

**SECURITIES AND EXCHANGE COMMISSION**  
**SEC FORM 17-A, AS AMENDED**

**ANNUAL REPORT PURSUANT TO SECTION 17**  
**OF THE SECURITIES REGULATION CODE AND SECTION 141**  
**OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended  
Dec 31, 2022
2. SEC Identification Number  
154675
3. BIR Tax Identification No.  
000-948-229-000
4. Exact name of issuer as specified in its charter  
Cebu Air, Inc.
5. Province, country or other jurisdiction of incorporation or organization  
Cebu City, Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
Level 4, Unit 4030-4031, Robinsons Galleria Cebu, General Maxilom Avenue cor. Sergio Osmeña Boulevard, Cebu City, Cebu  
Postal Code  
6000
8. Issuer's telephone number, including area code  
(632) 8802-7000
9. Former name or former address, and former fiscal year, if changed since last report  
Not applicable
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

| Title of Each Class                          | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|--|---|
| Common Stock, P1.00 Par Value                | 616,313,711   |
| Convertible Preferred Stock, P1.00 Par Value | 314,044,357   |

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes          No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

Yes            No

(b) has been subject to such filing requirements for the past ninety (90) days

Yes            No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form

8,115,830,268

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes            No

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders

Not applicable

(b) Any information statement filed pursuant to SRC Rule 20

Not applicable

(c) Any prospectus filed pursuant to SRC Rule 8.1

Not applicable

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



## Cebu Air, Inc. CEB

**PSE Disclosure Form 17-1 - Annual Report**  
*References: SRC Rule 17 and  
Section 17.2 and 17.8 of the Revised Disclosure Rules*

|                                  |              |
|----------------------------------|--------------|
| <b>For the fiscal year ended</b> | Dec 31, 2022 |
| <b>Currency</b>                  | Php          |

### Balance Sheet

|                                      | Year Ending     | Previous Year Ending |
|--------------------------------------|-----------------|----------------------|
|                                      | Dec 31, 2022    | Dec 31, 2021         |
| <b>Current Assets</b>                | 29,794,991,505  | 26,326,925,128       |
| <b>Total Assets</b>                  | 147,155,862,472 | 138,253,761,325      |
| <b>Current Liabilities</b>           | 43,809,200,632  | 35,406,169,941       |
| <b>Total Liabilities</b>             | 150,041,005,036 | 127,644,016,112      |
| <b>Retained Earnings/(Deficit)</b>   | -24,188,744,799 | -10,209,357,681      |
| <b>Stockholders' Equity</b>          | -2,885,142,564  | 10,609,745,213       |
| <b>Stockholders' Equity - Parent</b> | -3,316,420,957  | 10,130,576,451       |
| <b>Book Value Per Share</b>          | -26.04          | -3.21                |

### Income Statement

|   | Year Ending     | Previous Year Ending |
|---|-----------------|----------------------|
|   | Dec 31, 2022    | Dec 31, 2021         |
| <b>Gross Revenue</b>  | 56,751,365,859  | 15,740,756,856       |
| <b>Gross Expense</b>  | 68,180,215,616  | 38,898,615,476       |
| <b>Non-Operating Income</b>                                   | 2,106,572,427   | 1,563,206,773        |
| <b>Non-Operating Expense</b>                                  | 6,906,085,559   | 5,331,909,461        |
| <b>Income/(Loss) Before Tax</b>                               | -16,228,362,889 | -26,926,561,308      |
| <b>Income Tax Expense</b>                                     | -2,248,975,771  | -2,027,958,421       |
| <b>Net Income/(Loss) After Tax</b>                            | -13,979,387,118 | -24,898,602,887      |
| <b>Net Income/(Loss) Attributable to Parent Equity Holder</b> | -13,979,387,118 | -24,898,602,887      |
| <b>Earnings/(Loss) Per Share (Basic)</b>                      | -23.89          | -42.13               |
| <b>Earnings/(Loss) Per Share (Diluted)</b>                    | -23.89          | -42.13               |

## Financial Ratios

|   | Formula  | Fiscal Year Ended | Previous Fiscal Year |
|---|--|-------------------|----------------------|
|   |  | Dec 31, 2022      | Dec 31, 2021         |
| <b>Liquidity Analysis Ratios:</b>         |  |                   |                      |
| ;; Current Ratio or Working Capital Ratio | Current Assets / Current Liabilities                             | 0.68              | 0.74                 |
| ;; Quick Ratio                            | (Current Assets - Inventory - Prepayments) / Current Liabilities | 0.52              | 0.61                 |
| ;; Solvency Ratio                         | Total Assets / Total Liabilities                                 | 0.98              | 1.08                 |
| <b>Financial Leverage Ratios</b>          |  |                   |                      |
| ;; Debt Ratio                             | Total Debt/Total Assets  | 0.69              | 0.69                 |
| ;; Debt-to-Equity Ratio                   | Total Debt/Total Stockholders' Equity                            | -35.44            | 8.96                 |
| ;; Interest Coverage                      | Earnings Before Interest and Taxes (EBIT) / Interest Charges     | -3.72             | -9.36                |
| ;; Asset to Equity Ratio                  | Total Assets / Total Stockholders' Equity                        | -51               | 13.03                |
| <b>Profitability Ratios</b>               |  |                   |                      |
| ;; Gross Profit Margin                    | Sales - Cost of Goods Sold or Cost of Service / Sales            | -                 | -                    |
| ;; Net Profit Margin                      | Net Profit / Sales   | -20               | -147                 |
| ;; Return on Assets                       | Net Income / Total Assets  | -10               | -19                  |
| ;; Return on Equity                       | Net Income / Total Stockholders' Equity                          | -362              | -150                 |
| Price/Earnings Ratio                      | Price Per Share / Earnings Per Common Share                      | -1.63             | -1.17                |

### Other Relevant Information

Not applicable

### Filed on behalf by:

|             |            |
|-------------|------------|
| Name        | Vivian Lim |
| Designation | Controller |



**Marianne Rose S. Digo**

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**To:** Jose Salvador O. Bolos  
**Subject:** RE: Your BIR AFS eSubmission uploads were received

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**From:** [eafs@bir.gov.ph](mailto:eafs@bir.gov.ph) <[eafs@bir.gov.ph](mailto:eafs@bir.gov.ph)>  
**Sent:** Thursday, March 30, 2023, 2:00 AM  
**To:** Robin C. Dui <[Robin.Dui@cebupacificair.com](mailto:Robin.Dui@cebupacificair.com)>  
**Cc:** [MISHIELE.ATANGAN-VILLAGRACIA@CEBUPACIFICAIR.COM](mailto:MISHIELE.ATANGAN-VILLAGRACIA@CEBUPACIFICAIR.COM) <[MISHIELE.ATANGAN-VILLAGRACIA@CEBUPACIFICAIR.COM](mailto:MISHIELE.ATANGAN-VILLAGRACIA@CEBUPACIFICAIR.COM)>  
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Transaction Code: **AFS-0-AHJJKK560NM2ZVTPVPTP24W3T0C9977EL7**  
Submission Date/Time: **Mar 30, 2023 01:40 AM**  
Company TIN: **000-948-229**

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## **INDEPENDENT AUDITOR'S REPORT**

The Stockholders and the Board of Directors  
Cebu Air, Inc.  
Level 4, Unit 4030 - 4031, Robinsons Galleria Cebu  
General Maxilom Avenue cor. Sergio Osmeña Boulevard  
Cebu City

### **Report on the Audit of the Parent Company Financial Statements**

#### **Opinion**

We have audited the parent company financial statements of Cebu Air, Inc. (the Parent Company), which comprise the parent company statements of financial position as at December 31, 2022 and 2021, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended 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 Parent Company Financial Statements* section of our report. We are independent of the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company 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.

#### **Material Uncertainty Related to Going Concern**

For the year ended December 31, 2022, we draw attention to Note 1 to the financial statements, which indicates that the Parent Company has incurred total comprehensive loss amounting to ₱13.5 billion which resulted in a capital deficiency of ₱3.3 billion as of December 31, 2022. The Group's current liabilities exceeded its current assets by ₱12.4 billion as of December 31, 2022. As stated in Note 1, these conditions, among others, indicate the existence of a material uncertainty which may cast significant doubt on the Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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## **Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements**

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

In preparing the parent company financial statements, management is responsible for assessing the Parent Company'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 Parent Company or to cease operations, or has no realistic alternative but to do so

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

## **Auditor's Responsibilities for the Audit of the Parent Company Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent company 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 parent company 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 parent company 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 Parent Company'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 Parent Company'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 parent company 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 Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

#### **Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010**

The supplementary information required under Revenue Regulations No. 15-2010 for the purpose of filing with the Bureau of Internal Revenue is presented by the management of Cebu Air, Inc. in a separate schedule. Revenue Regulations No. 15-2010 requires the information to be presented in the notes to financial statements. Such information is not a required part of the basic parent company financial statements. The information is also not required by Securities Regulation Code Rule 68, As Amended (2019). Our opinion on the basic parent company financial statements is not affected by the presentation of the information in a separate schedule.

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. 9564644, January 3, 2023, Makati City

March 27, 2023



**CEBU AIR, INC.****PARENT COMPANY STATEMENTS OF FINANCIAL POSITION**

|  | <b>December 31</b>      |                  |
|--|-------------------------|------------------|
|  | <b>2022</b>             | <b>2021</b>      |
| <b>ASSETS</b>  |                         |                  |
| <b>Current Assets</b>  |                         |                  |
| Cash and cash equivalents (Note 7)   | <b>₱18,271,697,963</b>  | ₱18,098,629,801  |
| Restricted cash (Note 7)   | <b>832,055,494</b>      | 778,038,403      |
| Receivables (Note 9)   | <b>2,655,014,296</b>    | 2,025,383,082    |
| Derivative financial assets at fair value through other comprehensive income         | <b>60,911,158</b>       | –                |
| Expendable parts, fuel, materials and supplies (Note 10)                             | <b>2,499,571,070</b>    | 1,747,683,464    |
| Assets held for sale (Note 12)   | <b>819,869,232</b>      | –                |
| Other current assets (Note 11)   | <b>3,713,771,475</b>    | 2,937,475,750    |
| Total Current Assets   | <b>28,852,890,688</b>   | 25,587,210,499   |
| <b>Noncurrent Assets</b>   |                         |                  |
| Property and equipment (Notes 12 and 33)   | <b>37,177,179,250</b>   | 44,803,066,677   |
| Right-of-use asset (Note 33)   | <b>69,291,833,578</b>   | 58,904,641,201   |
| Investment in subsidiaries (Note 13)   | <b>815,049,996</b>      | 815,049,996      |
| Investments in joint ventures and associates (Note 14)                               | <b>612,873,645</b>      | 612,873,645      |
| Deferred tax assets - net (Note 28)  | <b>5,020,052,984</b>    | 2,889,076,993    |
| Other noncurrent assets (Note 15)  | <b>1,936,473,444</b>    | 1,918,903,172    |
| Total Noncurrent Assets  | <b>114,853,462,897</b>  | 109,943,611,684  |
|  | <b>₱143,706,353,585</b> | ₱135,530,822,183 |
| <b>LIABILITIES AND EQUITY</b>  |                         |                  |
| <b>Current Liabilities</b>   |                         |                  |
| Accounts payable and other accrued liabilities (Note 16)                             | <b>₱20,549,349,107</b>  | ₱14,742,024,052  |
| Current portion of long-term debt (Note 18)  | <b>1,231,110,765</b>    | 1,333,333,333    |
| Derivative financial liability at fair value through profit or loss (Notes 8 and 19) | <b>846,835,509</b>      | 1,730,960,768    |
| Current lease liability (Note 33)  | <b>8,067,150,702</b>    | 7,519,083,563    |
| Unearned transportation revenue (Note 17)  | <b>10,301,517,170</b>   | 3,803,878,211    |
| Due to related parties (Note 30)   | <b>253,734,999</b>      | 27,855,289       |
| Short-term debt (Note 18)  | <b>–</b>                | 4,462,412,500    |
| Total Current Liabilities  | <b>41,249,698,252</b>   | 33,619,547,716   |
| <b>Noncurrent Liabilities</b>  |                         |                  |
| Travel fund payable (Note 21)  | <b>260,151,875</b>      | 1,850,858,526    |
| Long-term debt - net of current portion (Note 18)                                    | <b>13,151,710,856</b>   | 17,512,458,426   |
| Lease liability - net of current portion (Note 33)                                   | <b>65,478,741,679</b>   | 51,741,998,410   |
| Bonds payable (Note 19)  | <b>13,423,322,594</b>   | 12,184,836,126   |
| Retirement liability (Note 27)   | <b>643,575,253</b>      | 323,198,825      |
| Other noncurrent liabilities (Note 20)   | <b>12,815,574,033</b>   | 8,167,347,703    |
| Total Noncurrent Liabilities   | <b>105,773,076,290</b>  | 91,780,698,016   |
| Total Liabilities  | <b>147,022,774,542</b>  | 125,400,245,732  |
| <b>Equity (Capital Deficiency)</b>   |                         |                  |
| Capital stock (Note 22)  | <b>943,277,918</b>      | 942,183,918      |
| Capital paid in excess of par value (Note 22)  | <b>20,596,009,593</b>   | 20,544,153,993   |
| Share-based payments   | <b>211,441,631</b>      | 174,824,363      |
| Treasury stock (Note 22)   | <b>(950,881,502)</b>    | (950,881,502)    |
| Other comprehensive income (losses) (Note 31)  | <b>491,162,928</b>      | 98,822,391       |
| Retained earnings (deficit) (Note 22)  | <b>(24,607,431,525)</b> | (10,678,526,712) |
| Total Equity (Capital Deficiency)  | <b>(3,316,420,957)</b>  | 10,130,576,451   |
|  | <b>₱143,706,353,585</b> | ₱135,530,822,183 |

See accompanying Notes to Parent Company Financial Statements.



**CEBU AIR, INC.****PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

|  | <b>Years Ended December 31</b> |                   |
|--|--------------------------------|-------------------|
|  | <b>2022</b>                    | <b>2021</b>       |
| <b>REVENUE</b>   |                                |                   |
| Sale of air transportation services  |                                |                   |
| Passenger  | <b>₱32,227,323,372</b>         | ₱5,814,598,450    |
| Cargo  | <b>7,042,170,179</b>           | 6,203,706,703     |
| Ancillary revenue (Note 24)  | <b>14,895,756,022</b>          | 4,022,611,714     |
|  | <b>54,165,249,573</b>          | 16,040,916,867    |
| <b>EXPENSES</b>  |                                |                   |
| Flying operations (Notes 10 and 25)  | <b>26,368,406,976</b>          | 6,592,616,050     |
| Repairs and maintenance (Notes 20, 25 and 33)  | <b>14,450,643,238</b>          | 9,485,269,607     |
| Depreciation and amortization (Notes 12 and 33)  | <b>12,770,394,055</b>          | 14,253,652,425    |
| Aircraft and traffic servicing (Note 25)   | <b>4,954,355,304</b>           | 2,614,533,034     |
| General and administrative (Note 26)   | <b>2,982,379,979</b>           | 2,945,163,204     |
| Reservation and sales (Note 25)  | <b>2,312,945,105</b>           | 862,142,366       |
| Passenger service  | <b>1,377,296,954</b>           | 599,209,988       |
| Aircraft and engine lease (Note 33)  | <b>1,093,428,049</b>           | 443,481,483       |
|  | <b>66,309,849,660</b>          | 37,796,068,157    |
|  | <b>(12,144,600,087)</b>        | (21,755,151,290)  |
| <b>OTHER INCOME (EXPENSES)</b>   |                                |                   |
| Interest income (Note 7)   | <b>295,573,802</b>             | 34,511,348        |
| Gain from:   |                                |                   |
| Insurance claims (Note 12)   | <b>6,174,764</b>               | 138,049,029       |
| Gain on disposal of aircraft - net (Note 12)   | <b>1,093,487,569</b>           | 1,388,678,985     |
| Impairment loss from:  |                                |                   |
| Investment in associate (Note 14)  | –                              | (43,713,922)      |
| Noncurrent asset held for sale (Note 12)   | <b>(86,746,895)</b>            | –                 |
| Market valuation gains (losses) on derivative financial instruments – net (Note 8)                                   | <b>977,907,505</b>             | (1,318,117,077)   |
| Foreign exchange losses - net  | <b>(2,817,786,681)</b>         | (1,193,082,201)   |
| Dividend income (Note 30)  | <b>114,236,853</b>             |                   |
| Financing costs and other charges (Notes 18, 19 and 33)  |                                |                   |
| Financing and others (Notes 8, 18, 19 and 20)  | <b>(1,557,718,768)</b>         | (1,422,220,284)   |
| Leases (Notes 33)  | <b>(2,062,542,474)</b>         | (1,393,961,056)   |
|  | <b>(4,037,414,325)</b>         | (3,809,855,178)   |
| <b>LOSS BEFORE INCOME TAX</b>  | <b>(16,182,014,412)</b>        | (25,565,006,468)  |
| <b>BENEFIT FROM INCOME TAX (Note 28)</b>   | <b>(2,253,109,599)</b>         | (1,733,982,683)   |
| <b>NET LOSS</b>  | <b>(13,928,904,813)</b>        | (23,831,023,785)  |
| <b>OTHER COMPREHENSIVE INCOME – Net of tax</b>   |                                |                   |
| Items of other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:         |                                |                   |
| Net fair value changes on cash flow hedge reserve (Note 8)   | <b>744,822,569</b>             | 27,705,335        |
| Tax effect (Note 28)   | <b>(186,205,642)</b>           | (15,053,867)      |
| Items of other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (Note 31): |                                |                   |
| Actuarial gains (losses) on retirement liability (Note 27)   | <b>(221,701,853)</b>           | 181,130,408       |
| Tax effect (Note 28)   | <b>55,425,463</b>              | (41,008,697)      |
|  | <b>392,340,537</b>             | 152,773,179       |
| <b>TOTAL COMPREHENSIVE LOSS</b>  | <b>(₱13,536,564,276)</b>       | (₱23,678,250,606) |
| <b>Basic and Diluted Loss Per Share (Note 29)</b>  | <b>(₱23.80)</b>                | (₱40.36)          |

See accompanying Notes to Parent Company Financial Statements.



**CEBU AIR, INC.**

**PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY**

|                                      | Capital Paid in Excess of Par Value |                        | Share-based Payments | Treasury Stock        | Other Comprehensive Income (Loss)       |                         |                      | Retained Earnings (Deficit) |                          |                          | Total Equity (Capital Deficiency) |
|--------------------------------------|-------------------------------------|------------------------|----------------------|-----------------------|---|-------------------------|----------------------|-----------------------------|--------------------------|--------------------------|-----------------------------------|
|                                      | Capital Stock                       | Value                  |                      |                       | Remeasurement Gain (Loss) on Retirement | Cash Flow Hedge Reserve | Total                | Appropriated                | Unappropriated           | Total                    |                                   |
|                                      | (Note 22)                           | (Note 22)              | (Note 23)            | (Note 22)             | (Note 27)                               | (Note 8)                |                      | (Note 22)                   | (Note 22)                |                          |                                   |
| <b>Balance at January 1, 2022</b>    | <b>₱942,183,918</b>                 | <b>₱20,544,153,993</b> | <b>₱174,824,363</b>  | <b>(₱950,881,502)</b> | <b>₱105,564,659</b>                     | <b>(₱6,742,268)</b>     | <b>₱98,822,391</b>   | <b>₱-</b>                   | <b>(₱10,678,526,712)</b> | <b>(₱10,678,526,712)</b> | <b>₱10,130,576,451</b>            |
| Net loss                             | -                                   | -                      | -                    | -                     | -                                       | -                       | -                    | -                           | (13,928,904,813)         | (13,928,904,813)         | (13,928,904,813)                  |
| Other comprehensive income (loss)    | -                                   | -                      | -                    | -                     | (166,276,390)                           | 558,616,927             | 392,340,537          | -                           | -                        | -                        | 392,340,537                       |
| Total comprehensive income (loss)    | -                                   | -                      | -                    | -                     | (166,276,390)                           | 558,616,927             | 392,340,537          | -                           | (13,928,904,813)         | (13,928,904,813)         | (13,536,564,276)                  |
| Cost of restricted stock units (RSU) | -                                   | -                      | 61,690,810           | -                     | -                                       | -                       | -                    | -                           | -                        | -                        | 61,690,810                        |
| Cost of stock options                | -                                   | -                      | 27,876,058           | -                     | -                                       | -                       | -                    | -                           | -                        | -                        | 27,876,058                        |
| Issuance of vested RSUs              | 1,094,000                           | 51,855,600             | (52,949,600)         | -                     | -                                       | -                       | -                    | -                           | -                        | -                        | -                                 |
| <b>Balance at December 31, 2022</b>  | <b>₱943,277,918</b>                 | <b>₱20,596,009,593</b> | <b>₱211,441,631</b>  | <b>(₱950,881,502)</b> | <b>(₱60,711,731)</b>                    | <b>₱551,874,659</b>     | <b>₱491,162,928</b>  | <b>₱-</b>                   | <b>(₱24,607,431,525)</b> | <b>(₱24,607,431,525)</b> | <b>(₱3,316,420,957)</b>           |
| <b>Balance at January 1, 2021</b>    | <b>₱613,236,550</b>                 | <b>₱8,405,568,120</b>  | <b>₱-</b>            | <b>(₱950,881,502)</b> | <b>(₱34,557,052)</b>                    | <b>(₱19,393,736)</b>    | <b>(₱53,950,788)</b> | <b>₱12,000,000,000</b>      | <b>₱1,152,497,073</b>    | <b>₱13,152,497,073</b>   | <b>₱21,166,469,453</b>            |
| Net loss                             | -                                   | -                      | -                    | -                     | -                                       | -                       | -                    | -                           | (23,831,023,785)         | (23,831,023,785)         | (23,831,023,785)                  |
| Other comprehensive income           | -                                   | -                      | -                    | -                     | 140,121,711                             | 12,651,468              | 152,773,179          | -                           | -                        | -                        | 152,773,179                       |
| Total comprehensive income (loss)    | -                                   | -                      | -                    | -                     | 140,121,711                             | 12,651,468              | 152,773,179          | -                           | (23,831,023,785)         | (23,831,023,785)         | (23,678,250,606)                  |
| 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                | -                                   | -                      | 58,297,330           | -                     | -                                       | -                       | -                    | -                           | -                        | -                        | 58,297,330                        |
| Reversal of appropriations           | -                                   | -                      | -                    | -                     | -                                       | -                       | -                    | (12,000,000,000)            | 12,000,000,000           | -                        | -                                 |
| <b>Balance at December 31, 2021</b>  | <b>₱942,183,918</b>                 | <b>₱20,544,153,993</b> | <b>₱174,824,363</b>  | <b>(₱950,881,502)</b> | <b>₱105,564,659</b>                     | <b>(₱6,742,268)</b>     | <b>₱98,822,391</b>   | <b>₱-</b>                   | <b>(₱10,678,526,712)</b> | <b>(₱10,678,526,712)</b> | <b>₱10,130,576,451</b>            |

See accompanying Notes to Parent Company Financial Statements.



**CEBU AIR, INC.****PARENT COMPANY STATEMENTS OF CASH FLOWS**

|   | <b>December 31</b>       |                   |
|---|--------------------------|-------------------|
|   | <b>2022</b>              | <b>2021</b>       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |                          |                   |
| Loss before income tax  | <b>(₱16,182,014,412)</b> | (₱25,565,006,468) |
| Adjustments for:  |                          |                   |
| Depreciation and amortization (Notes 12 and 33)                             | <b>12,770,394,055</b>    | 14,253,652,425    |
| Provision for ARO and HVM lease (Note 20)                                   | <b>7,218,923,776</b>     | 4,416,054,451     |
| Financing costs and other charges (Notes 6, 18, 19 and 33)                  | <b>3,620,261,242</b>     | 2,816,181,340     |
| Unrealized foreign exchange losses – net                                    | <b>2,305,589,664</b>     | 1,475,974,917     |
| Share-based payments (Note 23)  | <b>89,566,868</b>        | 174,824,363       |
| Impairment loss in noncurrent asset held for sale (Note 12)                 | <b>86,746,895</b>        | –                 |
| Provision for expected credit losses (Note 9)                               | <b>19,075,860</b>        | 102,532,835       |
| Impairment loss in investment in associate (Note 14)                        | <b>–</b>                 | 43,713,922        |
| Gain on sale of other PPE (Note 12)   | <b>(22,173,614)</b>      | (62,857,738)      |
| Dividend income   | <b>(114,236,853)</b>     | –                 |
| Gain on conversion  | <b>(279,280,626)</b>     | –                 |
| Interest income (Note 7)  | <b>(295,573,802)</b>     | (34,511,348)      |
| Gain on disposal of aircraft – net (Note 12)                                | <b>(806,208,700)</b>     | (1,388,678,985)   |
| Net changes in fair value of derivatives (Note 8)                           | <b>(977,907,505)</b>     | 1,318,117,077     |
| Earned and expired portion of deferred revenue on rewards program (Note 21) | <b>(1,121,830,228)</b>   | 47,159,065        |
| Operating income (loss) before working capital changes                      | <b>6,311,332,619</b>     | (2,402,844,144)   |
| Decrease (increase) in:   |                          |                   |
| Receivables   | <b>(448,025,533)</b>     | (128,768,070)     |
| Restricted cash   | <b>(54,017,091)</b>      | 318,384,083       |
| Expendable parts, fuel, materials and supplies                              | <b>(751,887,606)</b>     | 124,899,536       |
| Derivative financial assets   | <b>802,491,663</b>       | 20,235,264        |
| Other current assets  | <b>(784,942,294)</b>     | 2,004,695,615     |
| Due from related parties  | <b>(467,889,709)</b>     | –                 |
| Increase (decrease) in:   |                          |                   |
| Accounts payable and other accrued liabilities                              | <b>5,209,223,694</b>     | (53,656,726)      |
| Unearned transportation revenue   | <b>6,497,638,959</b>     | 780,234,689       |
| Amounts of due to related parties   | <b>536,192,531</b>       | (67,187,644)      |
| Retirement liability  | <b>98,674,575</b>        | 76,422,912        |
| Other noncurrent liabilities  | <b>(3,375,373,495)</b>   | (3,133,622,567)   |
| Net cash used in operations   | <b>13,573,418,315</b>    | (2,461,207,052)   |
| Interest received   | <b>274,921,218</b>       | 33,322,478        |
| Interest paid   | <b>(1,519,598,396)</b>   | (1,355,909,420)   |
| Net cash provided by (used in) operating activities                         | <b>12,328,741,137</b>    | (3,783,793,993)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                          |                   |
| Proceeds from sales of:   |                          |                   |
| Property and equipment (Note 12)  | <b>10,492,763,671</b>    | 10,705,940,871    |
| Acquisitions of property and equipment (Note 12)                            | <b>(9,753,655,812)</b>   | (5,494,915,577)   |
| Refund of pre-delivery payments (Note 12)                                   | <b>5,807,816,618</b>     | 5,911,374,086     |
| Decrease in advances to suppliers and other noncurrent assets               | <b>(17,570,273)</b>      | (636,630,427)     |
| Dividends received from a subsidiary (Note 30)                              | <b>114,236,853</b>       | –                 |
| Additions to right-of-use assets  | <b>–</b>                 | (1,578,903)       |
| Net cash provided by investing activities                                   | <b>6,643,591,057</b>     | 10,484,190,050    |

*(Forward)*

|  | <b>Years Ended December 31</b> |                  |
|--|--------------------------------|------------------|
|  | <b>2022</b>                    | <b>2021</b>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                |                  |
| Long-term and short-term debt (Notes 18 and 34)                                      |                                |                  |
| Payments   | <b>(₱9,624,595,139)</b>        | (₱6,125,133,333) |
| Availments   | -                              | 4,234,107,500    |
| Payments for lease liability (Notes 33 and 34)                                       | <b>(10,702,362,447)</b>        | (13,986,021,079) |
| Proceeds from issuance of bonds payable, net of bond issue cost<br>(Notes 19 and 34) | -                              | 11,782,473,335   |
| Proceeds from issuance of preferred shares, net of transaction costs<br>(Note 22)    | -                              | 12,467,533,241   |
| Net cash provided by (used in) financing activities                                  | <b>(20,326,957,586)</b>        | 8,372,959,664    |
| <b>EFFECTS OF EXCHANGE RATE CHANGES<br/>IN CASH AND CASH EQUIVALENTS</b>             |                                |                  |
|  | <b>1,527,693,554</b>           | 585,403,628      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                     | <b>173,068,162</b>             | 15,658,759,348   |
| <b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>  | <b>18,098,629,801</b>          | 2,439,870,453    |
| <b>CASH AND CASH EQUIVALENTS AT DECEMBER 31 (Note 7)</b>                             | <b>₱18,271,697,963</b>         | ₱18,098,629,801  |

*See accompanying Notes to Parent Company Financial Statements.*



## CEBU AIR, INC.

### NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

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

The Parent Company has ten (10) special purpose entities (SPEs) that it controls, namely: Summit C Aircraft Leasing Limited (SCALL), Tikgi One Aviation Designated Activity Company (TOADAC), 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 1, 2018, the Parent Company incorporated 1Aviation Groundhandling Services Corporation (1Aviation), a wholly-owned subsidiary before the sale of 60% equity ownership 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 joint venture with equity method accounting treatment (see Note 14).

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.

In August 2022, Summit D Aircraft Leasing Limited was dissolved following the repayment of last aircraft loan in 2021.

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 66.10%-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. In September 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 (see Notes 28 and 35).

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 (RCIT) 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).

On May 24, 2005, the Reformed-Value Added Tax (R-VAT) law was signed as RA No. 9337 or the R-VAT Act of 2005. The 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 32.00% to 35.00% for the next three years effective on November 1, 2005, and 30.00% starting on January 1, 2009 and thereafter; and
- e. Increase in the VAT rate imposed on goods and services from 10.00% to 12.00% effective on February 1, 2006.

