,960,215	(1,366,282,063)	(6,704,178,831)	48,399,864,978
Lease liability	17,509,475,504	(6,362,210,157)	-	7,206,385,653	18,353,651,000
Total liabilities from financing activities	₱74,653,996,780	(₱3,896,206,303)	(₱1,568,290,694)	₱7,206,385,653	₱76,395,885,436

*Others consist of reclassification of loans and borrowings from noncurrent to current, additional lease liability and accretion of interest

There are no principal noncash operating, investing and financing activities in 2021 and 2020. In 2019, the principal noncash operating, investing and financing activities of the Group include application of creditable withholding taxes against income tax payable amounting to ₱119.7 million.

35. Registration with the BOI

As of December 31, 2021, the Parent Company is registered with the BOI as an operator of air transport on a non-pioneer status for 5 Airbus 320 CEO, 19 Airbus A320 NEO, 7 Airbus A321 CEO, 21 Airbus A321 NEO, 2 Airbus A330 and 15 Airbus A330 NEO aircraft.

Moreover, the Parent Company has formally requested from the BOI for a 2-year deferment of its ITH incentives (effectively, for years 2020 and 2021), for 26 registered aircraft currently in operation, thereby preserving their remaining ITH entitlement period. This has been duly approved by the BOI on March 10, 2021. This will provide the Parent Company with improved financial resiliency as it navigates the challenges brought about by the COVID-19 pandemic.

Based on the terms of the registration and subject to certain requirements, the Parent Company is entitled to the following fiscal and non-fiscal incentives (see Notes 1 and 28):

- An ITH for a period of two to six years.
- Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five years from date of registration.



- c. Importation of capital equipment, spare parts and accessories at zero (0) duty from date of effectivity of Executive Order (E.O.) No. 70 and its Implementing Rules and Regulations for a period of five years reckoned from the date of its registration or until the expiration of E.O. 70, whichever is earlier, as applicable; or

Importation of capital equipment, spare parts and accessories at zero (0) duty under E.O. No. 22, No.57, or No. 85, and related Implementing Rules and Regulations, as applicable.

- d. Avail of a bonus year in each of the following cases but the aggregated ITH availment (regular and bonus years) shall not exceed eight years.
- The ratio of total of imported and domestic capital equipment to the number of workers for the project does not exceed the ratio set by the BOI.
 - The net foreign exchange savings or earnings amount to at least US\$500,000 annually during the first three years of operation.
 - The average cost of indigenous raw materials used in the manufacture of the registered product must at least be fifty percent (50%) of the total cost of raw materials for the preceding years prior to the extension unless the BOI prescribes a higher percentage.
- e. Additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availments as against the previous year, if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI. This may be availed of for the first five (5) years from date of registration but not simultaneously with ITH.
- f. Simplification of customs procedures for the importation of equipment, spare parts, raw materials and suppliers.
- g. Importation of consigned equipment for a period of ten years from date of registration subject to posting of re-export bond.

As of December 31, 2021 and 2020, the Parent Company has complied with capital requirements set by the BOI in order to avail the ITH incentives for aircraft of registered activity.

36. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorized for issue by the BOD on March 30, 2022.



37. Standards Issued But Not Yet Effective

Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. The adoption of these pronouncements is not expected to have a significant impact on the Group's consolidated financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The Group is still assessing the impact of the amends to the consolidated financial statements.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.



The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Group.

- *Annual Improvements to PFRSs 2018-2020 Cycle*

- *Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

- *Amendments to PFRS 9, Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group. The Group is still assessing the impact of the amends to the consolidated financial statements.

- *Amendments to PAS 41, Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.



Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the consolidated financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

The Group is still assessing the impact of the amends to the consolidated financial statements.

- Amendments to PAS 8, *Definition of Accounting Estimates*

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The Group is still assessing the impact of the amends to the consolidated financial statements.



Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. The amendments are not expected to have a material impact on the Group.

Deferred Effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.



On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

38. Events After the Consolidated Statement of Financial Position Date

Listing of Vested RSUs

On January 20, 2022, the Parent Company advised the Philippine Stock Exchange that 1,094,000 common shares have been availed under Restricted Stock Units of its Long-Term Incentive Plan. These shares were listed on January 21, 2022. The RSUs vested last December 31, 2021 (see Note 23).

Continuing COVID-19 Outbreak

On April 28, 2021, the Philippine Government extended the MECQ until May 14, 2021. On May 13, 2021, the Office of the President announced that Metro Manila and 4 adjacent provinces will shift to general community quarantine (GCQ) with heightened restrictions until May 31, 2021 and then eventually extended until June 15, 2021. On June 29, 2021, the President of the Philippines approved the recommendation of the Inter-Agency Task Force on emerging Infectious Diseases (IATF) to extend the general community quarantine in “NCR Plus” until July 15, 2021 and subsequently extended until July 31, 2021. NCR stayed under GCQ until August 5, 2021. Beginning August 6, 2021, the classification of the NCR was escalated to Enhanced Community Quarantine until August 20, 2021. The IATF decided to ease the strict lockdown in NCR beginning August 21, 2021 lowering the status in both areas to a modified enhanced community quarantine (MECQ) until September 7, 2021. The risk level classification of NCR as MECQ was maintained until September 15, 2021.

IATF imposed new classification framework which focuses on the imposition of granular lockdown measures. Community quarantines were reduced to either ECQ or GCQ with the latter having an Alert Level System (Alert level 1 to 4) with each Alert Level limiting restrictions to identified risk activities. The pilot area for this policy shall be the NCR which started from September 16, 2021 until September 30, 2021 wherein NCR was placed under the GCQ Alert Level 4 which was subsequently extended until October 15, 2021. IATF placed NCR under Alert Level 3 starting October 16, 2021 until November 4, 2021. IATF placed NCR under Alert Level 2 starting November 5, 2021 until January 2, 2022. Furthermore, Alert Level classification of NCR was escalated to Alert Level 3 starting January 3, 2022 until January 15, 2022 and subsequently extended until January 31, 2022. Subsequently, NCR was placed to Alert Level 2 starting February 1, 2022 until February 28, 2022. On February 27, 2022, IATF placed NCR under Alert level 1 starting March 1, 2022. These measures have caused disruptions to the businesses and economic activities, and its impact on businesses continue to evolve.

Likewise, government authorities in other countries where the Group operates certain flights, continued to adopt measures, including lockdowns, to control the continuing spread of the virus and mitigate the impact of the outbreak.

The scale and duration of these developments remain uncertain as at the report date. The COVID-19 pandemic could have a material impact on the Group’s financial results for the rest of 2022 and even periods thereafter. Considering the evolving nature of the pandemic, the Group will continue to monitor the situation.



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