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

#### Status of Operations

The Parent Company incurred a net loss of ₱13.9 billion and ₱23.8 billion and net cash inflows (outflows) from operations of ₱12.3 billion and (₱3.8 billion) for the years ended December 31, 2022 and 2021, respectively. Also, the Parent Company's current liabilities exceeded its current assets by ₱12.4 billion and ₱8.0 billion as of December 31, 2022 and 2021, respectively. The Parent Company incurred deficit amounting to ₱24.6 billion as of December 31, 2022 which has resulted to a capital deficiency of ₱3.3 billion. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Parent Company's ability to continue as a going concern and, therefore, that the Parent Company may be unable to realize its assets and discharge its liabilities in the normal course of business.



The Parent Company 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 of December 31, 2022, the Parent Company has undertaken various financing activities intended to ensure availability of sufficient financial resources to enable the Parent Company to continue as a going concern. Its cash and cash equivalent balance of ₱19.1 billion as of December 31, 2022 is sufficient to support the operations of the Parent Company. Based on management's cash flow projections for the next twelve months, the Parent Company will maintain sufficient cash and cash equivalents from internally generated cash flows, refund of pre-delivery payments, sale and lease back of certain aircraft and drawdown from the Parent Company's existing loan facilities with various banks. Accordingly, management has assessed that the Parent Company will have sufficient financial resources to enable the Parent Company to continue as a going concern for at least the next twelve (12) months from December 31, 2022. As such the accompanying parent company financial statements have been prepared on a going concern basis of accounting.

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## 2. Basis of Preparation and Statement of Compliance

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

The Parent Company financial statements 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 Parent Company financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

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## 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, 2022. The Parent Company did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective. The adoption of these pronouncements is not expected to have a significant impact on the Parent Company's financial statements unless otherwise indicated.

- 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 from 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 period beginning on or after January 1, 2022 and apply prospectively. The amendments did not impact the Parent's financial statements as of December 31, 2022.

- 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 did not impact the Parent Company's financial statements as of December 31, 2022.

- 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 Parent Company applies 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 did not impact the Parent Company's financial statements as of December 31, 2022.

- 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 did not impact the Parent Company's financial statements as of December 31, 2022.



- 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 Parent Company applies 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 did not impact the Parent Company's financial statements as of December 31, 2022.

- 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 did not impact the Parent Company's financial statements as of December 31, 2022.

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#### 4. Summary of Significant Accounting Policies

##### Current versus Noncurrent Classification

The Parent Company presents assets and liabilities in Parent Company 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 Parent Company classifies all other liabilities as noncurrent.



### Fair Value Measurement

The Parent Company measures derivatives at fair value at each reporting period. Also, for assets and liabilities which are not measured at fair value in the Parent Company's 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 Parent Company. 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 Parent Company 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 Parent Company 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 Parent Company financial statements at fair value on a recurring basis, the Parent Company determines whether transfers have occurred between levels in the hierarchy by re-assessing 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 three 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 Parent Company to determine its eligibility to be classified as cash and cash equivalents. The Parent Company 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 Parent Company's business model for managing them. The Parent Company 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 Parent Company'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 Parent Company 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 Parent Company 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 Parent Company'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 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 FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

FVPL are carried in the Parent Company 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.

For financial assets, embedded derivatives are accounted for together with the host contracts and are classified based on business model and contractual cash flows of the instrument.

The Parent Company's financial assets and liabilities at FVPL consist of derivative liabilities as of December 31, 2022 and 2021, respectively.

#### *Derivative Financial Instruments and Hedge Accounting*

The Parent Company 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 in 2020 and beyond started to be designated as accounting hedges beginning September 1, 2019 and adhered to PFRS 9, *Financial Instrument: 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 Parent Company 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 Parent Company'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 Parent Company'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 Parent Company actually hedges and the quantity of the hedging instrument that the Parent Company 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 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 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 Parent Company 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 statement of comprehensive income.

The Parent Company 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 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 Parent Company 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 Parent Company 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 Parent Company's derivative instruments provide economic hedges under the Parent Company'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 Parent Company assesses whether embedded derivatives are required to be separated from host contracts when the Parent Company first becomes a party to the contract. An embedded derivative is separated from the host contract and accounted for as 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 modified the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Parent Company 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 Parent Company's bifurcated embedded derivatives pertain to options arising from its 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 Parent Company's accounts payable and other accrued liabilities, finance lease obligation, short-term debt, long-term debt 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 Parent Company; 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 Parent Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligations, 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 Parent Company 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 Parent Company 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 Parent Company 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 Parent Company statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Parent Company 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 Parent Company has transferred substantially all the risks and rewards of the asset; or
  - The Parent Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Parent Company 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 Parent Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Parent Company 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 Parent Company 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 Parent Company could be required 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 Parent Company recognizes an allowance for 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 Parent Company 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 Parent Company applies a simplified approach in calculating ECLs. Therefore, the Parent Company does not track changes in credit risk, but instead, recognizes a loss allowance based on lifetime ECLs at each reporting date. The Parent Company 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 Parent Company may also consider a financial asset to be in default when internal or external information indicates that the Parent Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Parent Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For other debt financial instruments, e.g., cash and cash equivalents (excluding cash on hand) and refundable deposits ECLs, the Parent Company 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 Parent Company 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 Parent Company uses benchmark approach where the Parent Company finds comparable companies in the same industry having similar characteristics. The Parent Company 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 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.



### Assets Held for Sale

Noncurrent assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale must be highly probable. For the sale to be highly probable, (a) an appropriate level of management must be committed to a plan to sell the asset, (b) an active program must have been initiated, (c) the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value, (d) the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and (e) actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Noncurrent assets classified as held for sale are measured at the lower of their previous carrying amount, net of any impairment, and fair value less costs to sell.

Impairment loss is recognized for any subsequent write-down of the asset to fair value less costs to sell. Gain for any subsequent increase in fair value less costs to sell of an asset is also recognized, but not in excess of the cumulative impairment loss that has been previously recognized.

If the Parent Company has classified an asset as held for sale but the criteria as set out above no longer met, the Parent Company ceases to classify the asset as held for sale. The Parent Company measures a noncurrent asset that ceased to be classified as held for sale at the lower of (a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale, and (b) is recoverable amount at the date of the subsequent decision not to sell.

### 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 Parent Company 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 Parent Company follows:

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

*\*With residual value of 15.00%*

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 Parent Company 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 Parent Company has not capitalized any borrowing costs for the years ended December 31, 2022 and 2021 as all borrowing costs from outstanding long-term debt relate to assets that are ready for intended use.

#### 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 ventures 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 13.0435% 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 cost method. Under the cost method, the investments in JVs and associates are carried in the Parent Company statement of financial position at cost, less any allowance for impairment in value. The Parent Company recognizes income from the investments only to the extent that the Parent Company receive distributions from accumulated profits of the JVs and associates arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction in the cost of the investment.

#### Impairment of Nonfinancial Assets

The Parent Company 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 Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash generating unit's (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 Parent Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Parent Company'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, 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 exist, the Parent Company 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.



#### Aircraft Maintenance and Overhaul Cost

The Parent Company 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 Parent Company recognizes expenses on an accrual basis.

#### Asset Retirement Obligation (ARO)

The Parent Company 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. For certain lease agreements, the Parent Company provides for these costs over the terms of the leases through contribution to a maintenance reserve fund (MRF) which is recorded as outright expense. If the estimated cost of restoration is expected to exceed the cumulative MRF, an additional obligation is accounted on an accrual basis. Regular aircraft maintenance is accounted for as expense when incurred.

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 Parent Company statement of financial position. This is recouped when the expenses for restoration of aircraft have been incurred.

The Parent Company regularly assesses the provision for ARO and adjusts the related liability.

#### Heavy Maintenance Visits (HMV)

The Parent Company 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 advice. 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.

#### Travel Fund

Travel fund is a virtual wallet that can be used as a form of payment for booking new flights and purchasing add-ons. Travel fund is offered for cancelled flights or for flights with schedule changes of more than 60 minutes. Prior to March 15, 2020 (pre-COVID), the validity of travel fund was only 90 days from the travel fund creation date. However, due to the COVID-19, the Parent Company extended the validity of travel fund from 90 days to two (2) years to give guests enough time to plan on their next trip.

The Parent Company further provided an option for guest to refund their travel fund if unused after one (1) year but this is specific only for flights affected by COVID-19 between March 15, 2020 to July 31, 2020.



As of December 31, 2021, refund of travel fund is no longer an option for flights starting August 1, 2020 yet the validity of travel fund remains two (2) years.

However, as subsequently amended, effective April 1, 2022, in line with the Parent Company's recovery efforts and continuous updating of Customer Flexible Options, all created travel fund starting the said date shall be valid for six (6) months from the date of creation or conversion to travel fund.

Moreover, effective April 6, 2022, selected guests will now be able to use their travel fund to book for anyone – regardless whether the member is part of the new booking's passenger list or not.

In accordance with PFRS 15, *Revenue from Contracts with Customers*, upon receipt of a prepayment from customer, an entity shall recognize a contract liability in the amount of the prepayment for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity shall derecognize that contract liability (and recognize revenue) when it transfers those goods or services and, therefore, satisfies its performance obligation.

A customer's non-refundable prepayment to an entity gives the customer a right to receive a good service in the future (and obliges the entity to stand ready to transfer a good or service). However, customers may not exercise all of their contractual rights. Those unexercised rights are often referred to as breakage.

If an entity expects to be entitled to a breakage amount in a contract liability, the entity shall recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. If an entity does not expect to be entitled to a breakage amount, the entity shall recognize the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

#### Capital Stock

Capital stock, both common and preferred, is classified as equity and recorded at par. Proceeds in excess of par value are recorded as 'Capital paid in excess of par value' account in the Parent Company 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 (deficit) represent accumulated earnings or losses of the Parent Company, 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 Parent Company 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 Parent Company expects to be entitled to.

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

*Sale of air transportation services and cargo*

Passenger ticket and cargo waybill sales are initially recorded as unearned passenger revenue under 'Unearned transportation revenue' account in the Parent Company statement of financial position until earned and recognized under 'Revenue' account in the Parent Company 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 baggage fees, inflight sales and rebooking and website administration fees are initially recognized as deferred ancillary revenue under 'Unearned transportation revenue' account in the Parent Company 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.

*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 Parent Company statement of comprehensive income.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the Parent Company's 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, 2022 and 2021. 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 Parent Company maintains defined benefit plan covering substantially all of its employees. The cost of providing benefits under the defined benefit plan 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. An actuarial valuation is 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 Parent Company, nor can they be paid directly to the Parent Company. 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 Parent Company'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 Parent Company 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 Parent Company 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 re-assessed 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 Parent Company 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 Parent Company 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 Parent Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Parent Company will exercise a purchase option, the Parent Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Parent Company 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 Parent Company 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 Parent Company and payments of penalties for terminating a lease, if the lease term reflects the Parent Company 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 Parent Company 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 Parent Company accounted the deferral of lease payments originally due on various dates until before June 30, 2021 granted by the lessors due to COVID-19 pandemic as a separate lease liability in the period allocated lease payments are due. The separate lease liability does not accrue interest. The Parent Company continued to account for the original lease liability using the rights and obligations of the existing lease.

#### *Short-term leases*

The Parent Company 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 Parent Company 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 Parent Company 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 Parent Company. 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 Parent Company continues to recognize the asset in its Parent Company 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 Parent Company 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 Parent Company 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 Parent Company statement of financial position but are disclosed in the notes to Parent Company 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 Parent Company 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 Parent Company financial statements.

### Earnings (Loss) Per Share (EPS)

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 Parent Company 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 Parent Company's position at the reporting date (adjusting event) are reflected in the Parent Company financial statements.

Post year-end events that are not adjusting events are disclosed in the Parent Company financial statements, when material.



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## 5. Significant Accounting Judgments and Estimates

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

### Judgments

#### *a. Use of going concern assumption*

The underlying assumption in the preparation of the accompanying Parent Company financial statements is that the Parent Company has the ability to continue as a going concern for at least the next twelve (12) months from December 31, 2022. 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 cost and ensure the Parent Company's competitiveness and with the progress of the steps undertaken to date on the Parent Company's financing plans, the Parent Company will be able to generate sufficient cash flows to enable the Parent Company to meet its obligations when they fall due to address the Parent Company's liquidity requirements and to support its operations. Accordingly, the accompanying Parent Company financial statements have been prepared on a going concern basis of accounting.

#### *b. Determining the lease term of contracts with renewal and termination options – Parent Company as lessee*

The Parent Company 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 Parent Company has several lease contracts that include extension and termination options. The Parent Company 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 Parent Company 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 Parent Company 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 Parent Company 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 Parent Company's leases.



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

The Parent Company 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 Parent Company accounts for the sale and leaseback as a financing transaction in accordance with PFRS 9. The Parent Company entered into sales and leaseback transactions as of December 31, 2022 (see Note 33).

*d. Determination of functional currency*

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Parent Company's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Parent Company. In making this judgment, the Parent Company 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 of the Parent Company, after considering the criteria stated in PAS 21.

*e. Contingencies*

The Parent Company 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 Parent Company currently does not believe that these will have a material adverse effect on the Parent Company's financial position and 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).

*f. Allocation of revenue, costs and expenses for registered and nonregistered 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 (for aircraft under finance lease), lease expense (for aircraft under operating lease) and interest expense based on the related finance lease obligations are specifically identified per aircraft based on an actual basis. For revenue, cost and expense accounts that are not identifiable per aircraft, the Parent Company allocates based on activity factors that closely relate to the earning process of the revenue.

*g. Classification of joint arrangements and investment in associates*

The Parent Company's investments in JVs are structured in separate incorporated entities (see Note 14). Even though the Parent Company holds various percentage of ownership interest on these arrangements, their respective joint arrangement agreements require unanimous consent from all parties to the agreement for the relevant activities identified. The Parent Company and the parties to the agreement only have rights to the net assets of the JVs through the terms of the contractual arrangements.



The Parent Company's investment in Value Alliance Travel System Pte. Ltd. (formerly Air Block Box Asia Pacific Pte. Ltd.) and DAVI are considered as investment in associates and significant influence is evident on the Parent Company's representation in the BOD.

*h. Determination of jet fuel/sing kero price risk components*

The Parent Company 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 Parent Company 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 Parent Company 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.

*i. Classification of assets held for sale*

The Parent Company classifies a noncurrent asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition and its sale must be highly probable.

2022, management determined that certain aircraft are available for sale in their present condition within the next 12 months. Management reclassified these aircraft from 'Property and equipment' into 'Assets held for sale' in the consolidated statement of financial position as of December 31, 2022. The carrying amount of the assets that were reclassified to asset held for sale amounted to ₱906.6 million (see Note 12).

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 Parent Company assesses the carrying amounts of deferred income taxes at each reporting date 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, 2022 and 2021, the Parent Company has deferred tax assets amounting to ₱7,396.1 million and ₱5,515.7 million, respectively. Unrecognized deferred tax assets as of December 31, 2022 and 2021 amounted to ₱10,624.3 million and ₱8,266.2 million, respectively (see Note 28).



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

The Parent Company determines whether property and equipment and right-of-use assets are impaired. 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 property and equipment and right-of-use assets belongs.

In determining the recoverable amount of these assets, the management estimates the VIU of the CGU to which the property and equipment and right-of-use assets belong. Estimating the value-in-use requires the Parent Company 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 Parent Company 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, 2022 and 2021, the Parent Company has determined that property and equipment and right-of-use assets are recoverable based on VIU. Property and equipment and right-of-use assets amounted to ₱37.2 billion and ₱69.3 billion and ₱44.8 billion and ₱58.9 billion as of December 31, 2022 and 2021, respectively (see Notes 12 and 33).

*c. Estimation of ARO*

The Parent Company 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 Parent Company 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 Parent Company. As of December 31, 2022 and 2021, the cost of restoration is computed based on the Parent Company'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, 2022 and 2021, the Parent Company's ARO liability (included under 'Other noncurrent liabilities' account in the Parent Company statement of financial position) has a carrying value of ₱9,967.9 million and ₱7,084.7 million, respectively (see Note 20). The related provisions included under Repairs and maintenance expense for the years ended December 31, 2022 and 2021 amounted to ₱5,587.5 million and ₱3,566.1 million, respectively (see Notes 20 and 25).

*d. Estimation of HMMV*

The Parent Company 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, 2022 and 2021, the Parent Company's HMV (included other 'Other noncurrent liabilities' account in the parent company statement of financial position) has a carrying value of ₱2,847.7 million and ₱1,082.6 million, respectively (see Note 20). The related repairs and maintenance expense for the years ended December 31, 2022 and 2021 amounted to ₱1,631.5 million and ₱850.0 million, respectively (see Notes 20 and 25).

*e. Fair values of financial instruments*

Where the fair values of certain financial assets and liabilities recorded in the parent company 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 Parent Company generally relies on counterparties' valuation.

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

*f. Valuation of assets held for sale*

The Parent Company measures its assets held for sale at the lower of their carrying amount and fair value less costs to sell. Management has determined the fair value less costs to sell of the Group's held for sale based on agreed price with prospective buyers. In 2022, the Parent Company recognized an impairment loss of ₱86.7 million for an aircraft intended to be sold in 2023 (see Note 12). The carrying value of assets held for sale as of December 31, 2022 and 2021 amounted to ₱819.9 million and nil, respectively.

*g. Estimation of useful lives of property and equipment*

The Parent Company 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 Parent Company 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, 2022 and 2021, the carrying values of the Parent Company's property and equipment amounted to ₱37,177.2 million and ₱44,803.1 million, respectively (see Note 12).

The Parent Company's depreciation and amortization expense on property and equipment amounted to ₱3,415.4 million and ₱4,895.9 million for the years ended December 31, 2022 and 2021, respectively (see Note 12).



*h. Estimation of allowance for credit losses on receivables*

The Parent Company 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 Parent Company's relationship with the agents, customers and other counterparties, the payment behavior of agents and customers, other counterparties and other known market factors. The Parent Company 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, 2022 and December 31, 2021 are disclosed in Note 9.

*i. Lessee – estimating the incremental borrowing rate*

The Parent Company 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 Parent Company 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 Parent Company '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 Parent Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (see Note 33).

*j. Fair values of aircraft at sale and operating leaseback transaction*

The Parent Company 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 Parent Company entered into sale and operating leaseback transactions in 2022 and 2021 (see Notes 12 and 33).

*k. 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 Parent Company 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 Parent Company's retirement liability amounted to ₱643.6 million and ₱323.2 million as of December 31, 2022 and 2021, respectively (see Note 27).

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

- The forecast used for impairment testing include the Parent Company'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 Parent Company has also considered the increased uncertainty in determining key assumptions within the assessment of future taxable income of the Parent Company upon which recognition of deferred tax assets is assessed, including forecast of revenue and expenses, among others.

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

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## 6. Segment Information

The Parent Company has one reportable operating segment, which is the airline business (system-wide). This is consistent with how the Parent Company'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 segment was mainly derived from rendering transportation services.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

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 parent company statements of financial position, which is in accordance with PFRSs.



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

|   | 2022                    | 2021             |
|---|-------------------------|------------------|
| Revenues  | <b>₱56,652,630,067</b>  | ₱17,602,156,229  |
| Net loss  | <b>(13,928,904,813)</b> | (23,831,023,785) |
| Depreciation and amortization (Notes 12 and 33)   | <b>12,770,394,055</b>   | 14,253,652,425   |
| Financing costs and other charges<br>(Notes 18, 19 and 33)                                      | <b>3,620,261,242</b>    | 2,816,181,340    |
| Interest income (Note 7)  | <b>295,573,802</b>      | 34,511,348       |
| Earnings (losses) before interest and taxes (EBIT)  | <b>(12,144,600,088)</b> | (21,755,151,290) |
| Pre-tax core net loss   | <b>(15,469,287,527)</b> | (24,536,821,282) |
| Earnings (losses) before interest, taxes, depreciation,<br>amortization and rent (EBITDAR)      | <b>8,938,145,793</b>    | (2,641,962,931)  |
| Capital expenditures (Note 12)  | <b>9,753,655,812</b>    | 5,494,915,577    |
| Market valuation gains (losses) from derivative<br>financial instruments – net (Notes 8 and 19) | <b>977,907,505</b>      | (1,318,117,077)  |
| Income tax benefit (Note 28)  | <b>(2,253,109,599)</b>  | (1,733,982,683)  |

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

Pre-tax core net income (loss) is the operating income (loss) after deducting net interest expense and adding dividend income from 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, provision for 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-PFRS measures to operating income follows:

|   | 2022                     | 2021              |
|---|--------------------------|-------------------|
| Revenues (excluding nontransport revenue and other<br>income) | <b>₱54,165,249,573</b>   | ₱16,040,916,867   |
| Expenses  | <b>(66,309,849,660)</b>  | (37,796,068,157)  |
| Operating loss/EBIT   | <b>(12,144,600,087)</b>  | (21,755,151,290)  |
| Interest expense - net  | <b>(3,324,687,440)</b>   | (2,781,669,992)   |
| Pre-tax core net loss   | <b>(₱15,469,287,527)</b> | (₱24,536,821,282) |
| Operating loss  | <b>(₱12,144,600,087)</b> | (₱21,755,151,290) |
| Depreciation and amortization                                 | <b>12,770,394,056</b>    | 14,253,652,425    |
| Provision for ARO   | <b>5,587,452,082</b>     | 3,566,104,161     |
| Provision for HMV   | <b>1,631,471,694</b>     | 849,950,290       |
| Aircraft and engine lease expense                             | <b>1,093,428,049</b>     | 443,481,483       |
| EBITDAR   | <b>₱8,938,145,794</b>    | (₱2,641,962,931)  |



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

|   | 2022                   | 2021                   |
|---|------------------------|------------------------|
| Total segment revenue of reportable operating segment | <b>₱54,165,249,573</b> | ₱16,040,916,867        |
| Nontransport revenue and other income                 | <b>2,487,380,493</b>   | 1,561,239,362          |
| <b>Total revenue</b>                                  | <b>₱56,102,340,964</b> | <b>₱17,602,156,229</b> |

Nontransport revenue and other income include interest income, gain from insurance claims, gain on disposal of property and equipment, market valuation gains on derivative financial instruments and dividend income.

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

|  | 2022                     | 2021                     |
|--|--------------------------|--------------------------|
| Total segment loss of reportable segment | <b>(₱12,144,600,088)</b> | (₱21,755,151,290)        |
| Add (deduct) unallocated items:          |                          |                          |
| Nontransport revenue and other income    | <b>2,487,380,493</b>     | 1,561,239,362            |
| Nontransport expenses and other charges* | <b>(6,524,794,818)</b>   | (5,371,094,540)          |
| Benefit from income tax                  | <b>2,253,109,599</b>     | 1,733,982,683            |
| Net loss                                 | <b>(13,928,904,813)</b>  | (23,831,023,785)         |
| Other comprehensive gain, net of tax     | <b>392,340,537</b>       | 152,773,179              |
| <b>Total comprehensive loss</b>          | <b>(₱13,536,564,276)</b> | <b>(₱23,678,250,606)</b> |

\* Includes foreign exchange losses, interest expense, market valuation losses from derivative financial instruments and impairment loss

The Parent Company's major revenue-producing asset is the fleet of aircraft owned by the Parent Company, which is employed across its route network (see Note 12).

The Parent Company has no significant customer which contributes 10.00% or more to the revenue of the Parent Company.

## 7. Cash and Cash Equivalents

This account consists of:

|                       | 2022                   | 2021                   |
|-----------------------|------------------------|------------------------|
| Cash on hand          | <b>₱43,033,319</b>     | ₱49,327,939            |
| Cash in banks         | <b>3,697,411,959</b>   | 1,945,798,575          |
| Short-term placements | <b>14,531,252,685</b>  | 16,103,503,287         |
| <b>Total</b>          | <b>₱18,271,697,963</b> | <b>₱18,098,629,801</b> |

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 Parent Company. Short-term placements denominated in Peso earn an average annual interest of 2.52% and 0.86% in 2022 and 2021, respectively. Moreover, short-term placements in US dollar (USD) earn interest on an average annual interest rate of 1.56% and 0.13% in



2022 and 2021, respectively. In 2022 and 2021, the Parent Company also has outstanding short-term placements in Korean won (KRW) with an average annual interest rate of 0.97% and 0.15%, respectively.

Interest income earned on cash in banks and short-term placements, presented in the Parent Company statements of comprehensive income amounted to ₱295.6 million and ₱34.5 million in 2022 and 2021, respectively.

## 8. Derivative Financial Assets and Liabilities

This account consists of net derivative financial liabilities as of December 31, 2022 and 2021. Details follow:

|   | 2022                | 2021           |
|---|---------------------|----------------|
| <i>Derivative financial assets at FVOCI:</i>                |                     |                |
| Interest rate derivatives                                   | <b>₱60,911,158</b>  | ₱—             |
| <i>Derivative financial assets sat FVPL</i>                 |                     |                |
| Conversion options arising from convertible bonds (Note 19) | <b>₱846,835,509</b> | ₱1,730,960,768 |

As of December 31, 2022, the derivative financial assets at FVOCI consist of interest rate derivatives while derivative financial liabilities at FVPL consist of conversion options arising from convertible bonds.

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

### Interest Rate Derivatives

#### *Designated hedges*

The Parent Company enters into interest rate derivative contracts to manage exposure to the volatility of interest rates on the lease rates of the expected aircraft deliveries. These derivatives have various maturity dates within 2022 where hedge accounting under PFRS 9 were also applied.

As of December 31, 2022, the Parent Company has designated for hedge accounting derivatives with net asset position, which is shown as ‘Derivative financial assets at FVOCI’ in the consolidated statements of financial position, amounting to ₱60.9 million (nil in 2021).

For the period ended December 31, 2022, the Parent Company has recycled the effective portion of its cash flow hedge reserves to ‘Financing costs and other charges’ in the Parent Company statement of comprehensive income amounting to ₱42.2 million.

### Embedded Derivatives Arising from Convertible Bonds

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 CBs bear an interest rate of 4.5% payable semi-annually in arrears on May 10 and November 10 of each year.

The CBs contain 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, 2022 and 2021, the fair value of the embedded derivatives, which is shown as 'Derivative financial liabilities at FVPL' in the Parent Company's statement of financial position, amounted to ₱846.8 million and ₱1,731.0 million, respectively (see Note 19).

'Market valuation gains (losses) on derivative financial instruments – net' for the years ended December 31, 2022 and 2021 follows:

|   | 2022                | 2021             |
|---|---------------------|------------------|
| <b>Embedded derivatives arising convertible bonds</b> |                     |                  |
| (Note 19)   |                     |                  |
| Net changes in fair value                             | <b>₱884,125,259</b> | (₱1,318,117,077) |
| <b>Attributable to interest rate derivatives</b>      |                     |                  |
| Hedge ineffectiveness                                 | <b>93,782,246</b>   | –                |
|   | <b>₱977,907,505</b> | (₱1,318,117,077) |

#### Fair Value Changes on Derivatives

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

|   | 2022                 | 2021         |
|---|----------------------|--------------|
| Balance at January 1:                     |                      |              |
| Derivative assets                         | ₱–                   | ₱–           |
| Derivative liabilities                    | –                    | (32,214,937) |
|   | –                    | (32,214,937) |
| Net changes in fair value of derivatives: |                      |              |
| Designated                                | <b>863,402,821</b>   | 52,450,201   |
| Not-designated                            | –                    | –            |
|   | <b>863,402,821</b>   | 52,450,201   |
|   | <b>863,402,821</b>   | 20,235,264   |
| Fair value of settled instruments:        |                      |              |
| Designated                                | <b>(802,492,663)</b> | (20,235,264) |
| Not-designated                            | –                    | –            |
|   | <b>(802,492,663)</b> | (20,235,264) |
| Balance at December 31:                   |                      |              |
| Current                                   | <b>60,911,158</b>    | –            |
| Non-current                               | –                    | –            |
|   | <b>₱60,911,158</b>   | ₱–           |
| Attributable to:                          |                      |              |
| Derivative assets                         | <b>₱60,911,158</b>   | ₱–           |
| Derivative liabilities                    | –                    | –            |
|   | <b>₱60,911,158</b>   | ₱–           |

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:

|                                    | 2022                  | 2021           |
|------------------------------------|-----------------------|----------------|
| Trade receivables                  | <b>₱1,716,929,585</b> | ₱1,231,163,887 |
| Due from related parties (Note 28) | <b>949,341,120</b>    | 845,770,190    |
| Interest receivable                | <b>23,025,484</b>     | 2,372,900      |
| Others                             | <b>113,858,912</b>    | 116,030,841    |
|                                    | <b>2,803,155,101</b>  | 2,195,337,818  |
| Less allowance for ECL             | <b>(148,140,805)</b>  | 169,954,736    |
|                                    | <b>₱2,655,014,296</b> | ₱2,025,383,082 |

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 credit losses on receivables follow:

|                                      | 2022                | 2021         |
|--------------------------------------|---------------------|--------------|
| Balance at January 1                 | <b>₱169,954,736</b> | ₱107,197,246 |
| Provision for expected credit losses | <b>19,075,860</b>   | 102,532,835  |
| Recovery                             | <b>(40,889,791)</b> | (35,000,000) |
| Write off                            | -                   | (4,775,345)  |
| Balance at December 31               | <b>₱148,140,805</b> | ₱169,954,736 |

## 10. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

|                        | 2022                  | 2021           |
|------------------------|-----------------------|----------------|
| At cost:               |                       |                |
| Expendable parts       | <b>₱2,022,431,237</b> | ₱1,438,169,147 |
| Fuel                   | <b>427,233,972</b>    | 270,946,245    |
| Materials and supplies | <b>49,905,861</b>     | 38,568,072     |
|                        | <b>₱2,499,571,070</b> | ₱1,747,683,464 |

As of December 31, 2022 and 2021, the Parent Company recognized full allowance for inventory write-down amounting 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 Parent Company's statements of comprehensive income) for the years ended December 31, 2022 and 2021 amounted to ₱607.5 million and ₱446.4 million, respectively (see Note 25). The cost of fuel reported as expense



under 'Flying operations' account amounted to ₱23,350.1 million and ₱4,836.6 million in 2022 and 2021, respectively (see Note 25).

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## 11. Other Current Assets

This account consists of:

|  | 2022                  | 2021           |
|--|-----------------------|----------------|
| Current portion of advances to suppliers | <b>₱3,141,139,509</b> | ₱2,168,844,771 |
| Prepaid rent                             | <b>194,112,614</b>    | 59,183,328     |
| Prepaid insurance                        | <b>26,783,537</b>     | 56,904,488     |
| Input VAT                                | -                     | 298,712,421    |
| Others                                   | <b>351,735,816</b>    | 353,830,742    |
|  | <b>₱3,713,771,476</b> | ₱2,937,475,750 |

Current portion of advances to suppliers include advances to service maintenance provider, service maintenance 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 (see Note 33).

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:

|  | 2022                                    |                        |                       |                          |  |                        |                          |                        |
|--|---|------------------------|-----------------------|--------------------------|--|------------------------|--------------------------|------------------------|
|  | Passenger Aircraft<br>(Notes 18 and 32) | Engines                | Rotables              | Ground Support Equipment | EDP Equipment, Mainframe and Peripherals | Leasehold Improvements | Transportation Equipment | Sub-total              |
| <b>Cost</b>                                      |   |                        |                       |                          |  |                        |                          |                        |
| Balance at January 1, 2022                       | ₱29,436,125,776                         | ₱12,539,035,017        | ₱6,463,429,696        | ₱1,446,394,337           | ₱1,296,630,704                           | ₱1,982,566,231         | ₱457,862,417             | ₱53,622,044,178        |
| Additions  | 451,609,840                             | 3,060,050,951          | 631,244,897           | 53,806,413               | 46,327,171                               | 132,145                | 1,587,321                | 4,244,758,738          |
| Reclassification                                 | (3,604,036,708)                         | 126,832,500            | –                     | –                        | –  | 57,861,540             | –                        | (3,419,342,668)        |
| Disposals/others                                 | (5,396,863,611)                         | (5,034,256,499)        | (1,325,196,127)       | (366,303,689)            | (610,736,639)                            | (39,339)               | (135,861,863)            | (16,473,294,475)       |
| Balance at December 31, 2022                     | 20,886,835,297                          | 10,691,661,969         | 5,769,478,466         | 1,133,897,061            | 732,221,236                              | 2,040,520,577          | 323,587,875              | 41,578,202,481         |
| <b>Accumulated Depreciation and Amortization</b> |   |                        |                       |                          |  |                        |                          |                        |
| Balance at January 1, 2022                       | 16,782,457,401                          | 1,032,452,716          | 1,992,635,504         | 1,066,840,424            | 1,224,460,558                            | 1,190,675,647          | 365,389,527              | 23,654,911,777         |
| Depreciation and amortization                    | 2,180,833,458                           | 387,749,875            | 376,984,883           | 169,351,725              | 58,134,458                               | 136,844,262            | 46,253,197               | 3,356,151,858          |
| Reclassification                                 | (2,697,420,580)                         | –                      | –                     | –                        | –  | –                      | –                        | (2,697,420,580)        |
| Disposals/others                                 | (2,505,512,673)                         | (1,086,799,694)        | (929,688,883)         | (350,286,142)            | (609,922,550)                            | (39,339)               | (135,107,582)            | (5,617,356,863)        |
| Balance at December 31, 2022                     | 13,760,357,606                          | 333,402,897            | 1,439,931,504         | 885,906,007              | 672,672,466                              | 1,327,480,570          | 276,535,142              | 18,696,286,192         |
| <b>Net Book Values</b>                           | <b>₱7,126,477,691</b>                   | <b>₱10,358,259,072</b> | <b>₱4,329,546,962</b> | <b>₱247,991,054</b>      | <b>₱59,548,770</b>                       | <b>₱713,040,007</b>    | <b>₱47,052,733</b>       | <b>₱22,881,916,289</b> |

|  | 2022                                     |                         |                 |                                |                    |                          |           | Total                  |
|--|--|-------------------------|-----------------|--------------------------------|--------------------|--------------------------|-----------|------------------------|
|  | Furniture, Fixtures and Office Equipment | Communication Equipment | Special Tools   | Maintenance and Test Equipment | Other Equipment    | Construction in-Progress |           |                        |
| <b>Cost</b>                                      |  |                         |                 |                                |                    |                          |           |                        |
| Balance at January 1, 2022                       | ₱330,187,591                             | ₱33,899,255             | ₱17,953,976     | ₱9,360,319                     | ₱256,871,819       | ₱14,707,942,157          | –         | ₱68,978,259,295        |
| Additions  | 3,919,830                                | 2,834,750               | 66,071          | –                              | 323,661            | 5,774,690,679            | –         | 10,026,593,729         |
| Reclassification (Note 33)                       | –  | –                       | –               | –                              | –                  | (184,694,040)            | –         | (3,604,036,708)        |
| Disposals/others                                 | (205,636,087)                            | (32,557,685)            | (16,625,925)    | (9,360,319)                    | (113,782,633)      | (6,067,428,173)          | –         | (19,314,648,589)       |
| Balance at December 31, 2022                     | 128,471,334                              | 4,176,320               | 1,394,122       | –                              | 143,412,847        | 14,230,510,623           | –         | 56,086,167,727         |
| <b>Accumulated Depreciation and Amortization</b> |  |                         |                 |                                |                    |                          |           |                        |
| Balance at January 1, 2022                       | 283,047,718                              | 31,919,396              | 16,951,177      | 6,947,971                      | 181,414,579        | –                        | –         | 24,175,192,618         |
| Depreciation and amortization                    | 25,679,453                               | 1,351,265               | 516,940         | 572,378                        | 31,106,814         | –                        | –         | 3,415,378,708          |
| Reclassification                                 | –  | –                       | –               | –                              | –                  | –                        | –         | (2,697,420,580)        |
| Disposals/others                                 | (200,595,010)                            | (31,973,314)            | (16,256,137)    | (7,520,349)                    | (110,460,596)      | –                        | –         | (5,984,162,269)        |
| Balance at December 31, 2022                     | 108,132,161                              | 1,297,347               | 1,211,980       | –                              | 102,060,797        | –                        | –         | 18,908,988,477         |
| <b>Net Book Values</b>                           | <b>₱20,339,173</b>                       | <b>₱2,878,973</b>       | <b>₱182,142</b> | <b>₱–</b>                      | <b>₱41,352,050</b> | <b>₱14,230,510,623</b>   | <b>₱–</b> | <b>₱37,177,179,250</b> |



2021

|  | Passenger Aircraft<br>(Notes 18 and 32) | Engines         | Rotables       | Ground Support Equipment | EDP Equipment, Mainframe and Peripherals | Leasehold Improvements | Transportation Equipment | Sub-total       |
|--|---|-----------------|----------------|--------------------------|--|------------------------|--------------------------|-----------------|
| <b>Cost</b>                                      |   |                 |                |                          |  |                        |                          |                 |
| Balance at January 1, 2021                       | ₱29,879,013,292                         | ₱15,082,020,625 | ₱6,579,826,541 | ₱1,515,231,908           | ₱1,260,598,560                           | ₱1,914,954,604         | ₱493,446,329             | ₱56,725,091,859 |
| Additions  | 232,317,870                             | 93,790,267      | 180,270,422    | 20,579,976               | 25,511,619                               | –                      | –                        | 552,470,154     |
| Reclassification                                 | 283,205,860                             | –               | –              | –                        | 10,520,525                               | 67,611,627             | –                        | 361,338,012     |
| Disposals/others                                 | (958,411,246)                           | (2,636,775,875) | (296,667,267)  | (89,417,547)             | –  | –                      | (35,583,912)             | (4,016,855,847) |
| Balance at December 31, 2021                     | 29,436,125,776                          | 12,539,035,017  | 6,463,429,696  | 1,446,394,337            | 1,296,630,704                            | 1,982,566,231          | 457,862,417              | 53,622,044,178  |
| <b>Accumulated Depreciation and Amortization</b> |   |                 |                |                          |  |                        |                          |                 |
| Balance at January 1, 2021                       | 15,377,206,647                          | 1,980,777,854   | 1,836,740,783  | 941,184,425              | 1,153,683,016                            | 1,039,228,474          | 345,533,629              | 22,674,354,828  |
| Depreciation and amortization                    | 2,303,651,214                           | 1,630,403,684   | 425,012,713    | 193,052,131              | 70,777,542                               | 151,447,173            | 53,798,925               | 4,828,143,382   |
| Reclassification                                 | –                                       | –               | –              | –                        | –  | –                      | –                        | –               |
| Disposals/others                                 | (898,400,460)                           | (2,578,728,822) | (269,117,992)  | (67,396,132)             | –  | –                      | (33,943,027)             | (3,847,586,433) |
| Balance at December 31, 2021                     | 16,782,457,401                          | 1,032,452,716   | 1,992,635,504  | 1,066,840,424            | 1,224,460,558                            | 1,190,675,647          | 365,389,527              | 23,654,911,777  |
| Net Book Values                                  | ₱12,653,668,375                         | ₱11,506,582,301 | ₱4,470,794,192 | ₱379,553,913             | ₱72,170,146                              | ₱791,890,584           | ₱92,472,890              | ₱29,967,132,401 |

2021

|  | Furniture, Fixtures and Office Equipment | Communication Equipment | Special Tools | Maintenance and Test Equipment | Other Equipment | Construction in-Progress | Total            |
|--|--|-------------------------|---------------|--------------------------------|-----------------|--------------------------|------------------|
| <b>Cost</b>                                      |  |                         |               |                                |                 |                          |                  |
| Balance at January 1, 2021                       | ₱323,177,355                             | ₱33,899,255             | ₱17,953,976   | ₱6,529,598                     | ₱252,254,126    | ₱16,304,443,742          | ₱73,663,349,911  |
| Additions  | 7,031,477                                | –                       | –             | 2,830,721                      | 4,726,923       | 4,927,959,428            | 5,495,018,703    |
| Reclassification (Note 33)                       | –  | –                       | –             | –                              | –               | (361,338,012)            | –                |
| Disposals/others                                 | (21,241)                                 | –                       | –             | –                              | (109,230)       | (6,163,123,001)          | (10,180,109,319) |
| Balance at December 31, 2021                     | 330,187,591                              | 33,899,255              | 17,953,976    | 9,360,319                      | 256,871,819     | 14,707,942,157           | 68,978,259,295   |
| <b>Accumulated Depreciation and Amortization</b> |  |                         |               |                                |                 |                          |                  |
| Balance at January 1, 2021                       | 251,552,084                              | 29,433,736              | 16,252,733    | 6,511,684                      | 148,894,786     | –                        | 23,126,999,851   |
| Depreciation and amortization                    | 31,516,875                               | 2,485,660               | 698,444       | 436,287                        | 32,595,060      | –                        | 4,895,875,708    |
| Reclassification                                 | –  | –                       | –             | –                              | –               | –                        | –                |
| Disposals/others                                 | (21,241)                                 | –                       | –             | –                              | (75,267)        | –                        | (3,847,682,941)  |
| Balance at December 31, 2021                     | 283,047,718                              | 31,919,396              | 16,951,177    | 6,947,971                      | 181,414,579     | –                        | 24,175,192,618   |
| Net Book Values                                  | ₱47,139,873                              | ₱1,979,859              | ₱1,002,799    | ₱2,412,348                     | ₱75,457,240     | ₱14,707,942,157          | ₱44,803,066,677  |



Passenger Aircraft and Engines Held as Securing Assets Under Finance Lease Agreements

The Parent Company entered into various Export Credit Agency (ECA) and commercial loan facilities to finance the purchase of its aircraft and engines. As of December 31, 2022 and 2021, the Parent Company's passenger aircraft and engines held as securing assets under various commercial loans are as follows:

|                 | 2022 | 2021 |
|-----------------|------|------|
| Airbus A320 CEO | 5    | 5    |
| ATR 72-600      | 12   | 12   |
| Airbus A321 CEO | 7    | 7    |
| Airbus A321 NEO | 6    | 6    |
| Airbus A330 CEO | 1    | 2    |
|                 | 31   | 32   |

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, 2022 and 2021, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱28.2 billion and ₱49.8 billion, respectively.

Forward Sale Agreement

In December 2021, the Parent Company 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).

In October 2022, the Parent Company has entered into an agreement for sale of one (1) A330 CEO aircraft (RPC 3347). The transaction resulted into the recognition of loss amounting to ₱381.6 million recorded under 'Gain on disposal of aircraft - net' in the consolidated statement of comprehensive income.

Proceeds from sale of property and equipment for the year ended December 31, 2022 and 2021 amounted to ₱10,493.2 million and ₱10,705.9 million, respectively.

Gain from insurance claims

In 2022, the Parent Company received ₱6.2 million pertaining to insurance proceeds claimed for damages sustained by various aircraft from incidents and loss events.

On various dates in 2021, the Parent Company 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.



Operating Fleet

As of December 31, 2022 and 2021, the Parent Company's operating fleet follows:

|                  | 2022      | 2021      |
|------------------|-----------|-----------|
| Leased aircraft: |           |           |
| Airbus A320 CEO  | 16        | 18        |
| Airbus A320 NEO  | 9         | 6         |
| Airbus A330 CEO  | 4         | 4         |
| Airbus A330 NEO  | 4         | 2         |
| Airbus A321 NEO  | 4         | 9         |
| ATR 72-600       | 2         | 2         |
| Owned aircraft:  |           |           |
| Airbus A320 CEO  | 5         | 4         |
| Airbus A330 CEO  | 1         | 2         |
| Airbus A321 CEO  | 7         | 7         |
| Airbus A321 NEO  | 6         | -         |
| ATR 72-600       | 12        | 12        |
| ATR 72-500       | 6         | 8         |
|                  | <b>76</b> | <b>74</b> |

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, 2022 and 2021, the Group's pre-delivery payments capitalized as construction in-progress amounted to ₱14,222.6 million and ₱14,692.4 million, respectively (see Note 33). For the years ended December 31, 2022, 2021 and 2020, the Group received pre-delivery payment refunds for delivered aircraft from Airbus which amounted to ₱5,807.8 million, ₱5,911.3 million and ₱1,231.6 million, respectively. Amount of remaining capital commitments for acquisition of property and equipment amounted to ₱5,724.4 million and ₱4,859.1 million as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, the Group has entered into remarketing of its four (4) ATR 72-500 aircraft namely: RPCs 7251, 7256, 7257 and 7258. The aircraft are expected to be sold in 2023. Accordingly, these aircraft were reclassified as 'Assets held for sale' in the 2022 consolidated statement of financial position and is carried at lower of their carrying amount and fair value less cost to sell of ₱819.9 million resulting to recognition of impairment loss of ₱86.7 million.

In 2022, the Group recognized loss from asset write-down amounting to ₱427.7 million.

As of December 31, 2022 and 2021, the gross amount of fully depreciated property and equipment which are still in use by the Parent Company amounted to ₱1,104.9 million and ₱2,972.2 million, respectively.

As of December 31, 2021, the Parent Company has six (6) aircraft parked for storage, respectively, at Asia Pacific Aircraft Storage in Alice Springs, Australia as part of its cost-cutting measures amid the COVID-19 pandemic. As of December 31, 2022, the Parent Company has no aircraft parked for storage.



### 13. Investment in Subsidiaries

This account consists of investments in the following entities:

|       | 2022                | 2021         |
|-------|---------------------|--------------|
| CEBGO | <b>₱265,109,147</b> | ₱265,109,147 |
| Aplus | <b>549,940,849</b>  | 549,940,849  |
|       | <b>₱815,049,996</b> | ₱815,049,996 |

#### *Investment in CEBGO*

As part of the strategic alliance between the Parent Company and Tiger Airways Holding Limited (TAH), on February 10, 2014, the Parent Company signed a Sale and Purchase Agreement (SPA) to acquire 100% of CEBGO, Inc. Under the terms of the SPA, closing of the transaction is subject to the satisfaction or waiver of each of the conditions contained in the SPA. On March 20, 2014, all the conditions precedent has been satisfactorily completed. The Parent Company has paid the purchase price covering the transfer of shares from TAH. In the final agreement dated February 24, 2015, it was reaffirmed that the sale and purchase transaction contemplated under the SPA closed on March 20, 2014. Consequently, the Parent Company gained control of CEBGO on the same date. The total consideration for the transaction, at post-closing settlement date, amounted to ₱265.1 million. CEBGO is a corporation incorporated in the Philippines.

Financial information of CEBGO as of December 31, 2022 and 2021 are as follows:

|                   | 2022                  | 2021            |
|-------------------|-----------------------|-----------------|
| Total assets      | <b>₱4,699,501,976</b> | ₱4,677,572,998  |
| Total liabilities | <b>5,715,958,150</b>  | 5,281,057,217   |
| Net loss          | <b>(412,971,955)</b>  | (1,056,225,871) |

#### *Investment in A-Plus*

On October 26, 2020, the Parent Company signed an 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. 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. The acquisition is in line with 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. A-Plus is a corporation incorporated in the Philippines.

Financial information of A-Plus as of December 31, 2022 and 2021 are as follows:

|                   | 2022                | 2021         |
|-------------------|---------------------|--------------|
| Total assets      | <b>₱905,698,535</b> | ₱616,078,470 |
| Total liabilities | <b>563,286,812</b>  | 260,148,998  |
| Net income (loss) | <b>85,286,656</b>   | (40,328,415) |



Investment in subsidiaries is accounted for under the cost method of accounting. In August 2022, A-Plus declared dividends amounting to ₱114.2 million.

As of December 31, 2022 and 2021, no impairment loss was recognized for the investment in subsidiaries.

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#### 14. Investments in Joint Ventures and Associates

##### Investments in Joint Ventures

The Parent Company has investments in joint arrangements as follows:

##### Investment in PAAT

Investment in PAAT pertains to the Parent Company's 60% 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.

PAAT was created to address the Parent Company'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.

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.

##### 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 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 (₱270,499,915) 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 13).

The fair value of the Parent Company's 49% interest in A-Plus immediately prior to acquisition is amounted to ₱269.5 million. The Parent Company recognized ₱182.5 million gain from re-measurement of its investment in A-Plus at fair value immediately prior to acquisition.

#### *Sale of Shares held by the Parent Company in SIAEP*

On October 26, 2020, the Parent Company also 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% investment in shares of the joint venture. 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 Jeju 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 Black 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 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 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 cost method in the Parent Company's financial statements.



In 2021, the Parent Company 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 Parent Company has recognized impairment provisions of ₱43.7 million. As of December 31, 2022 and 2021, the net carrying amount of the Parent Company's investment with VATS amounted to nil.



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

|   | 2022                         |                    |                     |                          |                     |                     |                     |
|---|------------------------------|--------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
|   | Investment in joint ventures |                    |                     | Investment in associates |                     |                     | Total               |
|   | PAAT                         | IAviation          | Subtotal            | VATS                     | DAVI                | Subtotal            |                     |
| <b>Cost</b>                                       |                              |                    |                     |                          |                     |                     |                     |
| <b>Balance at January 1 and December 31, 2022</b> | <b>₱134,873,645</b>          | <b>₱46,000,000</b> | <b>₱180,873,645</b> | <b>₱43,713,922</b>       | <b>₱432,000,000</b> | <b>₱475,713,922</b> | <b>₱656,587,567</b> |
| <b>Allowance for impairment loss</b>              | -                            | -                  | -                   | (43,713,922)             | -                   | (43,713,922)        | (43,713,922)        |
| <b>Net Book Value</b>                             | <b>₱134,873,645</b>          | <b>₱46,000,000</b> | <b>₱180,873,645</b> | <b>₱-</b>                | <b>₱432,000,000</b> | <b>₱432,000,000</b> | <b>₱612,873,645</b> |
|   | 2021                         |                    |                     |                          |                     |                     |                     |
|   | Investment in joint ventures |                    |                     | Investment in associates |                     |                     |                     |
|   | PAAT                         | IAviation          | Subtotal            | VATS                     | DAVI                | Subtotal            | Total               |
| <b>Cost</b>                                       |                              |                    |                     |                          |                     |                     |                     |
| <b>Balance at January 1 and December 31, 2021</b> | <b>₱134,873,645</b>          | <b>₱46,000,000</b> | <b>₱180,873,645</b> | <b>₱43,713,922</b>       | <b>₱432,000,000</b> | <b>₱475,713,922</b> | <b>₱656,587,567</b> |
| <b>Allowance for impairment loss</b>              | -                            | -                  | -                   | (43,713,922)             | -                   | (43,713,922)        | (43,713,922)        |
| <b>Net Book Value</b>                             | <b>₱134,873,645</b>          | <b>₱46,000,000</b> | <b>₱180,873,645</b> | <b>₱-</b>                | <b>₱432,000,000</b> | <b>₱432,000,000</b> | <b>₱612,873,645</b> |



The Parent Company's equity in the net assets with PAAT, 1Aviation, VATS and DAVI is summarized below:

|           | <b>2022</b>         | 2021         |
|-----------|---------------------|--------------|
| PAAT      | <b>₱215,070,809</b> | ₱187,445,396 |
| 1Aviation | -                   | -            |
| VATS      | -                   | -            |
| DAVI      | <b>6,809,960</b>    | 147,723,844  |

Selected financial information of PAAT, 1Aviation, and DAVI as of December 31, 2022 follow:

|   | <b>PAAT</b>            | <b>1Aviation</b>     | <b>DAVI</b>            |
|---|------------------------|----------------------|------------------------|
| Total current assets  | <b>₱244,517,706</b>    | <b>₱230,402,002</b>  | <b>₱892,732,479</b>    |
| Noncurrent assets   | <b>1,677,828,651</b>   | <b>198,654,834</b>   | <b>234,468,035</b>     |
| Current liabilities   | <b>(301,577,200)</b>   | <b>(428,218,044)</b> | <b>(1,096,255,575)</b> |
| Noncurrent liabilities  | <b>(1,190,627,539)</b> | <b>(838,792)</b>     | <b>(13,920,036)</b>    |
| Equity  | <b>430,141,618</b>     | -                    | <b>17,024,903</b>      |
| Proportion of the Parent Company's ownership  | <b>50%</b>             | <b>40%</b>           | <b>40%</b>             |
| Carrying amount of the investments  | <b>₱215,070,809</b>    | <b>₱-</b>            | <b>₱6,809,960</b>      |
| Cash and cash equivalents   | <b>₱92,285,121</b>     | <b>₱37,337,391</b>   | <b>₱349,295,965</b>    |
| Current financial liabilities (excluding trade and other payables and provisions)     | <b>225,975,531</b>     | <b>645,452,164</b>   | <b>984,613,466</b>     |
| Non-current financial liabilities (excluding trade and other payables and provisions) | <b>1,122,070,512</b>   | <b>838,792</b>       | <b>48,958,781</b>      |

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

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



Summary of statements of comprehensive income of PAAT, 1Aviation and DAVI for the year ended December 31 follow:

|   | 2022          |                 |                |
|---|---------------|-----------------|----------------|
|   | PAAT          | 1Aviation       | DAVI           |
| Revenue   | ₱321,092,308  | ₱1,301,387,300  | ₱240,309,358   |
| Expenses  | (269,375,962) | (1,345,050,327) | (596,691,848)  |
| Other income (charges)                          | 7,123,804     | (360,234)       | 5,325,186      |
| Income (loss) before tax                        | 58,840,150    | (44,023,261)    | (351,057,304)  |
| Income tax benefit (expense)                    | 3,589,323     | (11,026,203)    | 1,227,406      |
| Net income (loss)                               | ₱55,250,827   | (₱32,997,058)   | (₱352,284,710) |
| Share of net income (loss) for the year         | ₱27,625,414   | ₱-              | (₱140,913,884) |
| Depreciation and amortization                   | ₱118,822,707  | ₱38,652,192     | ₱156,228,043   |
| Interest income                                 | -             | 208,956         | 6,139,364      |
| Interest expense                                | 59,137,555    | 617,265         | -              |
|   |               |                 |                |
|   | 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      |
| Income (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) |
| Parent Company'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      |

The fiscal year-end of PAAT, 1Aviation, VATS and DAVI is every December 31.

As of the December 31, 2022 and 2021, the share of the Parent Company in PAAT's accumulated income amounted to ₱80.2 million and ₱52.6 million, respectively.

The share of the Parent Company in DAVI's accumulated losses amounted to ₱425.2 million and ₱284.3 million as of December 31, 2022 and 2021, respectively.

The share of the Parent Company in the accumulated losses recognized by VATS amounted to ₱6.8 million as of December 31, 2022 and 2021, respectively.

The share of the Parent Company in 1Aviation's accumulated losses amounted to ₱46.0 million.



## 15. Other Noncurrent Assets

This account consists of:

|                                      | 2022                  | 2021                  |
|--------------------------------------|-----------------------|-----------------------|
| Refundable deposits                  | ₱1,498,852,139        | ₱1,191,665,074        |
| Receivables – net of current portion | 356,117,246           | 372,256,307           |
| Intangible assets                    | 540,000               | 540,000               |
| Others                               | 80,964,059            | 354,441,791           |
|                                      | <b>₱1,936,473,444</b> | <b>₱1,918,903,172</b> |

Refundable deposits mostly refer to the amount provided to lessors and maintenance providers and other deposits to be applied against payments for future aircraft deliveries.

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

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:

|  | 2022                   | 2021                   |
|--|------------------------|------------------------|
| Accounts payable                       | ₱7,868,656,488         | ₱3,197,563,055         |
| Accrued expenses                       | 6,461,173,182          | 5,567,330,874          |
| Airport and other related fees payable | 3,475,203,303          | 2,273,188,419          |
| Travel fund payable (Note 21)          | 1,027,065,525          | 2,802,831,614          |
| Advances from agents and others        | 1,059,259,141          | 501,063,718            |
| Accrued interest payable               | 171,379,745            | 210,336,365            |
| Refunds payable                        | 69,585,454             | 116,777,006            |
| Other payables                         | 417,026,269            | 72,933,001             |
|  | <b>₱20,549,349,107</b> | <b>₱14,742,024,052</b> |

### Accrued Expenses

The Parent Company’s accrued expenses include accruals for:

|                           | 2022                  | 2021                  |
|---------------------------|-----------------------|-----------------------|
| Maintenance               | ₱3,736,636,475        | ₱3,324,374,341        |
| Compensation and benefits | 625,406,833           | 490,605,359           |
| Repairs and services      | 452,389,277           | 383,317,656           |
| Advertising and promotion | 417,874,734           | 319,091,123           |
| Navigational charges      | 284,574,769           | 393,853,610           |
| Ground handling charges   | 123,588,313           | 140,852,867           |
| Professional fees         | 95,116,283            | 89,819,421            |
| Aircraft insurance        | 80,175,937            | 72,854,954            |
| Training costs            | 75,472,925            | 10,244,958            |
| Rent (Note 33)            | 191,456,910           | 140,170,477           |
| Reservation costs         | 30,215,756            | 6,619,666             |
| Catering supplies         | 3,329,191             | 4,251,397             |
| Others                    | 344,935,779           | 191,275,045           |
|                           | <b>₱6,461,173,182</b> | <b>₱5,567,330,874</b> |



Others represent accrual of security, utilities and other expenses.

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.

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, among others, 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 expense, which is related to long-term debt and normally settled quarterly throughout the year.

Refunds payable

In light of the significant increase in flight cancellations due to the COVID-19 outbreak and consequent grounding of the Parent Company'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 commission payable, refunds payable and other tax liabilities such as withholding taxes and output VAT.

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## 17. Unearned Transportation Revenue

This account consists of:

|                                 | 2022                   | 2021                  |
|---------------------------------|------------------------|-----------------------|
| Unearned transportation revenue | <b>₱8,544,020,598</b>  | ₱3,448,916,513        |
| Deferred ancillary revenue      | <b>1,757,496,572</b>   | 354,961,698           |
|                                 | <b>₱10,301,517,170</b> | <b>₱3,803,878,211</b> |

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## 18. Long-term and Short-term Debt

Long-term Debt

*Philippine Peso Loans*

In 2017, the Parent Company entered into a Philippine peso commercial loan facility to partially finance the acquisition of six ATR 72-600 aircraft and one Airbus A330 aircraft.



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

The long-term debt rollforward is presented as follows:

|                         | 2022                   | 2021            |
|-------------------------|------------------------|-----------------|
| Balances at January 1   | ₱18,845,791,759        | ₱20,179,125,092 |
| Payments                | (4,462,970,138)        | (1,333,333,333) |
| Balances at December 31 | <b>₱14,382,821,621</b> | ₱18,845,791,759 |

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

|                                      | 2022                   | 2021            |
|--------------------------------------|------------------------|-----------------|
| Current portion of long-term debt    | ₱1,231,110,765         | ₱1,333,333,333  |
| Noncurrent portion of long-term debt | 13,151,710,856         | 17,512,458,426  |
|                                      | <b>₱14,382,821,621</b> | ₱18,845,791,759 |

The terms of the commercial loan facilities follow:

- Term of seven to ten years starting from the delivery dates of each aircraft.
- Twenty eight to forty equal consecutive principal repayments made on a quarterly basis.
- Interests on loans are variable rates based on Philippine 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.

In 2020, the Parent Company entered into an unsecured, Philippine peso-denominated short-term 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 Parent Company. The Parent Company is required to maintain certain financial ratios until termination of loans. As of December 31, 2022, the Parent Company obtained a waiver from the bank in relation to debt service coverage ratio requirement. As of December 31, 2022 and 2021, the Parent Company 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. The loan is due for payment in 2023. Accordingly, the outstanding balance as at December 31, 2022 is classified as current in the 2022 parent company statement of financial position.

As of December 31, 2022 and 2021, the total outstanding balance of peso commercial loans amounted to ₱14,382.8 million and ₱18,845.8 million, respectively. Interest expense amounted to ₱649.8 million and ₱1,078.3 million in 2022 and 2021, respectively.

#### 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 on April 29, 2021. 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. The principal plus interest was paid last October 18, 2022.



The proceeds from these promissory notes were used for the Parent Company’s working capital requirements. Interest expense incurred from these notes amounted to ₱190.6 million and ₱287.8 million in 2022 and 2021, respectively.

The short-term debt rollforward is presented as follows:

|                                | 2022           |                            | 2021            |                            |
|--------------------------------|----------------|----------------------------|-----------------|----------------------------|
|                                | US Dollar      | Philippine Peso Equivalent | US Dollar       | Philippine Peso Equivalent |
| Balances at January 1          | US\$87,500,000 | ₱4,462,412,500             | US\$100,000,000 | ₱4,802,300,000             |
| Availments                     | –              | –                          | 87,500,000      | 4,234,107,500              |
| Payments                       | (87,500,000)   | (5,161,625,000)            | (100,000,000)   | (4,791,800,000)            |
|                                | –              | (667,275,000)              | 87,500,000      | 4,244,607,500              |
| Realized foreign exchange loss | –              | 699,212,500                | –               | 217,805,000                |
| Balances at December 31        | US\$–          | ₱–                         | US\$87,500,000  | ₱4,462,412,500             |

#### 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 and 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, 2022 and 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, 2022 and 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 was carried at amortized cost using the EIR method. Interest expense recognized from the CBs, which is included under ‘Interest expense’ in the Parent Company’s statement of comprehensive income for the years ended December 31, 2022 and 2021 amounted to ₱613.0 million and ₱415.7 million, respectively.

The carrying amount as at December 31, 2022 and 2021 of the host financial liability component of the CBs are presented below:

|                                  | 2022            |                    | 2021            |                    |
|----------------------------------|-----------------|--------------------|-----------------|--------------------|
|                                  | In US Dollar    | In Philippine Peso | In US Dollar    | In Philippine Peso |
| Beginning balance                | US\$238,923,040 | ₱12,184,836,126    | US\$237,795,834 | ₱11,369,629,644    |
| Unrealized foreign exchange loss | –               | 1,138,579,757      | –               | 759,069,399        |
| Bond amortization                | 1,832,454       | 99,906,711         | 1,127,206       | 56,137,083         |
| Ending balance                   | US\$240,755,494 | ₱13,423,322,594    | 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 Parent Company’s 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 2022 and 2021 of the derivative liabilities at FVPL follows:

|   | 2022           |                    | 2021           |                    |
|---|----------------|--------------------|----------------|--------------------|
|   | In US Dollar   | In Philippine Peso | In US Dollar   | In Philippine Peso |
| Beginning balance                       | US\$33,941,073 | ₱1,730,960,768     | US\$8,632,924  | ₱412,843,691       |
| Market valuation losses (gains)(Note 8) | (18,752,560)   | (884,125,259)      | 25,308,149     | 1,318,117,077      |
| Ending balance                          | US\$15,188,513 | ₱846,835,509       | US\$33,941,073 | ₱1,730,960,768     |

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

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

|                  | 2022      | 2021      |
|------------------|-----------|-----------|
| Stock price      | ₱38.30    | ₱42.15    |
| Risk free rate   | 3.93%     | 1.29%     |
| Conversion price | ₱38.00    | ₱38.00    |
| Term             | 5.9 years | 5.9 years |
| Volatility       | 51.83%    | 47.27%    |

## 20. Other Noncurrent Liabilities

This account consists of:

|                                   | 2022            | 2021           |
|-----------------------------------|-----------------|----------------|
| Asset retirement obligation (ARO) | ₱9,967,882,186  | ₱7,084,719,291 |
| Heavy maintenance visits (HMV)    | 2,847,691,847   | 1,082,628,412  |
|                                   | ₱12,815,574,033 | ₱8,167,347,703 |



Asset Retirement Obligation (ARO)

The Parent Company 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 Parent Company'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 Parent Company's ARO follows:

|                                   | 2022            | 2021            |
|-----------------------------------|-----------------|-----------------|
| Balance at beginning of year      | ₱7,084,719,291  | ₱6,538,951,651  |
| Provision for return cost         | 5,587,452,082   | 3,566,104,161   |
| Applications and other movements* | (2,704,289,187) | (3,020,336,521) |
| Balance at end of year            | ₱9,967,882,186  | ₱7,084,719,291  |

In 2022 and 2021, ARO expenses included as part of 'Repairs and maintenance' amounted to ₱5,587.5 million and ₱3,566.1 million, respectively (see Note 25).

Heavy Maintenance Visits (HMV)

The Parent Company 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 Parent Company's HMV follow:

|  | 2022           | 2021           |
|--|----------------|----------------|
| Balance at beginning of year               | ₱1,082,628,412 | ₱345,964,168   |
| Provision for HMV                          | 1,631,471,694  | 849,950,290    |
| Applications and foreign exchange movement | 133,591,741    | (113,286,046)  |
| Balance at end of year                     | ₱2,847,691,847 | ₱1,082,628,412 |

In 2022 and 2021, HMV expenses included as part of 'Repairs and maintenance' amounted ₱1,631.5 million and ₱850.0 million, respectively (see Note 25).

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**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 Parent Company'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 Parent Company 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'.



Prior to March 15, 2020 (pre-COVID), the validity of travel fund was only 90 days from the travel fund creation date. However, due to the COVID-19, the Parent Company extended the validity of travel fund from 90 days to two (2) years to give guests enough time to plan on their next trip.

The Parent Company further provided an option for guest to refund their travel fund if unused after one (1) year but this is specific only for flights affected by COVID-19 between March 15, 2020 to July 31, 2020.

As of December 31, 2021, refund of travel fund is no longer an option for flights starting August 1, 2020 yet the validity of travel fund remains two (2) years.

However, as subsequently amended, effective April 1, 2022, in line with the Parent Company's recovery efforts and continuous updating of Customer Flexible Options, all created travel fund starting the said date shall be valid for six (6) months from the date of creation or conversion to travel fund.

The current portion of travel fund payable amounted to ₱1,027.1 million and ₱2,802.8 million as of December 31, 2022 and 2021, respectively and is presented under "Accounts payable and other accrued liabilities" account in the Parent Company's statements of financial position. The noncurrent portion of travel fund payable amounted to ₱260.3 million and ₱1,851.0 million as of December 31, 2022 and 2021, respectively.

Expired portion of the travel fund payable amounting to ₱759.1 million for the year ended December 31, 2022 is recognized as part of 'Ancillary revenue' in the Parent Company's statement of comprehensive income (see Note 24). Estimated breakage revenue from travel fund amounting to ₱362.7 million for the year ended December 31, 2022 (nil in 2021) is recognized also as part of 'Ancillary revenue' in the consolidated statement of comprehensive income.

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## 22. Equity

The Parent Company's authorized capital stock as of December 31, 2022 and 2021 consists of the following (in number of shares):

|   | 2022                 | 2021                 |
|---|----------------------|----------------------|
| Common stock – at ₱1 par value                | 1,340,000,000        | 1,340,000,000        |
| Convertible preferred stock – at ₱1 par value | 400,000,000          | 400,000,000          |
| Authorized capital stock                      | <b>1,740,000,000</b> | <b>1,740,000,000</b> |

The details of the Parent Company's issued and outstanding number of common and preferred shares and the movement thereon follow:

|                       | 2022               |                    |                    |
|-----------------------|--------------------|--------------------|--------------------|
|                       | Common             | Preferred          | Total              |
| Subscribed and issued | 626,069,577        | 317,208,341        | 943,277,918        |
| Conversion of shares  | 3,163,984          | (3,163,984)        | –                  |
| Treasury shares       | (12,919,850)       | –                  | (12,919,850)       |
|                       | <b>616,313,711</b> | <b>314,044,357</b> | <b>930,358,068</b> |



|                       | 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) | –            |
| Treasury shares       | (12,919,850) | –            | (12,919,850) |
|                       | 612,055,727  | 317,208,341  | 929,264,068  |

#### 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. Of the total shares sold, 30,661,800 shares are newly issued shares with total proceeds amounting ₱3.8 billion. The Parent Company incurred transaction costs incidental to the IPO amounting to ₱100.4 million, which is charged against ‘Capital paid in excess of par value’ in the Parent Company’s 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. The Parent Company has 106 and 109 existing certified shareholders as of December 31, 2022 and 2021, 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 Parent Company’s statements of financial position. The CPS were successfully listed with the PSE last March 29, 2021. As of December 31, 2022 and 2021, 3,115,184 and 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 11 and 12 as of December 31, 2022 and 2021, respectively.

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

|                         | 2022          |              |              |                                     |                 |                 |
|-------------------------|---------------|--------------|--------------|-------------------------------------|-----------------|-----------------|
|                         | Capital Stock |              |              | Capital Paid in Excess of Par Value |                 |                 |
|                         | Common        | Preferred    | Total        | Common                              | Preferred       | Total           |
| Balances at January 1   | ₱624,975,577  | ₱317,208,341 | ₱942,183,918 | ₱8,839,912,119                      | ₱11,704,241,874 | ₱20,544,153,993 |
| Listing of vested RSUs  | 1,094,000     | –            | 1,094,000    | 51,855,600                          | –               | 51,855,600      |
| Conversion of shares    | 3,163,984     | (3,163,984)  | –            | 117,067,408                         | (117,067,408)   | –               |
| Balances at December 31 | ₱629,233,561  | ₱314,044,357 | ₱943,277,918 | ₱9,008,835,127                      | ₱11,587,174,466 | ₱20,596,009,593 |

|                         | 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 |



#### 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 ₱2,000.0 million 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, 2022 and December 31, 2021, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.

#### Appropriation of Retained Earnings

On September 7, 2020 and December 4, 2019, the Parent Company's BOD appropriated ₱12.0 billion and ₱26.0 billion, respectively, from its unrestricted retained earnings for purposes of the Parent Company'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, 2020, the Parent Company has appropriated retained earnings totaling to ₱12.0 billion (nil in 2022 and 2021).

#### Unappropriated Retained Earnings

The income of the joint ventures and associates that are recognized in the Parent Company's statements of comprehensive income are not available for dividend declaration unless these are declared by the joint ventures and associates (see Note 14). 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 as of December 31, 2022 and 2021.

The Parent Company did not declare dividends in 2022 and 2021.

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, 2022 and 2021.

#### 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;
- 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.

#### Capital Management

The primary objective of the Parent Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Parent Company considers its equity (capital deficiency) of (₱3,316.4 million) and ₱10,130.6 million as of December 31, 2022 and 2021, respectively, presented in the Parent Company's statements of financial position, as its capital. The Parent Company manages its capital structure, which 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 Parent Company 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 Parent Company's ultimate parent monitors the use of capital structure using a debt-to-equity capital ratio, which is gross debt divided by total capital. JGSHI includes within gross debt all interest-bearing loans and borrowings, while capital represent total equity.

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### **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 SEC 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 one (1) to three (3) years vesting period. These will vest in three (3) tranches; 20%, 30% and 50% at the end of 2021, 2022 and 2023, respectively except for three (3) grantees which vested in full at the end of 2021. Vesting is conditional on the eligible person's employment and achievement of a minimum individual performance rating of "Meets Expectations". The fair value of each share is ₱48.40 which is the stock price at grant date.

Additionally, six (6) eligible persons were granted RSUs with three (3) years vesting period, commencing 2022. These will vest in three (3) tranches: 20%, 30% and 50% at the end of 2022, 2023 and 2024, respectively. The Parent Company does not pay cash as a form of settlement.

On December 31, 2022, 1,327,000 RSUs have vested. The shares were subsequently listed with the Philippine Stock Exchange on January 13, 2023 (see Note 38). On December 31, 2021, 1,094,000 RSUs have vested. The shares were listed with the Philippine Stock Exchange on January 21, 2022.

#### 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 vested 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 individual performance rating of "Meets Expectations". These options will expire on December 31, 2027. The Parent Company does not pay cash as a form of settlement.

As of December 31, 2022 and 2021, 1,387,500 and 1,265,000 stock options have vested, respectively. No options were exercised, forfeited or expired during the year. Thus, as of December 31, 2022, a total of 2,652,500 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 2022 and 2021, the cost of RSUs and stock options charged to operations under the “General and administrative” in the Parent Company’s statements of comprehensive income amounted to ₱61.7 million and ₱27.9 million and ₱116.5 million and ₱58.3 million, respectively. Correspondingly, a credit was made to equity which is presented under “Share-based payments” in the Parent Company’s statements of financial position amounting to ₱89.6 million and ₱174.8 million, respectively.

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## 24. Ancillary Revenue

Ancillary revenue consists of:

|   | 2022                   | 2021                  |
|---|------------------------|-----------------------|
| Baggage fees                                | ₱3,525,374,267         | ₱977,735,513          |
| Rebooking, refunds, cancellation fees, etc. | 289,807,073            | 803,264,668           |
| Others (Note 21)                            | 11,080,574,682         | 2,241,611,533         |
|   | <b>₱14,895,756,022</b> | <b>₱4,022,611,714</b> |

Others pertain to revenue from in-flight sales, advanced seat selection fee, reservation booking fees and others, including the breakage from travel fund (Note 21).

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## 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 the aircraft operating lease agreements (see Note 33). These amounted to ₱5,587.5 million and ₱3,566.1 million in 2022 and 2021, respectively (see Note 20).

### Flying Operations

Flying operations consists of:

|                                 | 2022                   | 2021                  |
|---------------------------------|------------------------|-----------------------|
| Aviation fuel expense (Note 10) | ₱23,350,055,020        | ₱4,836,592,084        |
| Flight deck                     | 2,138,324,310          | 1,049,920,878         |
| Aviation insurance              | 220,829,387            | 290,928,441           |
| Others                          | 659,198,259            | 415,174,647           |
|                                 | <b>₱26,368,406,976</b> | <b>₱6,592,616,050</b> |

For the year ended December 31, 2021, the Parent Company charged as a deduction to aviation fuel expense the effective portion of its cash flow hedges amounting to ₱24.5 million (see Note 31). These amounts were previously accumulated in OCI and have been reclassified to profit or loss in the same period which the purchase of fuel affect profit or loss. There were no similar charges for the period ended December 31, 2022.

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

Aircraft and traffic servicing consists of:

|                 | <b>2022</b>           | 2021           |
|-----------------|-----------------------|----------------|
| Airport charges | <b>₱2,444,014,367</b> | ₱1,160,077,066 |
| Ground handling | <b>2,280,720,234</b>  | 1,115,086,807  |
| Others          | <b>229,620,703</b>    | 339,369,221    |
|                 | <b>₱4,954,355,304</b> | ₱2,614,533,034 |

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 Parent Company 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 passenger such as costs to maintain the Parent Company's web-based booking channel, reservation ticketing office costs and advertising expenses. These amounted to ₱2,312.9 million and ₱862.1 million in 2022 and 2021, respectively.

## **26. General and Administrative Expenses**

This account consists of:

|                                | <b>2022</b>           | 2021           |
|--------------------------------|-----------------------|----------------|
| IT and other professional fees | <b>₱911,456,691</b>   | ₱1,327,648,713 |
| Staff cost                     | <b>895,509,150</b>    | 849,389,818    |
| Security                       | <b>391,765,671</b>    | 289,323,086    |
| Utilities                      | <b>146,087,697</b>    | 115,488,649    |
| Travel and transportation      | <b>23,058,379</b>     | 11,094,844     |
| Rent expense (Note 33)         | <b>10,140,511</b>     | 33,453,215     |
| Others                         | <b>604,361,880</b>    | 318,764,879    |
|                                | <b>₱2,982,379,979</b> | ₱2,945,163,204 |

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

## **27. Employee Benefits**

The Parent Company has funded, noncontributory, defined benefit pension plans covering substantially all of their regular employees, noncontributory defined benefit pension plan.

The pension funds 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 Parent Company, 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.

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 plan 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 Plan

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

In 2022 and 2021, the assumptions used to determine retirement benefits of the Parent Company follow:

|                                | <b>2022</b>       | 2021       |
|--------------------------------|-------------------|------------|
| Average remaining working life | <b>25.5 years</b> | 25.0 years |
| Discount rate                  | <b>7.16%</b>      | 4.94%      |
| Salary rate increase           | <b>5%</b>         | 4.00%      |

As of December 31, 2022 and 2021, the discount rate used in determining the retirement liability is 7.16% and 4.94%, respectively, which is determined by reference to market yields at the reporting date on Philippine government bonds.

The amounts recognized as retirement liability follow:

|   | <b>2022</b>           | 2021          |
|---|-----------------------|---------------|
| Present value of defined benefit obligation | <b>₱1,174,965,095</b> | ₱892,641,394  |
| Fair value of plan assets                   | <b>(531,389,842)</b>  | (569,442,569) |
|   | <b>₱643,575,253</b>   | ₱323,198,825  |

Remeasurement gains (losses) recognized in OCI:

|  | <b>2022</b>           | 2021         |
|--|-----------------------|--------------|
| Actuarial gain (losses) on benefit obligation                        | <b>(₱183,489,265)</b> | ₱257,154,218 |
| Return on plan assets excluding amount included in net interest cost | <b>(38,212,588)</b>   | (76,023,810) |
| Amount to be recognized in OCI                                       | <b>(₱221,701,853)</b> | ₱181,130,408 |



Movements in the fair value of plan asset follow:

|   | 2022                | 2021                |
|---|---------------------|---------------------|
| Balance at January 1  | P569,442,569        | P641,247,499        |
| Interest income included in net interest cost                           | 27,456,242          | 23,185,741          |
| Benefits paid   | (27,296,381)        | (18,966,861)        |
| Return on plan assets excluding amount included<br>in net interest cost | (38,212,588)        | (76,023,810)        |
| <b>Balance at December 31</b>   | <b>P531,389,842</b> | <b>P569,442,569</b> |

The plan assets consist of:

|                                 | 2022                | %              | 2021                | %              |
|---------------------------------|---------------------|----------------|---------------------|----------------|
| Cash                            | P23,699,987         | 4.46%          | P8,826,360          | 1.55%          |
| Investment in debt securities   | 96,659,812          | 18.19%         | 108,421,865         | 19.04%         |
| Investment in equity securities | 31,245,723          | 5.88%          | 30,237,400          | 5.31%          |
| Unit investment trust funds     | 313,148,034         | 58.93%         | 355,446,052         | 62.42%         |
| Receivables                     | 56,167,906          | 10.57%         | 57,001,201          | 10.01%         |
| Others                          | 10,468,380          | 1.97%          | 9,509,691           | 1.67%          |
|                                 | <b>P531,389,842</b> | <b>100.00%</b> | <b>P569,442,569</b> | <b>100.00%</b> |

The Parent Company expects to contribute about P165.0 million into the retirement fund for the year ending 2023.

The actual loss on plan assets amounted to P10.8 million and P52.8 million in 2022 and 2021, respectively.

Changes in the present value of the defined benefit obligation follow:

|                                    | 2022                  | 2021                |
|------------------------------------|-----------------------|---------------------|
| Balance at January 1               | P892,641,394          | P1,069,153,820      |
| Current service cost               | 82,034,332            | 99,951,540          |
| Interest cost                      | 44,096,485            | 39,237,945          |
| Benefits paid                      | (27,296,381)          | (58,547,693)        |
| Settlement gain                    | -                     | -                   |
| Actuarial loss (gain) due to:      |                       |                     |
| Experience adjustments             | 275,077,604           | (60,014,408)        |
| Changes in demographic assumptions | 15,277,731            | 28,680,172          |
| Changes in financial assumption    | (106,866,070)         | (225,819,982)       |
| <b>Balance at December 31</b>      | <b>P1,174,965,095</b> | <b>P892,641,394</b> |

The defined benefit plan 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.

Out of the P257.5 million benefits paid in 2020, P237.5 million pertain to payments to retrenched employees in line with the Parent Company's right sizing measures undertaken to navigate the current environment brought about by the COVID-19 pandemic.



Movements in the net defined benefit liability follow:

|                        | 2022                | 2021          |
|------------------------|---------------------|---------------|
| Balance at January 1   | <b>₱323,198,825</b> | ₱427,906,321  |
| Retirement expense     | <b>98,674,575</b>   | 116,003,744   |
| Recognized in OCI      | <b>221,701,853</b>  | (181,130,408) |
| Benefits paid          | -                   | (39,580,832)  |
| Balance at December 31 | <b>₱643,575,253</b> | ₱323,198,825  |

The benefits paid in 2021 were paid out of the Parent Company's operating funds.

Components of retirement expense included in the Parent Company's statements of comprehensive income follow:

|                          | 2022               | 2021         |
|--------------------------|--------------------|--------------|
| Current service cost     | <b>₱82,034,332</b> | ₱99,951,540  |
| Net interest cost        | <b>16,640,243</b>  | 16,052,204   |
| Total retirement expense | <b>₱98,674,575</b> | ₱116,003,744 |

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:

|                       | 2022              |               |
|-----------------------|-------------------|---------------|
|                       |                   | PVO           |
| Discount rates        | +100 basis points | (₱67,401,969) |
|                       | -100 basis points | 76,257,020    |
| Salary increase rates | +100 basis points | 65,231,707    |
|                       | -100 basis points | (58,189,578)  |
|                       | 2021              |               |
|                       |                   | PVO           |
| Discount rates        | +100 basis points | (₱58,828,863) |
|                       | -100 basis points | 66,928,639    |
| Salary increase rates | +100 basis points | 66,887,814    |
|                       | -100 basis points | (59,867,802)  |

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, 2022 and 2021, the Parent Company's investment consists of 17% of cash and receivables and 83% of debt and equity instruments, and 13% of cash and receivables and 87% of debt instruments, respectively. The principal technique of the Parent Company'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 Parent Company as of December 31, 2022 and 2021:

| Plan Year                   | 2022              |                         | Total         |
|-----------------------------|-------------------|-------------------------|---------------|
|                             | Normal Retirement | Other Normal Retirement |               |
| Less than one year          | ₱71,971,220       | ₱100,575,491            | ₱172,546,711  |
| One to less than five years | 229,710,338       | 399,591,168             | 629,301,506   |
| Five to less than 10 years  | 204,093,483       | 540,205,931             | 744,299,414   |
| 10 to less than 15 years    | 254,664,136       | 548,978,700             | 803,642,836   |
| 15 to less than 20 years    | 247,672,721       | 474,705,792             | 722,378,513   |
| 20 years and above          | 673,692,262       | 715,814,303             | 1,389,506,565 |

| Plan Year                   | 2021              |                         | Total        |
|-----------------------------|-------------------|-------------------------|--------------|
|                             | Normal Retirement | Other Normal Retirement |              |
| Less than one year          | ₱35,309,611       | ₱84,286,524             | ₱119,596,135 |
| One to less than five years | 156,423,425       | 326,680,486             | 483,103,911  |
| Five to less than 10 years  | 122,177,258       | 416,001,922             | 538,179,180  |
| 10 to less than 15 years    | 124,081,599       | 390,627,575             | 514,709,174  |
| 15 to less than 20 years    | 130,950,934       | 315,238,920             | 446,189,854  |
| 20 years and above          | 279,286,510       | 361,750,616             | 641,037,126  |

The average duration of the expected benefit payments as of December 31, 2022 and 2021 is 6.5 years and 7.0 years, respectively.

## 28. Income Taxes

In 2022 and 2021, benefit from income tax consists of deferred tax benefits amounting to ₱2,253.1 million and ₱1,734.0 million, respectively. Further, in 2022, the Parent Company has current income tax expense of ₱8.6 million which pertains to 1% MCIT (based on the CREATE Act) due on the taxable gross profit for the year 2022. Nevertheless, there is no tax payment due to its available creditable withholding taxes. In 2021, the Parent Company has no current income tax due to taxable loss position.

Income taxes include corporate income tax. The NIRC of 1997 provides for rules on the imposition of a 2% 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 Parent Company 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 Republic Act No. 11534 or CREATE Act, which became effective last April 11, 2021, the MCIT rate was lowered from 2% to 1% of gross income for three years beginning July 1, 2020. In 2022, MCIT due is higher than the RCIT due (taxable loss position), thus, the Parent Company is liable for 1% MCIT of ₱8.647 million. However, due to its available creditable withholding taxes, the Parent Company is still in tax credit position.



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:

- a. To depreciate its assets to the extent of not more than twice as fast the normal rate of depreciation; and
- b. 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.

For the calendar year ended December 31, 2022, below are the details of additional NOLCO:

| Year Incurred | Amount         | Applied | Expired | Balance        | Expiry Year |
|---------------|----------------|---------|---------|----------------|-------------|
| 2022          | ₱5,892,099,712 | ₱-      | ₱-      | ₱5,892,099,712 | 2027        |

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 Parent Company incurred on December 31, 2021 and 2020:

| 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 |             |

The components of the Parent Company’s deferred tax assets and liabilities follow:

|  | 2022                  | 2021                  |
|--|-----------------------|-----------------------|
| Deferred tax assets on:  |                       |                       |
| ARO - liability  | ₱2,491,970,547        | ₱1,771,179,823        |
| NOLCO  | 706,298,162           | 1,591,398,278         |
| Lease liability, net of ROU asset                                | 2,472,557,747         | 990,858,433           |
| Unrealized loss on derivative liability, net of derivative asset | 382,686,730           | 432,740,192           |
| Unrealized foreign exchange loss                                 | 393,889,957           | 274,160,144           |
| HMV  | 711,922,961           | 270,657,103           |
| Retirement liability   | 142,170,201           | 113,740,503           |
| Allowance for credit losses                                      | 37,035,202            | 42,488,684            |
| Share-based payment transactions                                 | 35,100,553            | 28,493,982            |
|  | <b>7,373,632,060</b>  | <b>5,515,717,142</b>  |
| Deferred tax liabilities on:                                     |                       |                       |
| Double depreciation  | 2,185,612,382         | 2,564,476,957         |
| Unamortized bond issue costs                                     | 4,245,718             | 29,222,395            |
|  | <b>2,189,858,100</b>  | <b>2,593,699,352</b>  |
| Item recognized directly in other comprehensive income (loss)    |                       |                       |
| Deferred tax asset (liabilities):                                |                       |                       |
| Reserve for retirement plan                                      | 22,484,666            | (32,940,797)          |
| Reserve for cash flow hedges                                     | (186,205,642)         | -                     |
|  | <b>(163,720,976)</b>  | <b>(32,940,797)</b>   |
| Net deferred tax assets  | <b>₱5,020,052,984</b> | <b>₱2,889,076,993</b> |



Movement in cash flow hedges and accrued retirement cost amounting to ₱130.8 million and ₱56.1 million in 2022 and 2021, respectively, is presented under OCI.

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

As of December 31, 2022 and 2021, the Parent Company has not recognized deferred tax assets on NOLCO of ₱42,497.4 million and ₱33,064.9 million, respectively. The deferred income 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, 2022 and 2021 amounted to ₱10,624.3 million and ₱8,266.2 million, respectively.

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, 2022 and 2021, the Parent Company has complied with capital requirements set by the BOI in order to avail the ITH incentives for aircraft registered activity (see Note 35).

A reconciliation of the Parent Company's statutory income tax rate to the effective income tax rate follows:

|                                  | <b>2022</b>     | 2021     |
|----------------------------------|-----------------|----------|
| Statutory income tax rate        | <b>(25.00%)</b> | (25.00%) |
| Adjustments resulting from:      |                 |          |
| Nondeductible/(nontaxable) items | <b>(0.95%)</b>  | 0.05%    |
| Unrecognized deferred tax        | <b>15.35%</b>   | 16.23%   |
| Income subject to ITH            | <b>(2.02%)</b>  | -        |
| Change in tax rate               | -               | 0.77%    |
| Others                           | <b>(1.40%)</b>  | 1.17%    |
| Effective income tax rate        | <b>(14.02%)</b> | (6.78%)  |

On February 1, 2021, the Bicameral Conference Committee, under the 18<sup>th</sup> 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 three (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 three (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.

#### 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 Parent Company recognized EAR expenses (allocated under different expense accounts in the Parent Company's statements of comprehensive income) amounting to ₱2.1 million and ₱1.1 million in 2022 and 2021, respectively.

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## 29. Loss Per Share

The following reflects the loss and share data used in the basic/dilutive EPS computations:

|  | 2022                     | 2021              |
|--|--------------------------|-------------------|
| Net loss   | <b>(₱13,928,904,813)</b> | (₱23,831,023,785) |
| Less: Cumulative preferred dividends                       | <b>(716,021,134)</b>     | (550,847,493)     |
| Net loss attributable to common shareholders for basic EPS | <b>(14,644,925,947)</b>  | (24,381,871,278)  |
| Divided by: Weighted average number of common shares       | <b>615,212,672</b>       | 604,095,978       |
| Basic/diluted loss per share                               | <b>(₱23.80)</b>          | (₱40.36)          |

In both 2022 and 2021, the EPS effect of the Parent Company's potential common shares (stock options, convertible preference shares and convertible bonds) are anti-dilutive, thus, the basic and diluted loss per share is stated at the same amount.

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## 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 Parent Company has entered into transactions with its ultimate parent, its JVs and affiliates principally consisting of operating 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 Parent Company's financial statements, the following are the year-end 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.

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

| Related Party                              | 2022              |                        | Terms                 | Conditions               |
|--|-------------------|------------------------|-----------------------|--------------------------|
|  | Amount/<br>Volume | Outstanding<br>Balance |                       |                          |
| <b>Ultimate Parent</b>                     |                   |                        |                       |                          |
| (1) JG Summit Holdings, Inc.               |                   |                        |                       |                          |
| Due to related parties                     | (₱11,574,960)     | (₱8,318,810)           | Non-interest bearing  | Unsecured                |
| Trade payables                             | (47,669,369)      | (3,042,159)            | Non-interest bearing  | Unsecured                |
| <b>Joint ventures and associates</b>       |                   |                        |                       |                          |
| (2) PAAT, Inc.                             |                   |                        |                       |                          |
| Due from related parties                   |                   |                        |                       |                          |
| Loans                                      | –                 | 90,977,300             | 2% interest per annum | Unsecured, No impairment |
| Sublease agreement                         | 41,504,655        | 80,572,331             | Payable monthly       | Unsecured, No impairment |
| Trade payables                             | (187,454,206)     | (8,611,416)            | Non-interest bearing  | Unsecured                |
| (3) IAviation                              |                   |                        |                       |                          |
| Due from related parties                   | 104,009,435       | 609,061,301            | Non-interest bearing  | Unsecured, No impairment |
| Trade payables                             | (1,199,700,620)   | (59,274,419)           | Non-interest bearing  | Unsecured                |
| Sublease agreement                         | 9,773,183         | –                      | Non-interest bearing  | Unsecured, No impairment |
| (4) Value Alliance Travel System Pte. Ltd. |                   |                        |                       |                          |
| Trade payables                             | –                 | (14,251,698)           | Non-interest bearing  | Unsecured                |
| (5) Data Analytics Ventures, Inc.          |                   |                        |                       |                          |
| Due to related parties                     | (8,097,666)       | (1,339,901)            | Non-interest bearing  | Unsecured                |
| Trade receivables                          | 9,729,932         | 1,712,756              | Non-interest bearing  | Unsecured, No impairment |
| Trade payables                             | (807,480)         | (278,204)              | Non-interest bearing  | Unsecured                |
| <b>Wholly owned subsidiary</b>             |                   |                        |                       |                          |
| (6) CEBGO, Inc.                            |                   |                        |                       |                          |
| Due from related parties                   | 1,573,014,336     | 209,623,530            | Non-interest bearing  | Unsecured, No impairment |
| (7) A-plus                                 |                   |                        |                       |                          |
| Due from related parties                   | 72,468,390        | 168,730,180            | Non-interest bearing  | Unsecured, No impairment |
| Trade payables                             | (822,383,250)     | (37,176,294)           | Non-interest bearing  | Unsecured                |
| <b>Entities under common control</b>       |                   |                        |                       |                          |
| (8) Robinsons Bank Corporation (RBank)     |                   |                        |                       |                          |
| Non-trade receivables                      | 10,944            | –                      | Non-interest bearing  | Unsecured, No impairment |
| Trade receivables                          | 29,704,095,215    | 329,506,628            | Non-interest bearing  | Unsecured, No impairment |
| Sub-lease agreement                        | 1,076,318         | –                      | Non-interest bearing  | Unsecured; No impairment |
| Long-term debt                             | –                 | 2,447,667,500          | Interest bearing      | Unsecured                |
| Cash in bank                               | –                 | 921,881,374            | Interest bearing      | Unsecured, No impairment |
| Short-term placements                      | –                 | 4,580,235,827          | Interest bearing      | Unsecured, No impairment |
| (9) Universal Robina Corporation (URC)     |                   |                        |                       |                          |
| Trade receivables                          | 18,611,595        | 3,746,886              | Non-interest bearing  | Unsecured, No impairment |
| Trade payables                             | –                 | –                      | Non-interest bearing  | Unsecured                |
| Due to related parties                     | (11,623,139)      | (29,693,433)           | Non-interest bearing  | Unsecured                |
| (10) Robinsons Land Corporation (RLC)      |                   |                        |                       |                          |
| Trade receivables                          | 10,954            | 130,011                | Interest bearing      | Unsecured, No impairment |
| Trade payables                             | (117,035)         | (95,765)               | Non-interest bearing  | Unsecured                |

(Forward)



| <b>2022</b>                                |                           |                                |                       |                          |
|--|---------------------------|--------------------------------|-----------------------|--------------------------|
| <b>Related Party</b>                       | <b>Amount/<br/>Volume</b> | <b>Outstanding<br/>Balance</b> | <b>Terms</b>          | <b>Conditions</b>        |
| (11) Robinsons Handyman, Inc               |                           |                                |                       |                          |
| Trade receivables                          | <b>₱12,259,728</b>        | <b>₱117,7778</b>               | Interest bearing      | Unsecured, No impairment |
| Trade payables                             | <b>(7,058,230)</b>        | <b>(1,049,185)</b>             | Non-interest bearing  | Unsecured                |
| (12) Robinsons Appliances                  |                           |                                |                       |                          |
| Trade payables                             | -                         | -                              | Non-interest bearing  | Unsecured                |
| (13) Robinsons Supermarket Corporation     |                           |                                |                       |                          |
| Trade receivables                          | <b>202,055,278</b>        | <b>4,483,396</b>               | Non-interest bearing  | Unsecured; No impairment |
| (14) Robinsons Convenience Store           |                           |                                |                       |                          |
| Sublease agreement                         | <b>739,261</b>            | -                              | Non-interest bearing  | Unsecured, No impairment |
| (15) ASPEN Business Solutions, Inc.        |                           |                                |                       |                          |
| Trade payables                             | <b>(3,636,793)</b>        | -                              | Non-interest bearing  | Unsecured                |
| (16) JG Summit Philippines Limited         |                           |                                |                       |                          |
| Short-term debt                            | <b>(4,462,412,500)</b>    | -                              | 5% interest per annum | Unsecured                |
| <b>SPEs</b>                                |                           |                                |                       |                          |
| (17) CLCL/DENL                             | <b>(168,656,772)</b>      | -                              | Non-interest bearing  | Unsecured                |
| (18) DBL/MLCL                              | <b>(158,746,136)</b>      | -                              | Non-interest bearing  | Unsecured                |
| (19) RALL                                  | <b>(561,668,971)</b>      | -                              | Non-interest bearing  | Unsecured                |
| (20) SLCL                                  | <b>(542,015)</b>          | -                              | Non-interest bearing  | Unsecured                |
| (21) SCALL                                 | <b>(230,311,262)</b>      | -                              | Non-interest bearing  | Unsecured                |
| (22) TLCL                                  | <b>(548,485)</b>          | -                              | Non-interest bearing  | Unsecured                |
| (23) TOADAC                                | <b>(1,875,501,315)</b>    | -                              | Non-interest bearing  | Unsecured                |
| <b>2021</b>                                |                           |                                |                       |                          |
| <b>Related Party</b>                       | <b>Amount/<br/>Volume</b> | <b>Outstanding<br/>Balance</b> | <b>Terms</b>          | <b>Conditions</b>        |
| <b>Ultimate Parent</b>                     |                           |                                |                       |                          |
| (1) JG Summit Holdings, Inc.               |                           |                                |                       |                          |
| Due to related parties                     | <b>(₱32,313,888)</b>      | <b>(₱5,896,052)</b>            | Non-interest bearing  | Unsecured                |
| Trade payables                             | <b>(34,716,247)</b>       | <b>(3,598,474)</b>             | Non-interest bearing  | Unsecured                |
| <b>Joint ventures and associates</b>       |                           |                                |                       |                          |
| (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                             | <b>(102,913,160)</b>      | <b>(9,611,986)</b>             | Non-interest bearing  | Unsecured                |
| (3) Aviation                               |                           |                                |                       |                          |
| Due from related parties                   | 55,094,799                | 536,305,908                    | Non-interest bearing  | Unsecured, No impairment |
| Trade payables                             | <b>(628,288,496)</b>      | <b>(1,736,145)</b>             | Non-interest bearing  | Unsecured                |
| Sublease agreement                         | 18,288,066                | -                              | Non-interest bearing  | Unsecured, No impairment |
| (4) Value Alliance Travel System Pte. Ltd. |                           |                                |                       |                          |
| Trade payables                             | <b>(2,319,132)</b>        | <b>(12,902,983)</b>            | Non-interest bearing  | Unsecured                |
| (5) Data Analytics Ventures, Inc.          |                           |                                |                       |                          |
| Due to related parties                     | <b>(3,363,491)</b>        | <b>(3,981,789)</b>             | Non-interest bearing  | Unsecured                |
| Trade receivables                          | 24,833,435                | 6,859,961                      | Non-interest bearing  | Unsecured, No impairment |
| Trade payables                             | <b>(11,545,348)</b>       | -                              | Non-interest bearing  | Unsecured                |
| <b>Wholly owned subsidiary</b>             |                           |                                |                       |                          |
| (6) CEBGO, Inc.                            |                           |                                |                       |                          |
| Due from related parties                   | 43,609,181                | 43,573,481                     | Non-interest bearing  | Unsecured, No impairment |
| (7) A-plus                                 |                           |                                |                       |                          |
| Due from related parties                   | 82,407,860                | 130,134,454                    | Non-interest bearing  | Unsecured, No impairment |
| Trade payables                             | <b>(432,585,807)</b>      | <b>(30,210,022)</b>            | Non-interest bearing  | Unsecured                |

(Forward)



| Related Party                          | 2021              |                        | Terms                 | Conditions               |
|--|-------------------|------------------------|-----------------------|--------------------------|
|  | Amount/<br>Volume | Outstanding<br>Balance |                       |                          |
| <b>Entities under common control</b>   |                   |                        |                       |                          |
| (8) 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 |
| Sub-lease agreement                    | 1,101,507         | –                      | Non-interest bearing  | Unsecured; No impairment |
| Long-term debt                         | –                 | 2,447,667,500          | Interest bearing      | Unsecured                |
| Cash in bank                           | –                 | 1,441,897,045          | Interest bearing      | Unsecured, No impairment |
| (9) 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                |
| (10) Robinsons Land Corporation (RLC)  |                   |                        |                       |                          |
| Trade receivables                      | 208,329           | 121,965                | Interest bearing      | Unsecured, No impairment |
| Trade payables                         | (1,225,879)       | –                      | Non-interest bearing  | Unsecured                |
| (11) 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                |
| (12) Robinsons Appliances              |                   |                        |                       |                          |
| Trade payables                         | (281,851)         | –                      | Non-interest bearing  | Unsecured                |
| (13) Robinsons Supermarket Corporation |                   |                        |                       |                          |
| Trade receivables                      | 38,819,330        | 1,481,435              | Non-interest bearing  | Unsecured; No impairment |
| (14) Robinsons Convenience Store       |                   |                        |                       |                          |
| Sublease agreement                     | 909,684           | 123,081                | Non-interest bearing  | Unsecured, No impairment |
| (15) ASPEN Business Solutions, Inc.    |                   |                        |                       |                          |
| Trade payables                         | (16,780,906)      | –                      | Non-interest bearing  | Unsecured                |
| (16) JG Summit Philippines Limited     |                   |                        |                       |                          |
| Short-term debt                        | 4,462,412,500     | 4,462,412,500          | 5% interest per annum | Unsecured                |
| <b>SPEs</b>                            |                   |                        |                       |                          |
| (17) CLCL/DENL                         | (181,289,639)     | –                      | Non-interest bearing  | Unsecured                |
| (18) DBL/MLCL                          | (170,646,206)     | –                      | Non-interest bearing  | Unsecured                |
| (19) RALL                              | (465,857,891)     | –                      | Non-interest bearing  | Unsecured                |
| (20) SLCL                              | (178,467,890)     | –                      | Non-interest bearing  | Unsecured                |
| (21) SCALL                             | (2,042,848,721)   | –                      | Non-interest bearing  | Unsecured                |
| (22) SDALL                             | (2,912,612,255)   | –                      | Non-interest bearing  | Unsecured                |
| (23) TLCL                              | (182,633,429)     | –                      | Non-interest bearing  | Unsecured                |
| (24) TOADAC                            | (1,478,546,630)   | –                      | Non-interest bearing  | Unsecured                |

**Parent Company Statements of Comprehensive Income**

|  | Year        | Sale of Air<br>Transportation Service | Ground<br>handling   | Ancillary<br>Revenues | Repairs and<br>Maintenance |
|--|-------------|---------------------------------------|----------------------|-----------------------|----------------------------|
| <b>Wholly owned subsidiary</b>                         |             |                                       |                      |                       |                            |
| A-Plus   | <b>2022</b> | ₱–                                    | ₱–                   | ₱–                    | <b>₱822,383,250</b>        |
|  | 2021        | ₱–                                    | ₱–                   | ₱–                    | ₱432,585,807               |
| <b>JV in which the Parent<br/>Company is a venture</b> |             |                                       |                      |                       |                            |
| PAAT   | <b>2022</b> | –                                     | <b>41,504,655</b>    | –                     | –                          |
|  | 2021        | –                                     | –                    | –                     | –                          |
| 1 Aviation   | <b>2022</b> | –                                     | <b>1,199,700,620</b> | –                     | –                          |
|  | 2021        | –                                     | 628,288,496          | –                     | –                          |

(Forward)



| <b>Parent Company Statements of Comprehensive Income</b> |             |   |                            |                               |                                    |
|--|-------------|---|----------------------------|-------------------------------|------------------------------------|
|  | <b>Year</b> | <b>Sale of Air<br/>Transportation Service</b> | <b>Ground<br/>handling</b> | <b>Ancillary<br/>Revenues</b> | <b>Repairs and<br/>Maintenance</b> |
| <b>Entities under common control</b>                     |             |   |                            |                               |                                    |
| RBank  | <b>2022</b> | <b>₱3,115,305</b>                             | <b>₱-</b>                  | <b>₱-</b>                     | <b>₱-</b>                          |
|  | 2021        | ₱1,101,507                                    | ₱-                         | ₱-                            | ₱-                                 |
| URC  | <b>2022</b> | <b>18,611,595</b>                             | -                          | -                             | -                                  |
|  | 2021        | 1,224,655                                     | -                          | -                             | -                                  |
| RLC  | <b>2022</b> | <b>10,954</b>                                 | -                          | -                             | -                                  |
|  | 2021        | 208,329                                       | -                          | -                             | -                                  |
| RHI  | <b>2022</b> | <b>12,259,728</b>                             | -                          | -                             | -                                  |
|  | 2021        | 1,277,431                                     | -                          | -                             | -                                  |
| SPI  | <b>2022</b> | -   | -                          | -                             | -                                  |
|  | 2021        | -   | -                          | -                             | -                                  |
| JGPC   | <b>2022</b> | -   | -                          | -                             | -                                  |
|  | 2021        | -   | -                          | -                             | -                                  |
| RSC  | <b>2022</b> | <b>202,055,278</b>                            | -                          | -                             | -                                  |
|  | 2021        | 623,543                                       | -                          | -                             | -                                  |
| Aspen  | <b>2022</b> | <b>3,636,793</b>                              | -                          | -                             | -                                  |
|  | 2021        | -   | -                          | -                             | -                                  |
| <b>Total</b>   | <b>2022</b> | <b>₱239,689,653</b>                           | <b>₱41,504,655</b>         | <b>₱-</b>                     | <b>₱822,383,250</b>                |
|  | 2021        | ₱4,435,465                                    | ₱628,288,496               | ₱-                            | ₱432,585,807                       |

*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 Parent Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2022 and 2021. 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 2022 and 2021.

The Parent Company's significant transactions with related parties follow:

- a. The Parent Company entered into a Shared Services Agreement with A-plus. Under the aforementioned agreement, the Parent Company will render certain administrative services to A-plus which include payroll processing and certain information technology-related functions.
- b. For the aircraft maintenance program, the Parent Company 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. Cost of services are recorded as 'Repairs and maintenance' in the Parent Company's statements of comprehensive income and any unpaid amounts as of reporting date as trade payables under 'Accounts payable and other accrued liabilities' account.
- c. The Parent Company maintains deposit accounts and short-term investments with Robinsons Bank which is reported as 'Cash and cash equivalents' account.
- d. The Parent Company also incurs liabilities to URC primarily for the rendering of payroll service to the Parent Company which are recorded as 'Due to related parties' account.



- e. The Parent Company provides air transportation services to certain related parties, for which unpaid amounts are recorded as trade receivables under 'Receivables' account in the Parent Company's statements of financial position.

The Parent Company also purchases goods from URC for in-flight sales and are recorded as trade payables, if unpaid, in the parent company statements of financial position. Total amount of purchases in 2022 and 2021 amounted to ₱34.0 million and ₱3.7 million, respectively.

- f. In 2012, the Parent Company 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.
- g. In 2013 and 2012, under the shareholder loan agreement the Parent Company 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 Parent Company amounted to ₱155.4 million (US\$3.5 million). The loans are subject to two percent (2%) interest per annum. In 2014, the Company collected ₱41.7 million (US\$0.9 million) from PAAT as partial payment of the loan. As of December 31, 2022 and 2021, loan to PAAT amounted to ₱91.0 million (US\$2.3 million).
- h. 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 (3) years.
- i. 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 (6) years.
- j. In 2017, the Parent Company entered into a loan agreement with Robinsons Bank to finance the acquisition of four (4) ATR 72-600 aircraft.
- k. 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 (6) years.
- l. 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 (6) years.
- m. 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 (10) years.
- n. 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 (10) years.
- o. 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.
- p. Starting January 1, 2020, the management of the Parent Company'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 DAVI. The Parent Company accounts for such issued and redeemed points as a payable to and receivable from DAVI, respectively.



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

|                              | 2022                | 2021         |
|------------------------------|---------------------|--------------|
| Short-term employee benefits | <b>₱63,145,103</b>  | ₱310,340,234 |
| Post-employment benefits     | <b>113,380,231</b>  | 6,688,069    |
|                              | <b>₱176,525,333</b> | ₱317,028,303 |

There are no agreements between the Parent Company 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 Parent Company's retirement plan.

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 Parent Company's total assets based on its latest audited 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.

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### 31. Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments, other than derivatives, comprise cash and cash equivalents, derivative financial assets and financial liabilities, receivables, payables and interest-bearing borrowings. The main purpose of these financial instruments is to finance the Parent Company's operations and capital expenditures. The Parent Company has various other financial assets and liabilities, such as trade receivables and trade payables which arise directly from its operations.

The Parent Company's BOD reviews and approves policies for managing each of these risks and they are summarized in the succeeding paragraphs, together with the related risk management structure.

Risk Management Structure

The Parent Company's risk management structure is closely aligned with that of JGSHI. The Parent Company has its own BOD which is ultimately responsible for the oversight of the Parent Company's risk management process, which 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 Parent Company's Audit Committee assists the Parent Company's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems, and the internal audit functions of the Parent Company. Furthermore, it is also 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 Parent Company'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 Parent Company's goals.
3. Event Identification - it identifies both internal and external events affecting the Parent Company'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 Parent Company's earnings and capital.
5. Risk Response – the Parent Company'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 Parent Company'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 Parent Company's operations thus increasing their accountability and ownership in the execution of the internal control framework. To accomplish the established goals and objectives, the Parent Company 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 Parent 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 Parent 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 Parent Company may incur within a certain frequency over a certain time frame.
3. Risk control represents the activities and programs the Parent 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 Parent 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 Parent Company 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 Parent Company'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 Company 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 is 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 Parent Company's BOD created the following departments within the Parent Company to support the risk management activities of the Parent Company 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 Parent Company.

### 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 Parent Company'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 Parent Company. The Parent Company trades only with recognized, creditworthy third parties. It is the Parent Company'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 Parent Company, which comprise cash in banks and cash equivalents and financial assets at FVPL, the Parent Company's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

The Parent Company has no concentration of risk with regard to various industry sectors. The major industry relevant to the Parent Company is the transportation sector and financial intermediaries.

*Maximum exposure to credit risk without taking account of any credit enhancement*

The table below shows the gross maximum exposure to credit risk of the Parent Company as of December 31, 2022 and 2021, without considering the effects of collaterals and other credit risk mitigation techniques.

|                                      | 2022                   | 2021            |
|--------------------------------------|------------------------|-----------------|
| Cash and cash equivalents*           | <b>₱18,228,664,645</b> | ₱18,049,301,861 |
| Restricted cash                      | <b>832,055,494</b>     | 778,038,403     |
| Receivables                          |                        |                 |
| Trade receivables                    | <b>1,716,929,585</b>   | 1,231,163,887   |
| Due from related parties             | <b>949,341,120</b>     | 845,770,190     |
| Interest receivable                  | <b>23,025,484</b>      | 2,372,900       |
| Others**                             | <b>113,858,912</b>     | 116,030,841     |
| Refundable deposits***               | <b>1,498,852,139</b>   | 1,191,665,074   |
| Derivative financial assets at FVOCI | <b>60,911,158</b>      | -               |
|                                      | <b>₱23,423,638,537</b> | ₱22,214,343,156 |

\* Excluding cash on hand

\*\* Include nontrade receivables from insurance, employees and counterparties

\*\*\*Included under 'Other noncurrent assets' account in the Parent Company's 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 Parent Company'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 Parent Company'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 Parent Company's credit risk exposures, before taking into account any collateral held or other credit enhancements are categorized by geographic location as follows:

|                                      | 2022                  |                                    |                    |                        |                        |
|--------------------------------------|-----------------------|------------------------------------|--------------------|------------------------|------------------------|
|                                      | Philippines           | Asia<br>(excluding<br>Philippines) | Europe             | Others                 | Total                  |
| Cash and cash equivalents*           | ₱5,664,393,697        | ₱1,761,434,871                     | ₱-                 | ₱10,802,836,077        | ₱18,228,664,645        |
| Restricted cash                      | 832,055,494           | -                                  | -                  | -                      | 832,055,494            |
| Derivative financial assets at FVOCI | -                     | -                                  | 60,911,158         | -                      | 60,911,158             |
| Receivables                          |                       |                                    |                    |                        |                        |
| Trade receivables                    | 1,044,809,509         | 637,153,015                        | 11,142,448         | 23,824,613             | 1,716,929,585          |
| Due from related parties             | 949,341,120           | -                                  | -                  | -                      | 949,341,120            |
| Interest receivable                  | 23,025,484            | -                                  | -                  | -                      | 23,025,484             |
| Others**                             | 109,045,307           | 3,108,063                          | 1,705,542          | -                      | 113,858,912            |
| Refundable deposits***               | -                     | 1,498,852,139                      | -                  | -                      | 1,498,852,139          |
|                                      | <b>₱8,622,670,611</b> | <b>₱3,900,548,088</b>              | <b>₱73,759,148</b> | <b>₱10,826,660,690</b> | <b>₱23,423,638,537</b> |

\* Excluding cash on hand

\*\* Include nontrade receivables from insurance, employees and counterparties

\*\*\*Included under 'Other noncurrent assets' account in the Parent Company's statements of financial position

|                            | 2021                  |                                    |                    |                    |                        |
|----------------------------|-----------------------|------------------------------------|--------------------|--------------------|------------------------|
|                            | Philippines           | Asia<br>(excluding<br>Philippines) | Europe             | Others             | Total                  |
| Cash and cash equivalents* | ₱5,354,024,936        | ₱12,671,445,349                    | ₱-                 | ₱23,831,576        | ₱18,049,301,861        |
| Restricted cash            | 778,038,403           | -                                  | -                  | -                  | 778,038,403            |
| Receivables                |                       |                                    |                    |                    |                        |
| Trade receivables          | 718,068,553           | 423,544,595                        | 47,041,346         | 42,509,393         | 1,231,163,887          |
| Due from related parties   | 845,770,190           | -                                  | -                  | -                  | 845,770,190            |
| Interest receivable        | 2,372,900             | -                                  | -                  | -                  | 2,372,900              |
| Others**                   | 92,024,180            | 208,184                            | 21,496,384         | 2,302,093          | 116,030,841            |
| Refundable deposits***     | -                     | 1,191,665,074                      | -                  | -                  | 1,191,665,074          |
|                            | <b>₱7,790,299,162</b> | <b>₱14,286,863,202</b>             | <b>₱68,537,730</b> | <b>₱68,643,062</b> | <b>₱22,214,343,156</b> |

\* Excluding cash on hand

\*\* Include nontrade receivables from insurance, employees and counterparties

\*\*\*Included under 'Other noncurrent assets' account in the Parent Company's statements of financial position

The Parent Company has no concentration of risk with regard to various industry sectors. The major industries relevant to the Parent Company are the transportation sector and financial intermediaries.

#### *Credit quality per class of financial assets*

The Parent Company 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 Parent Company 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 Parent Company (gross of allowance for impairment losses) as of December 31, 2022 and 2021.

|                                      | 2022                                       |                |                   |                                   |                 | Total |
|--------------------------------------|--|----------------|-------------------|-----------------------------------|-----------------|-------|
|                                      | Neither Past Due Nor Specifically Impaired |                |                   | Past Due or Individually Impaired |                 |       |
|                                      | High Grade                                 | Standard Grade | Substandard Grade |                                   |                 |       |
| Cash and cash equivalents*           | ₱18,228,664,645                            | ₱-             | ₱-                | ₱-                                | ₱18,228,664,645 |       |
| Restricted cash                      | 832,055,494                                | -              | -                 | -                                 | 832,055,494     |       |
| Derivative financial assets at FVOCI | 60,911,158                                 | -              | -                 | -                                 | 60,911,158      |       |
| Receivables                          |  |                |                   |                                   |                 |       |
| Trade receivables                    | 1,568,788,780                              | -              | -                 | 148,140,805                       | 1,716,929,585   |       |
| Due from related parties             | 949,341,120                                | -              | -                 | -                                 | 949,341,120     |       |
| Interest receivable                  | 23,025,484                                 | -              | -                 | -                                 | 23,025,484      |       |
| Others**                             | 113,858,912                                | -              | -                 | -                                 | 113,858,912     |       |
| Refundable deposits***               | 1,498,852,139                              | -              | -                 | -                                 | 1,498,852,139   |       |
|                                      | ₱23,275,497,732                            | ₱-             | ₱-                | ₱148,140,805                      | ₱23,423,638,537 |       |

\* Excluding cash on hand

\*\* Include nontrade receivables from insurance, employees and counterparties

\*\*\*Included under 'Other noncurrent assets' account in the Parent Company's statements of financial position.

|                            | 2021                                       |                |                   |                                   |                 | Total |
|----------------------------|--|----------------|-------------------|-----------------------------------|-----------------|-------|
|                            | Neither Past Due Nor Specifically Impaired |                |                   | Past Due or Individually Impaired |                 |       |
|                            | High Grade                                 | Standard Grade | Substandard Grade |                                   |                 |       |
| Cash and cash equivalents* | ₱18,049,301,861                            | ₱-             | ₱-                | ₱-                                | ₱18,049,301,861 |       |
| Restricted cash            | 778,038,403                                | -              | -                 | -                                 | 778,038,403     |       |
| Receivables                |  |                |                   |                                   |                 |       |
| Trade receivables          | 1,061,209,151                              | -              | -                 | 169,954,736                       | 1,231,163,887   |       |
| Due from related parties   | 845,770,190                                | -              | -                 | -                                 | 845,770,190     |       |
| Interest receivable        | 2,372,900                                  | -              | -                 | -                                 | 2,372,900       |       |
| Others**                   | 116,030,841                                | -              | -                 | -                                 | 116,030,841     |       |
| Refundable deposits***     | 1,191,665,074                              | -              | -                 | -                                 | 1,191,665,074   |       |
|                            | ₱22,044,388,420                            | ₱-             | ₱-                | ₱169,954,736                      | ₱22,214,343,156 |       |

\* Excluding cash on hand

\*\* Include nontrade receivables from insurance, employees and counterparties

\*\*\*Included under 'Other noncurrent assets' account in the Parent Company's statements 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 belonging 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 Parent Company's receivables:

|                          | 2022                          |                           |            |            |             |               |                       | Total          |
|--------------------------|-------------------------------|---------------------------|------------|------------|-------------|---------------|-----------------------|----------------|
|                          | Neither Past Due Nor Impaired | Past Due But Not Impaired |            |            |             |               | Past Due and Impaired |                |
|                          |                               | 1-30 days                 | 31-60 days | 61-90 days | 91-180 days | Over 180 days |                       |                |
| Trade receivables        | ₱1,568,788,780                | ₱-                        | ₱-         | ₱-         | ₱-          | ₱-            | ₱148,140,805          | ₱1,716,929,585 |
| Due from related parties | 949,341,120                   | -                         | -          | -          | -           | -             | -                     | 949,341,120    |
| Interest receivable      | 23,025,484                    | -                         | -          | -          | -           | -             | -                     | 23,025,484     |
| Others*                  | 113,858,912                   | -                         | -          | -          | -           | -             | -                     | 113,858,912    |
|                          | ₱2,655,014,296                | ₱-                        | ₱-         | ₱-         | ₱-          | ₱-            | ₱148,140,805          | ₱2,803,155,101 |

\*Include nontrade receivables from insurance, employees and counterparties



|                          | 2021                          |                           |            |            |             |    |               | Total          |
|--------------------------|-------------------------------|---------------------------|------------|------------|-------------|----|---------------|----------------|
|                          | Neither Past Due Nor Impaired | Past Due But Not Impaired |            |            |             |    | Over 180 days |                |
|                          |                               | 1-30 days                 | 31-60 days | 61-90 days | 91-180 days |    |               |                |
| Trade receivables        | ₱1,061,209,151                | ₱-                        | ₱-         | ₱-         | ₱-          | ₱- | ₱169,954,736  | ₱1,231,163,887 |
| Due from related parties | 845,770,190                   | -                         | -          | -          | -           | -  | -             | 845,770,190    |
| Interest receivable      | 2,372,900                     | -                         | -          | -          | -           | -  | -             | 2,372,900      |
| Others*                  | 116,030,841                   | -                         | -          | -          | -           | -  | -             | 116,030,841    |
|                          | ₱2,025,383,082                | ₱-                        | ₱-         | ₱-         | ₱-          | ₱- | ₱169,954,736  | ₱2,195,337,818 |

\*Include nontrade receivables from insurance, employees and counterparties

Past due and impaired receivables amounted to ₱148.1 million and ₱170.0 million as of December 31, 2022 and 2021, respectively. Past due but not impaired receivables are secured by cash bonds from major sales and ticket offices recorded under ‘Accounts payable and other accrued liabilities’ account in the Parent Company’s statements of financial position. For the past due and impaired receivables, specific allowance for impairment losses amounted to ₱148.1 million and ₱170.0 million as of December 31, 2022 and 2021, respectively.

#### *Collateral or credit enhancements*

As collateral against trade receivables from sales ticket offices or agents, the Parent Company requires cash bonds from major sales ticket offices or agents ranging from ₱50,000 to ₱2.1 million depending on the Parent Company’s assessment of sales ticket offices and agents’ credit standing and volume of transactions. As of December 31, 2022 and 2021, outstanding cash bonds (included under ‘Accounts payable and other accrued liabilities’ account in the parent company statements of financial position) amounted to ₱80.4 million and ₱89.0 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. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (that is, 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 Parent Company applies the general approach of which it track 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 Parent Company 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 Parent Company uses benchmark approach where the Parent Company finds comparable companies in the same industry having similar characteristics. The Parent Company 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 Parent Company in assessing and measuring impairment include: (1) specific/individual assessment; and (2) collective assessment.



Under specific/individual assessment, the Parent Company 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 Parent Company 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 Parent Company's inability to meet its obligations when they become due without recurring unacceptable losses or costs.

The Parent Company'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 Parent Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Parent Company 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 the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Parent Company can be required to pay. When the Parent Company is committed to make amounts available in installments, each installment is allocated to the earliest period in which the Parent Company 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, 2022 and 2021:

|   | 2022                           |                |                 |                 |                 | Total            |
|---|--------------------------------|----------------|-----------------|-----------------|-----------------|------------------|
|   | Less than one month to 1 month | >1 to 3 months | >3 to 12 months | >1 to 5 years   | >5 years        |                  |
| <b>Financial Assets</b>                           |                                |                |                 |                 |                 |                  |
| Loans and receivables                             |                                |                |                 |                 |                 |                  |
| Cash and cash equivalents                         | ₱17,174,946,350                | ₱1,920,287,187 | ₱-              | ₱-              | ₱-              | ₱19,095,233,537  |
| Restricted cash                                   | 832,055,494                    | -              | -               | -               | -               | 832,055,494      |
| Derivative financial assets at FVOCI              | -                              | -              | 60,911,158      | -               | -               | 60,911,158       |
| Receivables:                                      |                                |                |                 |                 |                 |                  |
| Trade receivables                                 | 1,716,929,585                  | -              | -               | -               | -               | 1,716,929,585    |
| Due from related parties*                         | 949,341,120                    | -              | -               | -               | -               | 949,341,120      |
| Interest receivable                               | 23,025,484                     | -              | -               | -               | -               | 23,025,484       |
| Others **   | 113,858,912                    | -              | -               | -               | -               | 113,858,912      |
| Refundable deposits                               | -                              | -              | -               | -               | 1,498,852,139   | 1,498,852,139    |
|   | ₱20,810,156,945                | ₱1,920,287,187 | ₱60,911,158     | ₱-              | ₱1,498,852,139  | ₱24,290,207,429  |
| <b>Financial Liabilities</b>                      |                                |                |                 |                 |                 |                  |
| Lease liability****                               | ₱863,933,970                   | ₱1,780,206,448 | ₱7,934,096,263  | ₱52,046,253,861 | ₱23,394,997,694 | ₱86,019,488,236  |
| Long-term debt*****                               | 657,976,072                    | 713,234,606    | 1,680,887,370   | 5,401,872,206   | 8,648,141,654   | 17,102,111,908   |
| Bonds payable*****                                | 54,012,656                     | 102,798,281    | 470,432,813     | 16,045,243,594  | -               | 16,672,487,344   |
| Derivative financial liabilities at FVPL          | 846,835,509                    | -              | -               | -               | -               | 846,835,509      |
| Accounts payable and other accrued liabilities*** | 18,298,527,249                 | 57,650,536     | 14,904,759      | 99,811,466      | -               | 18,470,894,010   |
| Due to related parties*                           | 253,734,999                    | -              | -               | -               | -               | 253,734,999      |
|   | ₱20,975,020,455                | ₱2,653,889,871 | ₱10,100,321,205 | ₱73,593,181,127 | ₱32,043,139,348 | ₱139,365,552,006 |

\* 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 undiscounted interest payments

|   | 2021                           |                |                 |                 |                 | Total            |
|---|--------------------------------|----------------|-----------------|-----------------|-----------------|------------------|
|   | Less than one month to 1 month | >1 to 3 months | >3 to 12 months | >1 to 5 years   | >5 years        |                  |
| <b>Financial Assets</b>                           |                                |                |                 |                 |                 |                  |
| Loans and receivables                             |                                |                |                 |                 |                 |                  |
| Cash and cash equivalents                         | ₱17,436,064,073                | ₱-             | ₱-              | ₱-              | ₱-              | ₱17,436,064,073  |
| Restricted cash                                   | 1,440,604,130                  | -              | -               | -               | -               | 1,440,604,130    |
| Receivables:                                      |                                |                |                 |                 |                 |                  |
| Trade receivables                                 | 1,231,163,887                  | -              | -               | -               | -               | 1,231,163,887    |
| Due from related parties*                         | 845,770,190                    | -              | -               | -               | -               | 845,770,190      |
| Interest receivable                               | 2,372,900                      | -              | -               | -               | -               | 2,372,900        |
| Others **   | 116,030,841                    | -              | -               | -               | -               | 116,030,841      |
| Refundable deposits                               | -                              | -              | -               | -               | 1,191,665,074   | 1,191,665,074    |
|   | ₱21,072,006,021                | ₱-             | ₱-              | ₱-              | ₱1,191,665,074  | ₱22,263,671,095  |
| <b>Financial Liabilities</b>                      |                                |                |                 |                 |                 |                  |
| Lease liability****                               | ₱966,274,937                   | ₱1,605,891,030 | ₱5,921,629,540  | ₱31,309,874,075 | ₱25,000,085,726 | ₱64,803,755,308  |
| Long-term debt*****                               | 164,832,705                    | 341,904,207    | 1,496,808,629   | 17,046,528,084  | 1,984,553,140   | 21,034,626,765   |
| Short-term debt*****                              | -                              | -              | 4,685,533,125   | -               | -               | 4,685,533,125    |
| Bonds payable*****                                | -                              | -              | 573,738,750     | 2,294,955,000   | 13,036,619,375  | 15,905,313,125   |
| Derivative financial liabilities at FVPL          | 1,730,960,768                  | -              | -               | -               | -               | 1,730,960,768    |
| Accounts payable and other accrued liabilities*** | 10,446,409,930                 | 477,805,265    | 74,305,360      | -               | -               | 10,998,520,555   |
| Due to related parties*                           | 27,855,289                     | -              | -               | -               | -               | 27,855,289       |
|   | ₱13,336,333,629                | ₱2,425,600,502 | ₱12,752,015,404 | ₱50,651,357,159 | ₱40,021,258,241 | ₱119,186,564,935 |

\* 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 undiscounted interest payments



Refer to Note 1 on the measures taken by the Parent Company to address liquidity gap as at December 31, 2022 and 2021.

*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 Parent Company'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 Parent Company has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the Parent Company's functional currency. During the years ended December 31, 2022 and 2021, approximately 20.3% and 27.2% respectively, of the Parent Company's total sales are denominated in currencies other than the functional currency. Furthermore, the Parent Company's capital expenditures are substantially denominated in USD. As of December 31, 2022 and 2021, 42.6% and 36.9%, respectively, of the Parent Company's financial liabilities were denominated in USD, respectively.

The Parent Company has foreign currency hedging arrangements as of December 31, 2022 and 2021.

The tables below summarize the Parent Company's exposure to foreign currency risk. Included in the tables are the Parent Company's financial assets and liabilities at carrying amounts, categorized by currency.

|   | 2022                   |                     |                    |                       | Total                  |
|---|------------------------|---------------------|--------------------|-----------------------|------------------------|
|   | US Dollar              | Hong Kong Dollar    | Singaporean Dollar | Other Currencies*     |                        |
| <b>Financial Assets</b>                         |                        |                     |                    |                       |                        |
| <b>Loans and receivables</b>                    |                        |                     |                    |                       |                        |
| Cash and cash equivalents                       | ₱11,349,086,111        | ₱151,662,325        | ₱77,301,444        | ₱1,002,287,166        | ₱12,580,337,046        |
| Restricted cash                                 | 832,055,494            | –                   | –                  | –                     | 832,055,494            |
| Receivables                                     | 182,318,411            | 297,137,156         | 5,945,887          | 806,965,449           | 1,292,366,903          |
| Derivative financial assets at FVOCI:           | 60,911,158             | –                   | –                  | –                     | 60,911,158             |
| Refundable deposits**                           | 183,846,638            | 67,633              | –                  | 70,285                | 183,984,556            |
|   | <b>₱12,608,217,812</b> | <b>₱448,867,114</b> | <b>₱83,247,330</b> | <b>₱1,809,322,900</b> | <b>₱14,949,655,156</b> |
| <b>Financial Liabilities</b>                    |                        |                     |                    |                       |                        |
| Bonds payable                                   | ₱13,423,322,594        | ₱–                  | ₱–                 | ₱–                    | ₱13,423,322,594        |
| Financial liabilities at FVPL                   | 846,835,509            | –                   | –                  | –                     | 846,835,509            |
| Accounts payable & other accrued liabilities*** | 1,369,855,163          | 11,316,392          | 27,266,515         | 325,753,121           | 1,734,191,191          |
|   | <b>₱15,640,013,266</b> | <b>₱11,316,392</b>  | <b>₱27,266,515</b> | <b>₱325,753,121</b>   | <b>₱16,004,349,294</b> |

\* Other currencies include Malaysian ringgit, Korean won, New Taiwan dollar, Japanese Yen, Australian dollar and Euro

\*\* Included under 'Other noncurrent assets' account in the Parent Company's statement of financial position

\*\*\*Excluding government-related payables



|   | 2021                   |                     |                    |                       | Total                  |
|---|------------------------|---------------------|--------------------|-----------------------|------------------------|
|   | US Dollar              | Hong Kong Dollar    | Singaporean Dollar | Other Currencies*     |                        |
| <b>Financial Assets</b>                         |                        |                     |                    |                       |                        |
| <b>Loans and receivables</b>                    |                        |                     |                    |                       |                        |
| Cash and cash equivalents                       | ₱12,730,331,942        | ₱388,371,602        | ₱54,576,300        | ₱850,168,643          | ₱14,023,448,487        |
| Restricted cash                                 | 778,038,403            | –                   | –                  | –                     | 778,038,403            |
| Receivables                                     | 493,497,503            | 186,186,047         | 7,143,565          | 197,450,177           | 884,277,292            |
| Refundable deposits**                           | 1,191,665,074          | –                   | –                  | –                     | 1,191,665,074          |
|   | <b>₱15,193,532,922</b> | <b>₱574,557,649</b> | <b>₱61,719,865</b> | <b>₱1,047,618,820</b> | <b>₱16,877,429,256</b> |
| <b>Financial Liabilities</b>                    |                        |                     |                    |                       |                        |
| Bonds payable                                   | ₱12,592,883,981        | ₱–                  | ₱–                 | ₱–                    | ₱12,592,883,981        |
| Short-term debt                                 | 4,462,412,500          | –                   | –                  | –                     | 4,462,412,500          |
| Accounts payable & other accrued liabilities*** | 955,954,020            | 16,247,237          | 2,067,953          | 195,531,703           | 1,169,800,913          |
|   | <b>₱18,011,250,501</b> | <b>₱16,247,237</b>  | <b>₱2,067,953</b>  | <b>₱195,531,703</b>   | <b>₱18,225,097,394</b> |

\* Other currencies include Malaysian ringgit, Korean won, New Taiwan dollar, Japanese Yen, Australian dollar and Euro

\*\* Included under 'Other noncurrent assets' account in the Parent Company's statement of financial position

\*\*\*Excluding government-related payables

The exchange rates used to restate the Parent Company's foreign currency-denominated assets and liabilities as of December 31, 2022 and 2021 follow:

|                  | 2022                       | 2021                |
|------------------|----------------------------|---------------------|
| US dollar        | <b>₱55.755 to US\$1.00</b> | ₱50.999 to US\$1.00 |
| Singapore dollar | <b>₱41.580 to SGD1.00</b>  | ₱37.555 to SGD1.00  |
| Hong Kong dollar | <b>₱7.1996 to HKD1.00</b>  | ₱6.5101 to HKD1.00  |
| Japanese yen     | <b>₱0.4174 to JPY1.00</b>  | ₱0.4413 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 Parent Company's pre-tax income for the years ended December 31, 2022 and 2020 (in thousands).

|                                   | 2022                |                     | 2021     |            |
|-----------------------------------|---------------------|---------------------|----------|------------|
|                                   | ₱2                  | (₱2)                | ₱2       | (₱2)       |
| Changes in foreign exchange value |                     |                     |          |            |
| Change in pre-tax income          | <b>(₱1,799,825)</b> | <b>(₱1,799,825)</b> | ₱110,501 | (₱110,501) |

Other than the potential impact on the Parent Company's pre-tax income, there is no other effect on equity.

The Parent Company does not expect the impact of the volatility on other currencies to be material.

#### Commodity price risk

In 2020, the Parent Company 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 Parent Company's fuel costs in pre-tax income by ₱1,607.2 million and ₱632.8 million for the years ended December 31, 2022 and 2021, respectively, assuming no change in volume of fuel is consumed.

Commodity derivative contracts maturing three (3) months from reporting date are designated for hedge accounting. Derivative financial instruments which are part of hedging relationships do not expose the Parent Company 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 Parent Company 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 Parent Company 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.

*Outstanding derivative contracts*

The tables below summarize the maturity profile of outstanding derivative contracts as of December 31, 2022 (nil in 2021):

|                                      | December 31, 2022 |               |                |                 |                     | Total        |
|--------------------------------------|-------------------|---------------|----------------|-----------------|---------------------|--------------|
|                                      | 1 to 3 months     | 4 to 6 months | 7 to 12 months | 13 to 15 months | More than 15 months |              |
| <b>Interest rate swap contracts:</b> |                   |               |                |                 |                     |              |
| Notional amount (in US\$)            | \$-               | \$86,400,000  | \$-            | \$-             | \$-                 | \$86,400,000 |

The impact of the hedge accounting on the Parent Company's statements of financial position as of December 31, 2022 and 2021 follows:

*December 31, 2022*

|                           | Change in fair value used in measuring ineffectiveness for the period | Cash flow hedge reserve |
|---------------------------|---|-------------------------|
| Interest rate derivatives | (P838,604,814)  | (P744,822,569)          |

*December 31, 2021*

|                       | Change in fair value used in measuring ineffectiveness for the period | Cash flow hedge reserve |
|-----------------------|---|-------------------------|
| Commodity derivatives | (P406,498)  | (P406,498)              |



Rollforward of each component of equity and the analysis of the other comprehensive income (loss) follows:

|  | 2022                 | 2021          |
|--|----------------------|---------------|
| Balances at January 1  | <b>₱98,822,391</b>   | (₱53,950,788) |
| Effective portion of cash flow hedges:                               |                      |               |
| Fuel hedges  | –                    | 3,177,320     |
| Interest rate hedge  | <b>787,014,615</b>   | –             |
| Amounts reclassified to profit or loss under the following accounts: |                      |               |
| Aviation fuel expense (Note 25)                                      | –                    | 24,528,015    |
| Interest expense (Note 8)  | <b>(42,192,046)</b>  | –             |
| Actuarial gain on retirement liability                               | <b>(221,701,853)</b> | 181,130,408   |
| Tax effect   | <b>(130,780,179)</b> | (56,062,564)  |
| Balances at December 31  | <b>₱491,162,928</b>  | ₱98,822,391   |

*Interest rate risk*

Interest rate risk arises on interest-bearing financial instruments recognized in the Parent Company's statements of financial position and on some financial instruments not recognized in the Parent Company's statements of financial position (i.e., some loan commitments, if any). The Parent Company's policy is to manage its interest cost using a mix of fixed and variable rate debt (see Note 18). Furthermore, the Parent Company enters into interest rate derivative contracts to manage exposure to the volatility of interest rates on the leases of the expected aircraft deliveries (see Note 8).



The following tables show information about the Parent Company's commercial loans that are exposed to interest rate risk and are presented by maturity profile (see Note 18).

| 2022                        |                |                |                |              |              |                |                 |                 |
|-----------------------------|----------------|----------------|----------------|--------------|--------------|----------------|-----------------|-----------------|
|                             | <1 year        | >1-2 years     | >2-3 years     | >3-4 years   | >4-5 years   | >5 years       | Total           | Fair Value      |
| Commercial loans from banks | ₱1,231,110,765 | ₱2,577,776,389 | ₱1,506,983,090 | ₱436,189,790 | ₱310,341,665 | ₱8,320,419,923 | ₱14,382,821,621 | ₱17,856,195,048 |

| 2021                        |                |                |                |                |                |                |                 |                 |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
|                             | <1 year        | >1-2 years     | >2-3 years     | >3-4 years     | >4-5 years     | >5 years       | Total           | Fair Value      |
| Commercial loans from banks | ₱1,333,333,333 | ₱2,501,773,388 | ₱5,403,111,290 | ₱4,374,354,865 | ₱3,303,561,565 | ₱1,929,657,317 | ₱18,845,791,758 | ₱18,996,307,204 |



The following table sets forth the impact of the range of reasonably possible changes in interest rates on the Parent Company's pre-tax income for the years ended December 31, 2022 and 2021.

|                           | 2022           |              | 2021             |                |
|---------------------------|----------------|--------------|------------------|----------------|
|                           | 1.50%          | (%1.50)      | 1.50%            | (1.50%)        |
| Changes in interest rates |                |              |                  |                |
| Changes in pre-tax income | (P984,557,347) | P984,557,347 | (P1,278,400,992) | P1,278,400,992 |

*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 Parent Company's exposure to interest rate risk relates primarily to the Parent Company's 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 Parent Company's income before tax and the relative impact on the Parent Company's net assets as of December 31, 2022 and 2021:

|             | Change in Basis Points | Effect on profit before tax |
|-------------|------------------------|-----------------------------|
| <b>2022</b> | <b>+200%</b>           | <b>(P116,597,768)</b>       |
|             | <b>-200%</b>           | <b>270,039,153</b>          |
| 2021        | +200%                  | (P48,358,442)               |
|             | -200%                  | 49,595,495                  |

### 32. Fair Value Measurement

The carrying amounts approximate fair values for the Parent Company's financial assets and liabilities due to its short-term maturities except for the following financial asset and other financial liabilities as of December 31, 2022 and 2021:

|                                   | 2022                   |                        | 2021            |                 |
|-----------------------------------|------------------------|------------------------|-----------------|-----------------|
|                                   | Carrying Value         | Fair Value             | Carrying Value  | Fair Value      |
| <b>Financial Assets</b>           |                        |                        |                 |                 |
| Loans and receivables             |                        |                        |                 |                 |
| Refundable deposits*<br>(Note 15) | <b>P1,498,852,139</b>  | <b>P1,010,955,047</b>  | P1,191,665,074  | P1,190,442,968  |
| <b>Financial Liabilities</b>      |                        |                        |                 |                 |
| Other financial liability         |                        |                        |                 |                 |
| Long-term debt* (Note 18)         | <b>P14,382,821,620</b> | <b>P17,856,195,048</b> | P18,845,791,759 | P18,996,307,204 |

\* Includes current portion.

The methods and assumptions used by the Parent Company in estimating the fair value of financial asset 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 Parent Company used average discount rates of 1% to 7% in 2022 and 2021, respectively.



*Long-term debt*

The fair value of finance lease obligation and long-term debt is determined using the discounted cash flow methodology, with reference to the Parent Company's current incremental lending rates for similar types of loans. The discount rates used ranged from 1% to 7% as of December 31, 2022 and 2021.

The tables below show the Parent Company's financial instruments carried at fair value hierarchy classification:

|  | 2022    |                 |         | Total           |
|--|---------|-----------------|---------|-----------------|
|  | Level 1 | Level 2         | Level 3 |                 |
| <b>Assets and liabilities measured at fair value:</b>                          |         |                 |         |                 |
| Derivative financial assets at FVOCI   | P-      | ₱60,911,157     | P-      | ₱60,911,157     |
| Derivative financial liabilities at fair value through profit or loss (Note 8) | P-      | ₱846,835,509    | P-      | ₱846,835,509    |
| <b>Assets and liabilities for which fair values are disclosed:</b>             |         |                 |         |                 |
| Refundable deposits  | P-      | ₱ 1,010,955,047 | P-      | ₱1,010,955,047  |
| Long-term debt   | P-      | ₱18,264,782,317 | P-      | ₱18,264,782,317 |

|  | 2021    |                 |         | Total          |
|--|---------|-----------------|---------|----------------|
|  | Level 1 | Level 2         | Level 3 |                |
| <b>Assets and liabilities measured at fair value:</b>                          |         |                 |         |                |
| Derivative financial liabilities at fair value through profit or loss (Note 8) | P-      | ₱1,730,960,768  | P-      | ₱1,730,960,768 |
| <b>Assets and liabilities for which fair values are disclosed:</b>             |         |                 |         |                |
| Refundable deposits  | P-      | ₱ 1,190,442,968 | P-      | P-             |
| Long-term debt   | P-      | 18,996,307,204  | P-      | 18,996,307,204 |

There were no transfers within any hierarchy level of fair value measurements for the years ended December 31, 2022 and 2021, respectively.

### 33. Commitments and Contingencies

Leases

The Parent Company 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 Parent Company's obligations under its leases are secured by the lessor's title to the leased assets.



The Parent Company also has certain non-aircraft leases with lease terms of 12 months or less. The Parent Company applies the ‘short-term lease’ recognition exemptions for these leases.

The movement in right-of-use asset follows:

|                                     | 2022                   | 2021             |
|-------------------------------------|------------------------|------------------|
| Balance at January 1                | ₱78,807,502,167        | ₱78,112,676,802  |
| Additions                           | 35,184,957,610         | 19,890,601,724   |
| Deferred gain on sale and leaseback | (2,529,297,116)        | (572,447,298)    |
| Retirement                          | (17,406,398,093)       | (18,623,329,061) |
|                                     | <b>94,056,764,568</b>  | 78,807,502,167   |
| Balance at January 1                | 19,902,860,966         | 20,655,551,489   |
| Amortization expense                | 9,355,015,347          | 9,357,776,717    |
| Retirement                          | (4,492,945,323)        | (10,110,467,240) |
|                                     | <b>24,764,930,990</b>  | 19,902,860,966   |
|                                     | <b>₱69,291,833,578</b> | ₱58,904,641,201  |

The movement in lease liability follows:

|                                       | 2022                   | 2021             |
|---------------------------------------|------------------------|------------------|
| Balance at January 1                  | ₱59,261,081,973        | ₱50,871,720,363  |
| Additions                             | 35,184,957,610         | 19,889,022,821   |
| Accretion of interest                 | 2,062,542,474          | 1,393,961,056    |
| Realized foreign exchange loss (gain) | 1,039,933,832          | 1,092,398,812    |
| Payment                               | (10,702,362,447)       | (13,986,021,079) |
| Retirement                            | (13,300,261,061)       | -                |
| Balance at December 31                | 73,545,892,381         | 59,261,081,973   |
| Less: Current portion                 | 8,067,150,702          | (7,519,083,563)  |
| Noncurrent portion                    | <b>₱65,478,741,679</b> | ₱51,741,998,410  |

The maturity analysis of lease liabilities is disclosed in Note 31.

On various dates in 2022, the Parent Company converted seven (7) finance lease agreements of A321CEOs to operating lease. The conversion resulted to a reversal of the previous setup of right-of-use asset and lease liability. The Parent Company recognized a gain of ₱279.3 million from the conversion.

The following are the amounts recognized in the Parent Company’s statements of comprehensive income:

|  | 2022                   | 2021            |
|--|------------------------|-----------------|
| Amortization expense on right-of-use asset | ₱9,355,015,347         | ₱9,357,776,717  |
| Interest expense on lease liability        | 2,062,542,474          | 1,393,961,056   |
| Rent expense on short term leases          | 1,460,961,366          | 756,457,620     |
|  | <b>₱12,878,519,187</b> | ₱11,508,195,393 |

The Parent Company had total cash outflows for leases of ₱10,702.4 million and ₱13,986.0 million in 2022 and 2021, respectively. The Parent Company also had non-cash additions to right-of-use asset and lease liability of ₱35,185.0 million and ₱19,887.4 million as of December 31, 2022 and 2021, respectively.



Details of the Parent Company's lease commitments follows:

Aircraft Lease Commitments

The Parent Company 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 Parent Company's Airbus A320 aircraft:

| <u>Date of Lease Agreement</u> | <u>Lessors</u>                                   | <u>No. of Units</u> | <u>Lease Expiry</u>         |
|--------------------------------|--|---------------------|-----------------------------|
| 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                   | October 2024                |
| August 2018                    | JPA No. 119 Co. Ltd                              | 1                   | December 2024               |
| 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     |
| June 2022                      | Sky High 135 Leasing Company Limited             | 2                   | July 2032-December 2032     |

From 2007 to 2008, the Parent Company 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 Parent Company extended the lease agreement with Inishcrean for three (3) years and with GY Aviation Lease 0905 Co. Limited for two (2) years.

In 2017, the Parent Company 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 (see Note 12).

In 2018, the Parent Company 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 (3) years on the other.

In July and August 2018, the Parent Company 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 Parent Company 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 (2) aircraft under EOS Aviation 6 (Ireland) Limited were novated to the current lessors, EOS Aviation 9 (Ireland) Limited.

In December 2021, the Parent Company 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.

*A320NEO aircraft*

On July 26, 2018, the Parent Company 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 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.

In March 2022, the Parent Company entered into a 10-year lease agreement with Jackson Square Aviation Ireland Limited for one (1) A320NEO aircraft which was delivered on April 22, 2022.

In June 2022 and December 2022, the Parent Company entered into a 10-year lease agreement with Sky High 135 Leasing Company Limited for two (2) A320NEO aircraft which was delivered on July 14, 2022 and December 30, 2022, respectively.

*A321 aircraft*

In 2017, the Parent Company acquired seven (7) A321 aircraft which were all delivered in 2018 under a finance lease arrangement.

As of December 31, 2022, all seven A321 aircraft have been converted into leases with terms ranging from 48 to 72 months.

*A321NEO aircraft*

In November 2020, the Parent Company 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 Parent Company 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 Parent Company entered into a 10-year lease agreement with SMBC Aviation Capital Limited for one (1) A321NEO aircraft which was delivered on May 17, 2021.

In November 2021, the Parent Company entered into a 10-year lease agreement with Connolly Aviation Capital 6 Limited for one (1) A321NEO aircraft which was delivered on March 31, 2022.

*ATR 72-600 aircraft*

On May 10, 2019, the Parent Company entered into a 10-year lease agreement with an early termination option on the 8<sup>th</sup> year with AVAP AIRCRAFT TRADING III PTE. LTD. for one (1) ATR 72-600. The aircraft was delivered in May 2019.

In December 2021, the Parent Company entered into a 10-year lease agreement with MSO 1628 Leasing Designated Activity Company for one (1) ATR-600 delivered on December 15, 2021.

*A330CEO aircraft*

The following table summarizes the specific lease agreements on the Parent Company's Airbus A330CEO aircraft:

| <b>Date of Lease Agreement</b> | <b>Lessors</b>                                  | <b>No. of Units</b> | <b>Lease Term</b>                    |
|--------------------------------|---|---------------------|--------------------------------------|
| 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 Parent Company 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 Parent Company 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, 2022 and 2021, the Parent Company has four (4) Airbus A330 aircraft under operating lease (see Note 12).

*A330NEO aircraft*

The Parent Company entered into a 12-year lease with Avolon Leasing Ireland 3 Limited for four (4) A330NEO aircraft with different delivery dates.

The first two (2) A330NEO aircraft were delivered in November and December 2021. The third and fourth aircraft was delivered in May 2022 and November 2022, respectively.



### Engine Lease Commitments

The following table summarizes the specific lease agreements on the Parent Company'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 | 10                  | 6-12 years with pre-termination option |
| September 2020                 | SMBC Aero Engine Lease B.V. | 8                   | 18 months – 9 years                    |
| December 2021                  | Crestone Air Partners, Inc. | 2                   | 4-7 years                              |

In May 2019, the Parent Company 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 Parent Company 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 and April 2022, two (2) CFM56 engine were amended to effect the novation of lease rights to current lessor, SUNRISE NON-US PO 1 LTD.

In February 2022, the Group formally provided its notice to early terminate the operating lease agreement with RRPF Engine Leasing Limited for the lease of one (1) Trent 700 engine until February 2023.

In May and June 2022, the Parent Company has entered into swap transactions to replace its two old (2) engines (ESN 729600 and ESN 697582) with new engines (ESN 849340 and ESN 849288) with its lessors. As a result of the exchange transactions, the Parent Company recognized a gain of ₱99.5 million.

In August 2022, the Parent Company entered into operating lease agreements as part of a sale and leaseback transaction with RRPF Engine Leasing Limited for the lease of two (2) PW1133G-JM engines and one (1) Trent 7000 engine.

In September 2022, the Parent Company entered into operating lease agreements as part of a sale and leaseback transaction with SMBC Aero Engine Lease B.V. for two (2) PW1127GA-JM engines and two (2) PW1133GA-JM engines with lease term arrangements between seven (7) to nine (9) years.

In November 2022, the Parent Company entered into an operating lease agreement with RRPF Engine Leasing Limited for the lease of one (1) PW1133G-JM engines.

In 2022, the Parent Company recognized gain on the sale portion of the above transactions amounting to ₱1,523.9 million recorded under 'Gain (loss) on disposal - net' in the parent company statement of comprehensive income.

As of December 31, 2022 and 2021, the Parent Company 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 Parent Company's statements of comprehensive income) amounted to ₱1,093.4 million and ₱443.5 million in 2022 and 2021, respectively.



Future minimum lease payments under the above-indicated operating aircraft and engine leases follow:

|   | 2022                     |                            | 2021            |                            |
|---|--------------------------|----------------------------|-----------------|----------------------------|
|   | US Dollar                | Philippine Peso Equivalent | US Dollar       | Philippine Peso Equivalent |
| Within one year                             | US\$182,214,559          | ₱10,159,372,756            | US\$116,348,826 | ₱5,933,673,803             |
| After one year but not more than five years | 731,976,291              | 40,811,338,097             | 353,191,108     | 18,012,393,317             |
| Over five years                             | 474,231,261              | 26,440,763,968             | 237,732,932     | 12,124,141,820             |
|   | <b>US\$1,388,422,111</b> | <b>₱77,411,474,821</b>     | US\$707,272,866 | ₱36,070,208,940            |

#### Non-Aircraft Lease Commitments

The Parent Company 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 non-cancellable leases follow:

|   | 2022                  | 2021           |
|---|-----------------------|----------------|
| Within one year                             | ₱221,968,510          | ₱217,233,256   |
| After one year but not more than five years | 943,617,379           | 920,545,458    |
| Over five years                             | 4,351,363,919         | 4,596,404,352  |
|   | <b>₱5,516,949,808</b> | ₱5,734,183,066 |

Lease expenses relating to both cancellable and noncancellable non-aircraft leases (allocated under different expense accounts in the Parent Company's statements of comprehensive income) amounted to ₱471.3 million and ₱313.0 million in 2022 and 2021, respectively.

#### Service Maintenance Commitments

On June 21, 2012, the Parent Company has 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 has entered into 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 (8) 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 Parent Company entered in a commitment with Airbus S.A.S. to purchase firm orders of 32 new Airbus A321NEO aircraft and ten (10) additional option orders. These aircraft are scheduled to be delivered from 2019 to 2026.



On June 28, 2012, the Parent Company 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 Parent Company 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 (10) 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 September 30, 2022.

On June 6, 2017, the Parent Company 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 (4) of which were delivered on various dates within 2019 and one (1) in January 2020.

On October 31, 2019 the Parent Company placed an order with Airbus S.A.S to purchase 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 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, 2022, the Parent Company is set to take delivery of twelve (12) A330 NEO aircraft, eleven (11) A321 NEO aircraft, twelve (12) A320 NEO aircraft, ten (10) A321XLR aircraft and two (2) ATR 72-600 aircraft until 2027.

The above-indicated commitments relate to the Parent Company's re-fleeting and expansion programs. These agreements remained in effect as of December 31, 2022.

#### Capital Expenditure Commitments

The Parent Company'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.

|   | 2022                     |                            | 2021              |                            |
|---|--------------------------|----------------------------|-------------------|----------------------------|
|   | US Dollar                | Philippine Peso Equivalent | US Dollar         | Philippine Peso Equivalent |
| Within one year                             | US\$998,715,602          | ₱55,683,388,406            | US\$644,167,004   | ₱32,851,873,013            |
| After one year but not more than five years | 2,892,892,307            | 161,293,210,604            | 2,960,785,854     | 150,997,117,770            |
|   | <b>US\$3,891,607,909</b> | <b>₱216,976,599,010</b>    | US\$3,604,952,858 | ₱183,848,990,783           |



The Parent Company 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 Parent Company 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 Parent Company's position (see Note 16).

### 34. Supplemental Disclosures to the Parent Company Statements of Cash Flows

The changes in liabilities arising from financing activities in 2022 and 2021 are as follows:

|  | January 1,<br>2022 | Cash Flows        | Foreign exchange<br>movement | Others*         | December 31,<br>2022 |
|--|--------------------|-------------------|------------------------------|-----------------|----------------------|
| Short-term debt                                | ₱4,462,412,500     | (₱5,129,687,500)  | ₱667,275,000                 | ₱-              | ₱-                   |
| Current portion of long-term debt              | 1,333,333,333      | (1,333,333,333)   | -                            | 1,231,110,765   | 1,231,110,765        |
| Long-term debt – net of current portion        | 17,512,458,426     | (3,129,636,805)   | -                            | (1,231,110,765) | 13,151,710,856       |
| Bonds payable                                  | 12,184,836,126     | -                 | 1,138,579,757                | 99,906,711      | 13,423,322,594       |
| Lease liability                                | 59,261,081,973     | (10,702,362,447)  | 1,039,933,832                | 23,947,239,023  | 73,545,892,381       |
| Total liabilities from<br>financing activities | ₱94,754,122,358    | (₱20,295,020,085) | ₱2,845,788,589               | ₱24,047,145,734 | ₱101,352,036,596     |

\*Others consist of reclassification of loans and borrowings from noncurrent to current, additional lease liability, accretion of interest and amortization of bond issue costs

|  | January 1,<br>2021 | Cash Flows       | Foreign exchange<br>movement | Others*         | December 31,<br>2021 |
|--|--------------------|------------------|------------------------------|-----------------|----------------------|
| Short-term debt                                | ₱4,802,300,000     | (₱557,692,500)   | ₱217,805,000                 | ₱-              | ₱4,462,412,500       |
| Current portion of long-term debt              | 1,333,333,321      | (1,333,333,333)  | -                            | 1,333,333,345   | 1,333,333,333        |
| Long-term debt – net of current portion        | 18,845,791,771     | -                | -                            | (1,333,333,345) | 17,512,458,426       |
| Bonds payable                                  | -                  | 11,782,473,335   | 759,069,399                  | (356,706,608)   | 12,184,836,126       |
| Lease liability                                | 50,871,720,363     | (13,986,021,079) | 1,092,398,812                | 21,282,983,877  | 59,261,081,973       |
| Total liabilities from<br>financing activities | ₱75,853,145,455    | (₱4,094,573,577) | ₱2,069,273,211               | ₱20,926,277,269 | ₱94,754,122,358      |

\*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

There are no principal noncash operating, investing and financing activities in 2022 and 2021.

### 35. Registration with the BOI

As of December 31, 2022, the Parent Company is registered with the BOI as an operator of air transport on a non-pioneer status for 19 Airbus A320 NEO, seven (7) Airbus A321 CEO, 21 Airbus A321 NEO, one (1) Airbus A330 and 15 Airbus A330 NEO aircraft.

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, 12 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 availments (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 availment 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, 2022 and 2021, the Parent Company has complied with capital requirements set by the BOI in order to avail the ITH incentives for aircraft of registered activity.

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### **36. Approval of the Parent Company's Financial Statements**

The Parent Company's financial statements were approved and authorized for issue by the BOD on March 27, 2023.

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### **37. Standards Issued But Not Yet Effective**

Pronouncements issued but not yet effective are listed below. The Parent Company 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 Parent Company's financial statements unless otherwise indicated.



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 Parent Company 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 Parent Company.

- 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 Parent Company 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 Parent Company 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 Parent Company.

#### 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.



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### 38. Events After the Reporting Period

#### Listing of Vested RSUs

On January 23, 2023, the Parent Company advised the Philippine Stock Exchange that 1,327,000 common shares have been availed under Restricted Stock Units of its Long-Term Incentive Plan. These shares were listed on January 23, 2023. The RSUs vested on December 31, 2022 (see Note 23).

#### Delivery of RPC 7258

On March 1, 2023, one of the ATR 72-500 aircraft which were classified as ‘Assets held for sale’ with manufacturer’s serial number 944 was sold to a buyer at ₱227.0 million, resulting to a gain of ₱0.6 million. Accordingly, as evidenced by a Bill of Sale and Acceptance Certificate, the Group conveyed to the buyer the good legal and beneficial title to the aircraft.

#### Continuing Impact of COVID-19 Outbreak

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. Since July 16, 2022, the National Capital Region (NCR) is under Alert Level 1 until further notice, according to the Philippine Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF). In the Situation Report regarding the epidemiological situation of the Philippines published by the World Health Organization (WHO), the trend of reported COVID 19 cases in the country is decreasing. However, in an extremely urgent memo, Memorandum No. 2022-0578 of the Department of Health (DOH), the country expressed its intention to intensify the monitoring and implementation of border control protocols for incoming individuals especially from China, at all ports of entry, in light of the rising cases of infections there. Despite of this, the National Government does not expect a need to close or tighten its national borders from all inbound travelers regardless of country of origin.

The COVID-19 pandemic has continued to cause significant disruption to the operations of the Group as its scale and duration remain uncertain as at the report date. The Parent Company, however, is encouraged by the strong demand for airline services which started during the second quarter of 2022 and anticipates the same to continue as a result of the easing of COVID-19 restrictions in most parts of the country. The Parent Company anticipates further recovery on the level of its domestic and international operations in 2023. Considering the evolving nature of the pandemic, the Parent Company will continue to monitor the situation.



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

Board of Directors and the Stockholders  
Cebu Air, Inc.  
Level 4, Unit 4030 - 4031, Robinsons Galleria Cebu  
General Maxilom Avenue cor. Sergio Osmeña Boulevard  
Cebu City

We have audited, in accordance with Philippine Standards on Auditing, the parent company financial statements of Cebu Air, Inc. (the Parent Company) as at December 31, 2022 and 2021 and for the years then ended and have issued our report thereon dated March 27, 2023. Our audits were made for the purpose of forming an opinion on the basic parent company financial statements taken as a whole. The schedules listed in the Index to Parent Company Financial Statements and Supplementary Schedules are the responsibility of the Parent Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic parent company financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic parent company financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic parent company financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

*Wenda Lynn M. Loyola*

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. 9564644, January 3, 2023, Makati City

March 27, 2023



## **INDEPENDENT AUDITOR'S REPORT COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

Board of Directors and the Stockholders  
Cebu Air, Inc.  
Level 4, Unit 4030 - 4031, Robinsons Galleria Cebu  
General Maxilom Avenue cor. Sergio Osmeña Boulevard  
Cebu City

We have audited in accordance with Philippine Standards on Auditing, the parent company financial statements of Cebu Air, Inc. ( the Parent Company ) as at December 31, 2022 and 2021 and for the years then ended December 31, 2021, and have issued our report thereon dated March 27, 2023. Our audits were made for the purpose of forming an opinion on the basic parent company financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Parent Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic parent company financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Parent Company's financial statements as at December 31, 2022 and 2021 and for the years then ended December 31, 2022 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

*Wenda Lynn M. Loyola*

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. 9564644, January 3, 2023, Makati City

March 27, 2023



**CEBU AIR, INC.**  
**INDEX TO PARENT COMPANY FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**

**PARENT COMPANY FINANCIAL STATEMENTS**

Statement of Management's Responsibility for Financial Statements

Report of Independent Auditors

Parent Company Statements of Financial Position as of December 31, 2022 and 2021

Parent Company Statements of Comprehensive Income for the Years Ended  
December 31, 2022 and 2021

Parent Company Statements of Changes in Equity for the Years Ended December 31, 2022 and 2021

Parent Company Statements of Cash flows for the Years Ended December 31, 2022 and 2021

**SUPPLEMENTARY SCHEDULES**

Report of Independent Auditors on Supplementary Schedules

- I. Supplementary schedules required by Annex 68-E
  - A. Financial Assets (Current Marketable Equity and Debt Securities and Other Short-Term Cash Investments)
  - B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
  - C. Noncurrent Marketable Equity Securities, Other Long-Term Investments in Stocks and Other Investments\*
  - D. Indebtedness of Unconsolidated Subsidiaries and Affiliates\*
  - E. Property, Plant and Equipment
  - F. Accumulated Depreciation
  - G. Intangible Assets and Other Assets\*
  - H. Finance Lease Obligation
  - I. Indebtedness to Affiliates and Related Parties\*
  - J. Guarantees of Securities of Other Issuers\*
  - K. Capital Stock

\*These schedules, which are required by SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included/shown in the related parent company financial statements or in the notes thereto.

- II. Map of the relationships of the companies within the group (Part 1, 4H)
- III. Reconciliation of Retained Earnings Available for Dividend Declaration
- IV. Map of the relationships of the companies within the group
- V. Schedule of Financial Ratios

**CEBU AIR, INC.**  
**SCHEDULE A - FINANCIAL ASSETS**  
**(CURRENT MARKETABLE EQUITY AND DEBT SECURITIES AND OTHER SHORT-TERM CASH INVESTMENTS)**  
**DECEMBER 31, 2022**

| Name of Issuing Entity and<br>Description of Each Issue   | Amount Shown in<br>the Balance Sheet/<br>Notes | Value Based on<br>Market Quotations<br>at Balance Sheet Date | Income Received and<br>Accrued |
|---|--|--|--------------------------------|
| Various / USD Short-term cash investments                 | ₱9,862,816,859                                 | ₱9,862,816,859   | ₱-                             |
| Various / PHP Short-term cash investments                 | 5,248,060,437                                  | 5,248,060,437  | -                              |
| Various / KRW Short-term cash investments                 | 88,200,000                                     | 88,200,000   | -                              |
|   | <u>15,199,077,296</u>                          | <u>15,199,077,296</u>  | <u>₱-</u>                      |
| Derivative financial asset (interest rate<br>derivatives) | <u>₱60,911,157</u>                             | <u>₱60,911,157</u>   | <u>₱-</u>                      |

*See Notes 7 and 8 of the Parent Company Financial Statements.*

**CEBU AIR, INC.**  
**SCHEDULE B**  
**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS**  
**(OTHER THAN RELATED PARTIES)**  
**DECEMBER 31, 2022**

| Name and Designation of Debtor | Balance at Beginning of Period | Additions    | Collections | Write Offs | Balance at End of Period |              |              |
|--------------------------------|--------------------------------|--------------|-------------|------------|--------------------------|--------------|--------------|
|                                |                                |              |             |            | Current                  | Noncurrent   | Total        |
| Various employees              | ₱408,362,843                   | ₱111,137,769 | ₱93,821,827 | ₱-         | ₱69,561,539              | ₱356,117,246 | ₱425,678,785 |

**CEBU AIR, INC.**  
**SCHEDULE E – PROPERTY AND EQUIPMENT**  
**DECEMBER 31, 2022**

| Classification                              | Balance<br>at Beginning<br>of Period | Additions<br>at Cost   | Reclassification        | Disposals and<br>Others  | Balance<br>at End<br>of Period |
|---|--------------------------------------|------------------------|-------------------------|--------------------------|--------------------------------|
| Passenger Aircraft                          | ₱29,436,125,776                      | ₱451,609,840           | (₱3,604,036,708)        | (₱5,396,863,611)         | ₱20,886,835,297                |
| Engines                                     | 12,539,035,017                       | 3,060,050,951          | 126,832,500             | (5,034,256,499)          | 10,691,661,969                 |
| Rotables                                    | 6,463,429,696                        | 631,244,897            | –                       | (1,325,196,127)          | 5,769,478,466                  |
| EDP Equipment, Mainframe and<br>Peripherals | 1,296,630,704                        | 46,327,171             | –                       | (610,736,639)            | 732,221,236                    |
| Ground Support Equipment                    | 1,446,394,337                        | 53,806,413             | –                       | (366,303,689)            | 1,133,897,061                  |
| Leasehold Improvements                      | 1,982,566,231                        | 132,145                | 57,861,540              | (39,339)                 | 2,040,520,577                  |
| Transportation Equipment                    | 457,862,417                          | 1,587,321              | –                       | (135,861,863)            | 323,587,875                    |
| Furniture, Fixtures and Office<br>Equipment | 330,187,591                          | 3,919,830              | –                       | (205,636,087)            | 128,471,334                    |
| Special Tools                               | 17,953,976                           | 66,071                 | –                       | (16,625,925)             | 1,394,122                      |
| Communication Equipment                     | 33,899,255                           | 2,834,750              | –                       | (32,557,685)             | 4,176,320                      |
| Maintenance and Test Equipment              | 9,360,319                            | –                      | –                       | (9,360,319)              | –                              |
| Other Equipment                             | 256,871,819                          | 323,661                | –                       | (113,782,633)            | 143,412,847                    |
| Construction In-progress                    | 14,707,942,157                       | 5,774,690,679          | (184,694,040)           | (6,067,428,173)          | 14,230,510,623                 |
|   | <u>₱68,978,259,295</u>               | <u>₱10,026,593,729</u> | <u>(₱3,604,036,708)</u> | <u>(₱19,314,648,589)</u> | <u>₱56,086,167,727</u>         |

See Note 12 of the Parent Company Financial Statements.

**CEBU AIR, INC.**  
**SCHEDULE F - ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2022**

| Description                                 | Balance<br>at Beginning<br>of Period | Depreciation<br>and<br>Amortization | Reclassification         | Disposals and<br>Others | Balance<br>at End<br>of Period |
|---|--------------------------------------|-------------------------------------|--------------------------|-------------------------|--------------------------------|
| Passenger Aircraft                          | ₱16,782,457,401                      | ₱2,180,833,458                      | (₱2,697,420,580)         | (₱2,505,512,673)        | ₱13,760,357,606                |
| Engines                                     | 1,032,452,716                        | 387,749,875                         | –                        | (1,086,799,694)         | 333,402,897                    |
| Rotables                                    | 1,992,635,504                        | 376,984,883                         | –                        | (929,688,883)           | 1,439,931,504                  |
| EDP Equipment, Mainframe and<br>Peripherals | 1,224,460,558                        | 58,134,458                          | –                        | (609,922,550)           | 672,672,466                    |
| Ground Support Equipment                    | 1,066,840,424                        | 169,351,725                         | –                        | (350,286,142)           | 885,906,007                    |
| Leasehold Improvements                      | 1,190,675,647                        | 136,844,262                         | –                        | (39,339)                | 1,327,480,570                  |
| Transportation Equipment                    | 365,389,527                          | 46,253,197                          | –                        | (135,107,582)           | 276,535,142                    |
| Furniture, Fixtures and Office<br>Equipment | 283,047,718                          | 25,679,453                          | –                        | (200,595,010)           | 108,132,161                    |
| Special Tools                               | 16,951,177                           | 516,940                             | –                        | (16,256,137)            | 1,211,980                      |
| Communication Equipment                     | 31,919,396                           | 1,351,265                           | –                        | (31,973,314)            | 1,297,347                      |
| Maintenance and Test Equipment              | 6,947,971                            | 572,378                             | –                        | (7,520,349)             | –                              |
| Other Equipment                             | 181,414,579                          | 31,106,814                          | –                        | (110,460,596)           | 102,060,797                    |
|   | <u>₱24,175,192,618</u>               | <u>₱3,415,378,708</u>               | <u>(₱2,505,512,673)–</u> | <u>(₱5,984,162,269)</u> | <u>₱18,908,988,477</u>         |

*See Note 12 of the Parent Company Financial Statements.*

**CEBU AIR, INC.**  
**SCHEDULE H – FINANCE LEASE OBLIGATION**  
**DECEMBER 31, 2022**

| Title of Issue and<br>Type of Obligation | Interest Rates | Maturity Dates | Amount Shown<br>under Caption<br>"Current Portion of<br>Finance Lease<br>Obligation" and<br>"Long-term Debt" in<br>Related Balance<br>Sheet | Amount Shown<br>under Caption "<br>Finance Lease<br>Obligation" and<br>"Long-term Debt"<br>in Related Balance<br>Sheet |
|--|----------------|----------------|---|--|
|--|----------------|----------------|---|--|

|                             |                             |                               |                |                 |
|-----------------------------|-----------------------------|-------------------------------|----------------|-----------------|
| Commercial loans from banks | 2.00% to 5.00%<br>(PH BVAL) | Various dates<br>Through 2028 | ₱1,231,110,765 | ₱13,151,710,856 |
|-----------------------------|-----------------------------|-------------------------------|----------------|-----------------|

| Title of Issue and<br>Type of Obligation | Interest Rates | Maturity Dates | Amount Shown<br>under Caption<br>"Bonds Payable" in<br>Related Balance<br>Sheet |
|--|----------------|----------------|---|
|--|----------------|----------------|---|

|                   |      |              |                 |
|-------------------|------|--------------|-----------------|
| Convertible bonds | 4.5% | May 10, 2027 | ₱13,423,322,594 |
|-------------------|------|--------------|-----------------|

*See Notes 18 and 19 of the Parent Company Financial Statements.*

**CEBU AIR, INC.  
SCHEDULE K  
CAPITAL STOCK  
DECEMBER 31, 2022**

| Title of Issue  | Number of Shares Authorized | Number of Shares Issued and Outstanding as Shown under Related Balance Sheet Caption | Number of Shares Reserved for Options, Warrants, Conversion and Other Rights | Number of Shares Held by |                                   |             |
|-----------------|-----------------------------|--|--|--------------------------|-----------------------------------|-------------|
|                 |                             |  |  | Affiliates               | Directors, Officers and Employees | Others      |
| Common Stock    | 1,340,000,000               | 616,313,711  | 328,826,846  | 407,412,031              | 2,619,131                         | 206,282,549 |
| Preferred Stock | 400,000,000                 | 314,044,357  | 314,044,357  | 245,181,064              | –                                 | 68,863,293  |

*See Notes 22 and 23 of the Parent Company Financial Statements.*

**CEBU AIR, INC.****SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DECLARATION  
FOR THE YEAR ENDED DECEMBER 31, 2022**

The table below presents the retained earnings available for dividend declaration as of December 31, 2022:

|   |                  |                   |
|---|------------------|-------------------|
| Unappropriated Retained Earnings, beginning   |                  | (₱10,678,526,712) |
| Adjustments:  |                  |                   |
| Fair value adjustment arising from derivative financial instruments                             | 2,005,836,197    |                   |
| Unrealized foreign exchange gain  | (2,268,014,842)  |                   |
| Unrealized gain on remeasurement  | (182,458,444)    |                   |
| Recognized deferred tax assets  | (5,515,717,143)  |                   |
| Impairment loss   | 43,713,922       |                   |
| Treasury stock  | (950,881,502)    | (6,867,521,812)   |
| Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning |                  | (17,546,048,524)  |
| Add (less): Net income actually earned/realized during the year:                                |                  |                   |
| Net loss during the period closed to Retained Earnings  | (13,928,904,813) |                   |
| Recognized deferred tax asset   | (1,857,914,918)  |                   |
| Market valuation gains on derivative financial instruments                                      | (977,907,505)    |                   |
| Impairment loss   | 86,746,894       |                   |
| Unrealized foreign exchange losses  | 3,801,345,716    | (12,876,634,626)  |
|   |                  | (30,422,683,150)  |
| Add (less):   |                  |                   |
| Reversal of appropriations  |                  | —                 |
| Total Retained Earnings available for dividend declaration as of December 31, 2022              |                  | (₱30,422,683,150) |

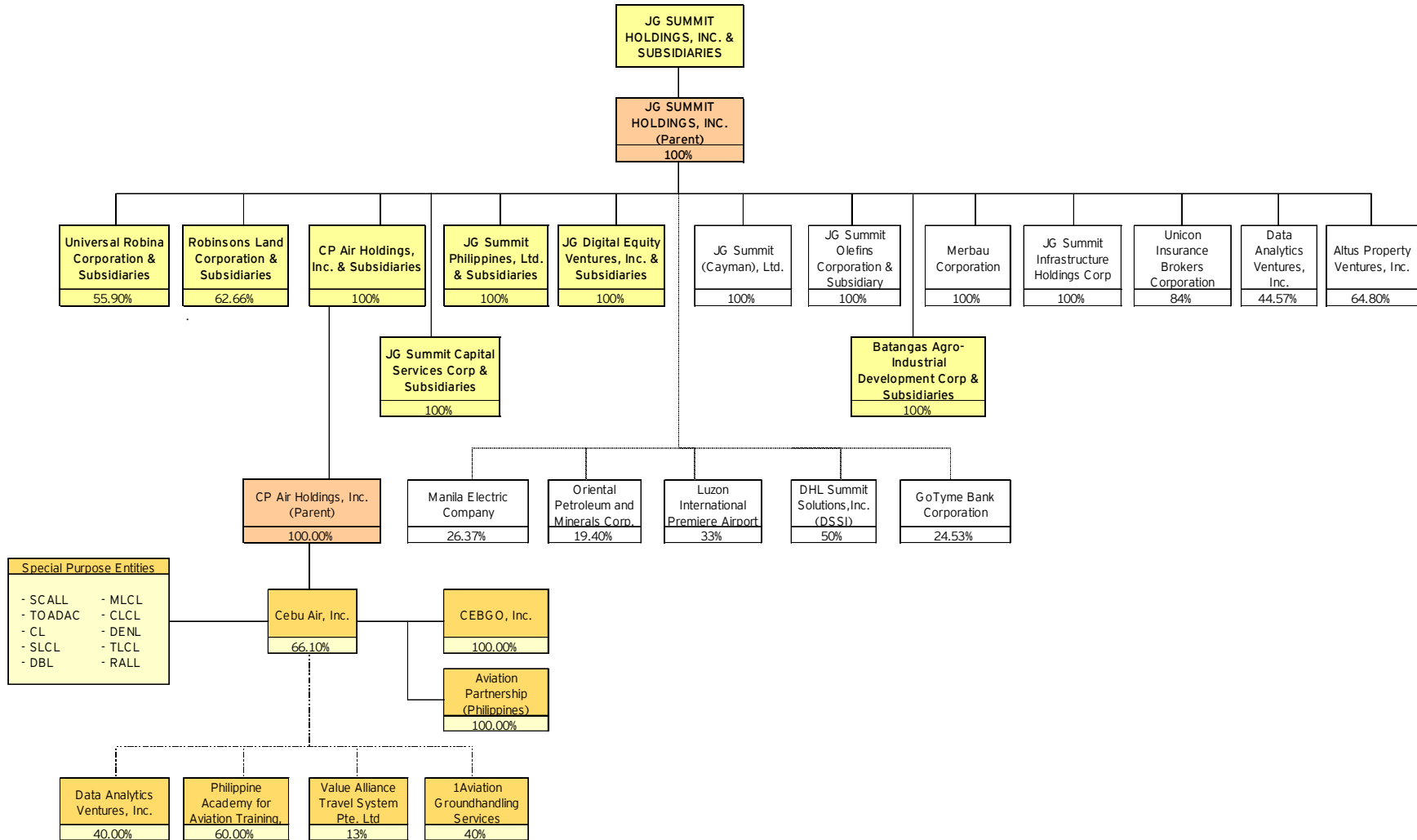
**CEBU AIR, INC.****SCHEDULE OF FINANCIAL RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021**

The following are the financial ratios that the Parent Company monitors in measuring and analyzing its financial soundness:

|                                 | <b>Formula</b>  | <b>2022</b>    | <b>2021</b> |
|---------------------------------|---|----------------|-------------|
| <b>Liquidity Ratios</b>         |   |                |             |
| Current Ratio                   | $\frac{\text{Current assets}}{\text{Current liabilities}}$  | <b>70%</b>     | 76%         |
| Quick Ratio                     | $\frac{\text{Current assets} - \text{Inventories and other current assets}}{\text{Current liabilities}}$  | <b>53%</b>     | 62%         |
| <b>Capital Structure Ratios</b> |   |                |             |
| Asset to Equity Ratio (x)       | $\frac{\text{Total assets}}{\text{Total equity}}$   | <b>(43.33)</b> | 13.38       |
| Interest Coverage Ratio (x)     | $\frac{\text{Total revenues} - \text{Operating expenses}}{\text{Interest Expense}}$   | <b>(3.35)</b>  | (7.73)      |
| <b>Profitability Ratios</b>     |   |                |             |
| EBITDAR Margin                  | $\frac{\text{Total revenues} - \text{Operating expenses} + \text{Depreciation and amortization} + \text{Provision for asset retirement obligation} + \text{Aircraft and engine lease expense}}{\text{Total Revenue}}$ | <b>17%</b>     | (16%)       |
| EBIT Margin                     | $\frac{\text{Total revenues} - \text{Operating expenses}}{\text{Total revenues}}$   | <b>(22%)</b>   | (136%)      |
| Pre-tax core net income margin  | $\frac{\text{Total revenues} - \text{Operating expenses} + \text{Interest Income} - \text{Interest expense} + (-) \text{Equity in net income (loss) of joint ventures and associates}}{\text{Total revenue}}$         | <b>(29%)</b>   | (153%)      |
| Return on asset                 | $\frac{\text{Net income (loss)}}{\text{Average total assets}}$  | <b>(10%)</b>   | (18%)       |
| Return on equity                | $\frac{\text{Net income (loss)}}{\text{Average total equity}}$  | <b>(409%)</b>  | (152%)      |

# CEBU AIR, INC.

## MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP FOR THE YEAR ENDED DECEMBER 31, 2022





Cebu Air, Inc.  
Cebu Pacific Building Domestic Road,  
Pasay City 1301 Philippines  
cebuair.com

**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, 2022 and 2021, 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.

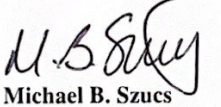
In preparing the parent financial statements, management is responsible for assessing the Parent Company's ability to continue as going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the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

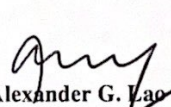
The Board of Directors is responsible for overseeing the Parent Company's financial reporting process.

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

SyCip, 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.

  
Lance Y. Gokongwei  
Chairman of the Board

  
Michael B. Szucs  
Chief Executive Officer

  
Alexander G. Lao  
President and Chief  
Commercial Officer


  
Mark Julius V. Cezar  
Chief Finance Officer

Signed this 27th day of March, 2023.

Subscribed and Sworn to before me this March 27, 2023 in the City of PASAY CITY, affiants exhibiting to me their Passport, as follows:

| NAMES                | PASSPORT NO. | DATE OF ISSUE               | PLACE OF ISSUE  |
|----------------------|--------------|-----------------------------|-----------------|
| Lance Y. Gokongwei   | P6235422B    | 02/05/2021 until 02/04/2031 | DFA NCR Central |
| Michael B. Szucs     | 529070626    | 01/28/2016 until 01/28/2026 | HMPO            |
| Alexander G. Lao     | P7185526B    | 07/13/2021 until 07/12/2031 | DFA Manila      |
| Mark Julius V. Cezar | P4965589B    | 02/27/2020 until 02/26/2030 | DFA Manila      |

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Page No. 6  
Book No. 1  
Series of 2023

NOTARY PUBLIC  
  
ATTY. ANGEL S. TRISTAZA  
Commission No. 23-20  
Notary for Pasay City until 31 December 2024  
Cebu Pacific Building, Domestic Road, Brgy. 191 Zone 20, Pasay City  
Roll No. 71193  
PTR No. 8060373 / 01-11-2023 / Pasay City  
IBP No. 180343 / 11-23-2022 / Cagayan

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

|   |   |   |   |   |   |  |  |  |  |
|---|---|---|---|---|---|--|--|--|--|
| 1 | 5 | 4 | 6 | 7 | 5 |  |  |  |  |
|---|---|---|---|---|---|--|--|--|--|

**COMPANY NAME**

|   |   |   |   |  |   |   |   |   |  |   |   |   |   |  |   |   |   |  |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|--|---|---|---|---|--|---|---|---|---|--|---|---|---|--|---|---|---|---|---|---|---|---|---|---|---|
| C | E | B | U |  | A | I | R | , |  | I | N | C | . |  | A | N | D |  | S | U | B | S | I | D | I | A | R | I | E |
| S |   |   |   |  |   |   |   |   |  |   |   |   |   |  |   |   |   |  |   |   |   |   |   |   |   |   |   |   |   |
|   |   |   |   |  |   |   |   |   |  |   |   |   |   |  |   |   |   |  |   |   |   |   |   |   |   |   |   |   |   |
|   |   |   |   |  |   |   |   |   |  |   |   |   |   |  |   |   |   |  |   |   |   |   |   |   |   |   |   |   |   |

**PRINCIPAL OFFICE** ( No. / Street / Barangay / City / Town / Province )

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| L | e | v | e | l |   | 4 | , |   | U | n | i | t |   | 4 | 0 | 3 | 0 | - | 4 | 0 | 3 | 1 | , |   | R | o | b | i | n |
| s | o | n | s |   | G | a | l | l | e | r | i | a |   | C | e | b | u | , |   | G | e | n | e | r | a | l |   | M | a |
| x | i | l | o | m |   | A | v | e | n | u | e |   | c | o | r | . |   | S | e | r | g | i | o |   | O | s | m | e | ñ |
| a |   | B | o | u | l | e | v | a | r | d | , |   | C | e | b | u |   | C | i | t | y | , |   | C | e | b | u |   |   |

Form Type  
1 7 - A

Department requiring the report  
S E C

Secondary License Type, If Applicable  
N / A

**COMPANY INFORMATION**

|                                |   |                                    |
|--------------------------------|---|------------------------------------|
| Company's Email Address<br>N/A | Company's Telephone Number<br>(632) 8802-7000 | Mobile Number<br>N/A               |
| No. of Stockholders<br>106     | Annual Meeting (Month / Day)<br>5/11          | Fiscal Year (Month / Day)<br>12/31 |

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

|  |  |                                       |                      |
|--|--|---------------------------------------|----------------------|
| Name of Contact Person<br>Mark Julius V. Cezar | Email Address<br>MarkJulius.Cezar@cebupacificair.com | Telephone Number/s<br>(632) 8802-7000 | Mobile Number<br>N/A |
|--|--|---------------------------------------|----------------------|

**CONTACT PERSON'S ADDRESS**

|   |
|---|
| Cebu Pacific Building, Domestic Road, Barangay 191, Zone 20, Pasay City 1301, Philippines |
|---|

**NOTE 1** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2022**
2. SEC Identification No. **154675**
3. BIR Tax Identification No. **000-948-229-00000**

**Cebu Air, Inc.**

4. Exact name of issuer as specified in its charter

**Cebu City, Philippines**

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code:  (SEC Use Only)

**Level 4, Unit 4030-4031, Robinsons Galleria Cebu, General Maxilom Avenue  
cor. Sergio Osmeña Boulevard, Cebu City, Cebu**

7. Address of issuer's principal office

**6000**  
Postal Code

**(632) 8802-7000**

8. Issuer's telephone number, including area code

**Not applicable**

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| <b>Title of Each Class</b>                   | <b>Number of Shares of<br/>Stock Outstanding and Amount<br/>of Debt Outstanding</b> |
|--|---|
| Common Stock, ₱1.00 Par Value                | 616,313,711 shares  |
| Convertible Preferred Stock, ₱1.00 Par Value | 314,044,357 shares  |

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes  No

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes  No

(b) has been subject to such filing requirements for the past 90 days.

Yes  No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

**The aggregate market value of stocks held by non-affiliates is ₱8,115,830,268.**

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## **PART I - BUSINESS AND GENERAL INFORMATION**

### **Item 1. Business**

Cebu Air, Inc. (the Parent Company) is an airline that operates under the trade names “Cebu Pacific” and “Cebu Pacific Air” and is the leading low-cost carrier in the Philippines. It pioneered the “low fare, great value” strategy in the local aviation industry by providing scheduled air travel services targeted to passengers who are willing to forego extras for fares that are typically lower than those offered by traditional full-service airlines while offering reliable services and providing passengers with a fun travel experience.

The Parent Company was incorporated on August 26, 1988 and was granted a 40-year legislative franchise to operate international and domestic air transport services in 1991. It commenced its scheduled passenger operations in 1996 with its first domestic flight from Manila to Cebu. In 1997, it was granted the status as an official Philippine carrier to operate international services by the Office of the President of the Philippines pursuant to Executive Order (E.O.) No. 219. International operations began in 2001 with flights from Manila to Hong Kong.

In 2005, the Parent Company adopted the low-cost carrier (LCC) business model. The core element of the LCC strategy is to offer affordable air services to passengers. This is achieved by having high-load, high-frequency flights; high aircraft utilization; a young and simple fleet composition; and low distribution costs.

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).

The Parent Company has ten (10) special purpose entities (SPEs) that it controls, namely: Summit C Aircraft Leasing Limited (SCALL), Tikgi One Aviation Designated Activity Company (TOADAC), 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.

On March 20, 2014, the Parent Company acquired 100% ownership of Tiger Airways Philippines (TAP), including 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, its ten (10) SPEs, CEBGO, Inc. (the “Airline Group”) and A-plus (collectively known as “the Group”) are consolidated for financial reporting purposes.

On March 1, 2018, the Parent Company incorporated 1Aviation Groundhandling Services Corporation (1Aviation), a wholly-owned subsidiary before the sale of 60% equity ownership to Philippine Airport Ground Support Solutions, Inc. (PAGSS) and Mr. Jefferson G. Cheng. The subsequent sale has resulted in a joint venture between the aforementioned parties.

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 CAI Limited. 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 Sunrise Asset Management, LLC, 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. In June 2021, two (2) of the four (4) aircraft were further transferred from EOS Aviation 6 Ireland Limited to EOS Aviation 9 Ireland Limited.

In August 2022, Summit D Aircraft Leasing Limited (SDALL) was dissolved following the repayment of last aircraft loan in 2021.

The COVID-19 outbreak which started in January 2020 prompted the Airline Group to suspend its flights to and from China, Hong Kong, Macau and South Korea in varying periods between February and April 2020. As the virus continue to spread, by March 19, 2020, all of the Airline Group's commercial operations have been grounded due to a government-declared community quarantine. The Airline Group has since resumed some of its regular services but is still below its pre-pandemic level of operations. Prior to the suspension of all its regular flights due to the COVID-19 outbreak, the Airline Group operated 78 domestic routes and 25 international routes with a total of 2,717 scheduled weekly flights.

As of December 31, 2022, the Airline Group operates a route network serving 70 domestic routes and 22 international routes with a total of 2,694 scheduled weekly flights, as it gradually recommenced operations starting June 3, 2020 on a General Community Quarantine (GCQ) to GCQ city basis in terms of scheduled services. The Airline Group will continue to expand its operations as more local and foreign governments welcome flights into their cities and ease their travel restrictions. It operates from seven hubs, including the Ninoy Aquino International Airport (NAIA) Terminal 3 and Terminal 4 both located in Pasay City, Metro Manila; Mactan-Cebu International Airport located in Lapu-Lapu City, part of Metropolitan Cebu; Diosdado Macapagal International Airport (DMIA) located in Clark, Pampanga; Davao International Airport located in Davao City, Davao del Sur; Ilo-ilo International Airport located in Ilo-ilo City, regional center of the western Visayas region; and Kalibo International Airport in Kalibo, Aklan and Laguindingan Airport in Misamis Oriental.

As of December 31, 2022, the Airline Group operates a fleet of 76 aircraft which comprises of twenty-one (21) Airbus A320 CEO, seven (7) Airbus A321 CEO, nine (9) Airbus A320 NEO, ten (10) Airbus A321 NEO, five (5) Airbus A330 CEO, four (4) Airbus A330 NEO, six (6) ATR 72-500, and fourteen (14) ATR 72-600 aircraft. It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72-500 and ATR 72-600 aircraft on domestic routes, including destinations with runway limitations. The average aircraft age of the Airline Group's fleet is approximately 6.0 years as of December 31, 2022.

Aside from passenger service, the Airline Group also provides airport-to-airport cargo services on its domestic and international routes. In addition, it offers ancillary services such as cancellation and rebooking options, in-flight merchandising such as sale of duty-free products on international flights, baggage and travel-related products and services.

A-plus, on the other hand, is engaged in the business of line maintenance (including certification and providing mechanic assistance), to provide technical ramp, equipment handling, including the provision of equipment for pushback, water and toilet servicing and operation of aircraft ground support equipment and to provide light maintenance aircraft checks (up to and including "A" checks).

The percentage contributions to the Group's revenues of its principal business activities are as follows:

|                     | For the Years Ended December 31 |               |               |
|---------------------|---------------------------------|---------------|---------------|
|                     | 2022                            | 2021          | 2020          |
| Passenger Services  | 62.0%                           | 40.0%         | 55.8%         |
| Cargo Services      | 12.5%                           | 41.1%         | 23.9%         |
| Ancillary Services* | 25.5%                           | 18.9%         | 20.3%         |
|                     | <b>100.0%</b>                   | <b>100.0%</b> | <b>100.0%</b> |

\*includes A-plus' revenue from rendering line and light maintenance services to third party customers

On May 16, 2016, the Airline Group and other market champions in Asia Pacific, announced the formation of the world's first, pan-regional low cost carrier alliance, the Value Alliance. The Group, together with Jeju Air (Korea), Nok Air (Thailand) and Scoot (Singapore) will deliver greater value, connectivity and choice for travel throughout Southeast Asia and North Asia, as the airlines bring their extensive networks together.

There are no material reclassifications, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business that was made in the past three years aside from those discussed above. The Group has not been subjected to any bankruptcy, receivership or similar proceeding in the said period.

### ***Distribution Methods of Products or Services***

The Airline Group has three principal distribution channels: the internet; direct sales through booking sales offices, government/corporate client accounts; and third-party sales outlets.

#### Internet

In January 2006, the Parent Company introduced its internet booking system. Through [www.cebupacificair.com](http://www.cebupacificair.com), passengers can book flights and purchase services online. The system also provides passengers with real-time access to the Parent Company's flight schedules and fare options. CEBGO, Inc.'s flights can be booked through the Cebu Pacific website and its other booking channels starting March 2014.

In December 2014, the Parent Company also launched its official mobile application which allows guests to book flights on-the-go through their mobile devices.

The Airline Group's participation in the Value Alliance with other low-cost carriers in the region will increase its distribution reach by enabling its customers to view, select and book the best-available airfares on flights from any of the airlines in a single transaction, directly from each partner's website. This is made possible through the groundbreaking technology developed by Air Black Box (ABB). ABB allows guests to enjoy the full suite of ancillary choices they have come to appreciate from low cost carriers across all partner airline sectors in a single itinerary.

#### Booking and Regional Branch Offices

As of December 31, 2022, the Airline Group operates two booking offices located in the Philippines. These offices handle ticketing transactions and customer service issues, such as customer requests for change of itinerary. The Airline Group also has four regional branch offices in Hong Kong, South Korea, Japan and China.

#### Government/Corporate Client Accounts

As of December 31, 2022, the Airline Group has government and corporate accounts for passenger sales. It provides these accounts with direct access to its reservation system and seat inventory as well as credit lines and certain incentives. Further, clients may choose to settle their accounts by post-transaction remittance or by using pre-enrolled credit cards.

### Third Party Sales Outlets

As of December 31, 2022, the Airline Group has a network of distributors in the Philippines selling its domestic and international air services within an agreed territory or geographical coverage. Each distributor maintains and grows its own client base and can impose on its clients a service or transaction fee. Typically, a distributor's client base would include agents, travel agents or end customers. The Airline Group also has a network of foreign general sales agents, wholesalers, and preferred sales agents who market, sell and distribute the Airline Group's air services in other countries.

### A-plus

Customers of A-plus are usually from referrals of existing clients or network acquaintances. A-plus also receives inquiries from potential customers who got information on the Company from online sources.

### ***Publicly Announced New Product or Service***

The Airline Group continues to analyze its route network. It can opt to increase frequencies on existing routes or add new routes/destinations. It can also opt to eliminate unprofitable routes and redeploy capacity.

The Airline Group has used green fuel to power its brand-new Airbus A33NEO on its delivery flight from Airbus facilities in Toulouse, France, to the Ninoy Aquino International Airport (NAIA) in Manila, becoming the first low-cost carrier in Asia to incorporate sustainable aviation fuel (SAF) into its operations.

The new aircraft is the Airline Group's third A330NEO and is the greenest aircraft in the industry given its fuel efficiency and carrying capacity. CEB's A330NEO is configured with 459 seats in a single-class layout and is fuel efficient, achieving 25% less fuel burn than previous-generation aircraft. The move to use SAF is a pillar of the Airline Group's sustainable journey. SAF will be used for aircraft delivery and is a major component of our fleet modernization. This strengthens the Airline Group's drive to achieve its green goal of being carbon neutral by 2050.

SAF is a "drop-in" replacement for fossil fuels, produced from renewable resources. The use of SAF results in an up to 85% reduction in carbon emissions across the SAF lifecycle. The chemical and physical characteristics of SAF are almost identical to those of conventional jet fuel and these can be safely mixed with regular jet fuel to varying degrees. SAF does not require any adaptations to the aircraft or engines, and does not have any negative impact on performance or maintenance.

The airline's sustainability goal is aligned with global aviation's commitment to achieve net zero carbon emissions by 2050.

The Airline Group's three major pillars on its sustainable journey are fleet modernization which aims, among others, having an all-NEO fleet by 2027; resource optimization, which includes pushing for fuel efficiency best practices; and utilizing SAF by launching green routes by 2025 and using SAF for its entire network by 2030.

The Airline Group will lease five (5) aircraft in 2023 to address capacity and growing passenger demand. These are on top of the ten (10) new Airbus NEO aircraft that will be delivered in 2023 to expand the airline's entire fleet. These fleet are in addition to the orders that will be delivered from its Airbus contract. Three (3) of the aircraft will be used to restart the Clark base. The two (2) other aircraft will be used to support overall growth ambitions as it recovers fully from the pandemic.

## ***Competition***

The Philippine aviation authorities deregulated the airline industry in 1995 eliminating certain restrictions on domestic routes and frequencies which resulted in fewer regulatory barriers to entry into the Philippine domestic aviation market. On the international market, although the Philippines currently operates under a bilateral framework, whereby foreign carriers are granted landing rights in the Philippines on the basis of reciprocity as set forth in the relevant bilateral agreements between the Philippine government and foreign nations, in March 2011, the Philippine government issued Executive Order (E.O.) 29 which authorizes the Civil Aeronautics Board (CAB) and the Philippine Air Panels to pursue more aggressively the international civil aviation liberalization policy to boost the country's competitiveness as a tourism destination and investment location.

Currently, the Airline Group faces intense competition on both its domestic and international routes. The level and intensity of competition varies from route to route based on a number of factors. Principally, it competes with other airlines that service the routes it flies. However, on certain domestic routes, the Airline Group also considers alternative modes of transportation, particularly sea and land transport, to be competitors for its services. Substitutes to its services also include video conferencing and other modes of communication.

The Airline Group's major competitors in the Philippines are Philippine Airlines ("PAL"), a full-service Philippine flag carrier; PAL Express (formerly Airphil Express) a low-cost domestic operator and which code shares with PAL on certain domestic routes and leases certain aircraft from PAL; and Philippines Air Asia (a merger between former Air Asia Philippines and Zest Air). Most of the Airline Group's domestic and international destinations are also serviced by these airlines. The Airline Group is the leading domestic airline in the Philippines by passengers carried, with a market share of 57%.

The Airline Group is also a regional low-cost airline which currently competes with the following LCC's and full-service airlines in its international operations: AirAsia, Jetstar Airways, PAL, Cathay Pacific, Singapore Airlines and Thai Airways, among others.

A-plus' major competitor is Lufthansa Technik Philippines ("LTP"), however, the latter focuses mostly on rendering base maintenance services or heavy checks.

## ***Raw Materials***

Fuel is a major cost component for airlines. The Airline Group's fuel requirements are classified by location and sourced from various suppliers.

The Airline Group's fuel suppliers at its international stations include Shell-Dubai, Shell-Hongkong, Shell-Singapore, World Fuel-Japan, World Fuel-Canton, PTT-Bangkok, PTT-Incheon and Ampol-Sydney among others. It also purchases fuel from local suppliers like Petron and PTT Philippines. The Airline Group purchases fuel stocks on a per parcel basis, in such quantities as are sufficient to meet its monthly operational requirements. Most of the Airline Group's contracts with fuel suppliers are on a yearly basis and may be renewed for subsequent one-year periods.

### ***Dependence on One or a Few Major Customers and Identify any such Major Customers***

The Airline Group's business is not dependent upon a single customer or a few customers that a loss of anyone of which would have a material adverse effect on the Airline Group.

A-plus' major customer is Cebu Air, Inc., its Parent Company.

### ***Transactions with and/or Dependence on Related Parties***

The Group's significant transactions with related parties are described in detail in Note 30 of the notes to consolidated financial statements.

### ***Patents, Trademarks, Licenses, Franchises, Concessions and Royalty Agreements***

#### **Trademarks**

Trademark registrations with the Intellectual Property Office of the Philippines (IPOPhil) prior to the effective date of Republic Act (R.A) No. 8293, or the current Intellectual Property Code of the Philippines, are valid for twenty (20) years from the date of issue of the certificate of registration. Meanwhile, trademark registrations covered by R.A. No. 8293 are valid for ten (10) years from the date of the certificate of registration. Regardless of whether the trademark registration is for twenty years or ten years, the same may be renewed for subsequent ten-year terms.

The Airline Group holds the following valid and subsisting trademark registrations:

- CEBU PACIFIC, the Cebu Pacific feather-like device, CEBU PACIFIC AIR, CEBU PACIFIC AIR.COM;
- The CEB Mascot;
- Various trademarks for the Parent Company's branding campaigns such as WHY EVERYONE FLIES, WHY EVERYJUAN FLIES, SUPER SEAT FEST, TRAVEL SURE, and the logos used for such purposes;
- CEBU PACIFIC, CEB Travel Sure, and the Travel Sure logo;
- CEBGO and the CEBGO logo;
- A trademark for the strategic alliance entered into by the Parent Company and TAH
- 1AV, 1AVIATION, and the 1AV name for its airport ground-handling services, needs, and other requirements.
- AVIATION PARTNERSHIP PHILIPPINES and A-plus logo

On June 1, 2015, the Parent Company rolled out its new logo which features shades of the Philippines' land, sea, sky and sun. This new branding also symbolizes the airline's growth and evolution from a low-cost pioneer to its larger operations today. The new logo and new branding have been registered as trademarks of the Group.

Meanwhile, the Airline Group has twenty-six (26) trademarks registered with the Intellectual Property Office of China which have all been renewed last 9 September 2022, and three (3) trademarks with the Intellectual Property Office of Singapore. On 24 October 2017, the Parent Company registered four (4) trademarks for CEBU PACIFIC'S wordmark, logo, and stylized wordmark under the Madrid – International Trademark System for Australia, Brunei, Japan, Cambodia, Korea, USA, and Vietnam valid for ten (10) years from the date of the certificate of registration.

The Parent Company has also incorporated the business names "Cebu Pacific" and "Cebu Pacific Air" with its Articles of Incorporation, as required by Memorandum Circular No. 21-2013 issued by the SEC. Registering a business name with the SEC precludes another entity engaged in the same or similar business from using the same business name as one that has been registered.

The Airline Group, together with other airline members, also has trademarks registered for the Value Alliance logo in various jurisdictions.

On November 27, 2019, the Parent Company filed twenty-eight (28) new applications for trademark registration with the IPOPhil for its branding campaigns, twenty-four (24) of which have already been granted on different dates in 2020, and another four (4) of which have been granted on different dates in 2021. On December 11, 2019, the Parent Company also filed three (3) additional applications for trademark registration to further bolster its marketing strength, all of which have been granted in 2020. On 21 June 2022, the IPOPhil also granted the renewal of the trademarks “It’s time everyone flies” and “It’s time every Juan flies”.

### Franchise

In 1991, pursuant to R.A. No. 7151, the Parent Company was granted a franchise to operate air transportation services, both domestic and international. In accordance with the Parent Company’s franchise, this extends up to year 2031:

- a) The Parent Company is subject to franchise tax of five percent 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.

In December 2008, pursuant to R.A. No. 9517, CEBGO, Inc. (formerly TAP), the Parent Company’s wholly owned subsidiary, was granted a franchise to establish, operate and maintain domestic and international air transport services with Clark Field, Pampanga as its base. This franchise shall be for a term of twenty-five (25) years.

Kindly refer to Note 1 of the notes to consolidated financial statements.

### ***Government Approval of Principal Products or Services***

The Airline Group operates its business in a highly regulated environment. The Airline Group’s business depends upon the permits and licenses issued by the government authorities or agencies for its operations which include the following:

- Legislative Franchise to Operate a Transport Services by Air
- Certificate of Public Convenience and Necessity
- Foreign Air Operator Permit
- Air Operator Certificate
- Certificate of Registration
- Certificate of Airworthiness

The Airline Group also has to seek approval from the relevant airport authorities to secure airport slots for its operations.

As an airline operator, the Airline Group recognizes the effect of the nature and extent of regulations on the results of its operations. Consequently, in conducting its businesses, the Airline Group has secured or seeks to secure all relevant and applicable government approvals at both the national and local levels.

Basic permits and licenses required of airlines operating in the Philippines are set forth below:

Legislative Franchise to Operate Transport Services by Air

Republic Act (R.A.) No. 7151 grants the Parent Company the right to establish, operate and maintain transport services for the carriage of passengers, mail, goods and property by air, both domestic and international. It further provides that air transport services shall include the maintenance and operation of hangars and aircraft service stations and facilities and other services of similar nature which may be necessary, convenient or useful as an auxiliary to aircraft transportation.

Under Section 2 of the said Republic Act, the Parent Company shall secure from the Civil Aeronautics Board the appropriate permits and licenses for its operations. Further, all aircraft used by the Parent Company shall at all times be airworthy and the crew members shall be licensed by the government of the Philippines. The operation of such equipment shall at all times be subject to inspection and regulations by the Civil Aviation Authority of the Philippines.

Franchises are granted for a period not exceeding 50 years and always upon the condition that they be subject to amendment, alteration, or repeal by Congress when the common good requires.

Legislative Franchise to Operate a Public Utility

A public utility is an entity which renders services, including transportation services, to the general public for compensation. Its essential feature is that its service is not confined to privileged individuals but is open to the general public.

The 1987 Philippine constitution requires that a franchise, certificate, or any other form of authorization for the operation of a public utility may only be granted to Filipino citizens or to corporations or associations organized under Philippine laws whose capital is at least 60 per cent owned by Filipino citizens. Franchises are granted for a period not exceeding 50 years and always upon the condition that they be subject to amendment, alteration, or repeal by Congress when the common good requires.

Certificate of Public Convenience and Necessity

A CPCN is a permit issued by the Civil Aeronautics Board (CAB) authorizing a domestic person or entity, that is at least 60 per cent owned by Filipinos, to engage in international and/or domestic, scheduled and/or non-scheduled air transportation services. Once issued, the grantee must obtain approval for any proposed change in its routes and schedules, frequency of flights, type and class of service and equipment. It is also required to request approval of proposed tariffs, showing all rates, fares, charges and conditions of carriage and any change therein. Moreover, a grantee of a CPCN may operate even without a legislative franchise. A CPCN is renewable every five (5) years.

Foreign Air Operator Permit

A Foreign Air Operator Permit is the approval granted by the national civil aviation authority to a foreign aircraft operator authorizing the operation of a foreign registered aircraft on flights into and out of the issuing country, which the Parent Company needs in order to operate to foreign jurisdictions.

### Air Operator Certificate (“AOC”)

The AOC is issued by the Civil Aviation Authority of the Philippines (CAAP) to enable the air carrier to operate in the Philippines, with a term of one year, pursuant to Administrative Order 121 s. 2001. Prior to issuance, the applicant must undergo a five-phase certification process by the CAAP, wherein the proposed plan/site, routes, key management personnel, and aircrafts will be evaluated.

### Certificate of Registration

The CAAP requires that all aircraft to be used by a Philippine air carrier must be registered in the Philippines. This certificate of registration, which shall be carried aboard the aircraft for all operations, is secured from CAAP once the Philippine air carrier has submitted and met all the requirements for the registration. The said certificate has a validity of 1 year and renewed every year thereafter, and for as long as the aircraft is operated and/or owned by a Philippine air carrier.

### Certificate of Airworthiness

Each aircraft must also be issued a certificate of airworthiness by the CAAP before it can be used for operations in the Philippines. To obtain this, the applicant must submit and comply with the certificate of airworthiness requirements. Part of the requirements is also to secure customs clearance for the aircraft, and a radio license from the National Telecommunications Commission. This certificate is secured from CAAP once the evaluation of the submitted documents is completed and the aircraft has successfully passed the CAAP Inspector’s acceptance and conformity inspections. The said certificate has a validity of one (1) year and renewable annually thereafter.

### Aviation Insurance Coverage

As a mandatory requirement under the Philippine Civil Aviation Regulations, an operator of aircraft must have valid insurance covering aircraft hull, each person, freight and mail onboard aircraft and third party liability. Furthermore, under the same Philippine Civil Aviation Regulations, no person may operate a civil aircraft in general aviation operations unless it has within the aircraft documents evidencing, among others, aircraft insurance coverage.

Thus, certificates of insurance and reinsurance evidencing adequate aviation insurance coverage per aircraft must be issued (and placed within the aircraft) as required by the Philippine Civil Aviation Regulations. Likewise, certificates of insurance and reinsurance evidencing adequate aviation insurance coverage must be issued in various international destinations and/or routes where the Group flies as a requirement of the Civil Aviation Authority of the relevant jurisdiction where the Group flies to.

Adequate aviation insurance coverage is being secured by the Airline Group for its fleet and is being renewed annually.

### Fares

Under RA 776, the CAB is empowered to approve fares, rates and charges, conditions of carriage, schedules and schedule changes, charters and airline exchange rates. Pursuant to the liberalization policy, domestic airfares are deregulated for routes operated by more than one carrier. Price setting is left to the discretion of the airlines, along with the level of capacity they want to offer in the market. Any proposed fare must, however, be submitted to the CAB for formal confirmation. For routes serviced by a single operator, airfares are still regulated and subject to the approval of the CAB. For international fares, most of the country’s air services agreements adopt a dual-approval concept, under which fares have to be approved by the aviation authorities of both countries.

### Acquisition of Aircraft, Lease Agreements, and contract loan or financing

All aircraft purchases, as well as lease agreements entered into by air carriers, whether for equipment, facilities, aircraft or hangars, and any contract loan or financing secured by an air carrier in the amount of ₱500,000.00 or more must be approved by the CAB.

### Maintenance

RA 776 and RA 9497 created the CAB and the CAAP, respectively, to supervise and oversee the safety and maintenance procedures of the airlines. The maintenance programme, and any changes thereto, must be approved by the CAAP. Operations specifications per aircraft model must also be approved by the CAAP.

### ***Effects of Existing or Probable Government Regulations on the Business***

#### Civil Aeronautics Board (“CAB”) and Civil Aviation Authority of the Philippines (“CAAP”)

Policy-making for the Philippine civil aviation industry started with R.A. No. 776, known as the Civil Aeronautics Act of the Philippines (the “Act”), passed in 1952. The Act established the policies and laws governing the economic and technical regulation of civil aeronautics in the country. It established the guidelines for the operation of two regulatory organizations, CAB for the regulation of the economic activities of airline industry participants and the Air Transportation Office, which was later transformed into the CAAP, created pursuant to R.A. No. 9497, otherwise known as the Civil Aviation Authority Act of 2008.

The CAB is authorized to regulate the economic aspects of air transportation, to issue general rules and regulations to carry out the provisions of R.A. No. 776, and to approve or disapprove the conditions of carriage or tariff which an airline desires to adopt. It has general supervision and regulation over air carriers, general sales agents, cargo sales agents, and airfreight forwarders, as well as their property, property rights, equipment, facilities and franchises.

The CAAP, a government agency under the supervision of the Department of Transportation and Communications for purposes of policy coordination, regulates the technical and operational aspects of air transportation in the Philippines, ensuring safe, economic and efficient air travel. In particular, it establishes the rules and regulations for the inspection and registration of all aircraft and facilities owned and operated in the Philippines, determine the charges and/or rates pertinent to the operation of public air utility facilities and services, and coordinates with the relevant government agencies in relation to airport security. Moreover, CAAP is likewise tasked to operate and maintain domestic airports, air navigation and other similar facilities in compliance with the International Civil Aviation Organization (ICAO), the specialized agency of the United Nations whose mandate is to ensure the safe, efficient and orderly evolution of international civil aviation.

The Group complies with and adheres to existing government regulations.

#### Aviation Safety Ranking and Regulations

In early January 2008, the Federal Aviation Administration (FAA) of the United States (U.S.) downgraded the aviation safety ranking of the Philippines to Category 2 from the previous Category 1 rating. The FAA assesses the civil aviation authorities of all countries with air carriers that operate to the U.S. to determine whether or not foreign civil aviation authorities are meeting the safety standards set by the ICAO. The lower Category 2 rating means a country either lacks laws or regulations necessary to oversee airlines in accordance with minimum international standards, or its civil aviation authority is deficient in one or more areas, such as technical expertise, trained personnel, record-keeping or inspection procedures. Further, it means Philippine carriers can continue flying to the U.S. but only under heightened FAA surveillance or limitations. In addition, the Philippines was included in the “Significant Safety Concerns” posting by the ICAO as a result of an unaddressed safety concern highlighted in the recent ICAO audit. As a result of this unaddressed safety concern, Air Safety

Committee (ASC) of the European Union banned all Philippine commercial air carriers from operating flights to and from Europe. The ASC based its decision on the absence of sufficient oversight by the CAAP.

In February 2013, the ICAO has lifted the significant safety concerns on the ability of CAAP to meet global aviation standards. The ICAO SSC Validation Committee reviewed the corrective actions, evidence and documents submitted by the Philippines to address the concerns and determined that the corrective actions taken have successfully addressed and resolved the audit findings.

On April 10, 2014, the ASC of the European Union lifted its ban on the Parent Company after its evaluation of the airline's capacity and commitment to comply with relevant aviation safety regulations. On the same date, the US FAA also announced that the Philippines has complied with international safety standards set by the ICAO and has been granted a Category 1 rating. The upgrade to Category 1 status is based on a March 2014 FAA review of the CAAP. With this, Philippine air carriers can now add flights and services to the U.S.

In September and December 2014, the Group received CAAP's approval for extended range operations in the form of a certification for Extended Diversion Time Operations (EDTO) of up to 90 and 120 minutes, respectively. EDTO refers to a set of rules introduced by the ICAO for airlines operating twin-engine aircraft on routes beyond 60 minutes flying time from the nearest airport. This certification allows the Group to serve new long haul markets and operate more direct routes between airports resulting to more fuel savings and reduced flight times.

In April 2018, the Airline Group has fully complied with the IATA Operational Safety Audit (IOSA) and now joins a roster of 437 airlines that have met the highest standard for safety in the airline industry. IOSA is an internationally recognized and accepted evaluation system designed to assess the operational management and control systems of an airline. To secure the accreditation, the Airline Group has invested in technology that would improve its capability to manage safety risks such as on-board Runway Overrun Prevention System (ROPS) cockpit technology for its Airbus fleet for purposes of monitoring runway conditions prior to landing, Area Navigation (RNAV) data for more accurate navigation and approaches to various airports and a Fatigue Risk Management System to ensure that pilots are at adequate levels of alertness.

These developments open the opportunity for the Airline Group to establish new routes to other countries in the U.S. and Europe.

In December 2019, the Airline Group officially joined the International Air Transportation Association (IATA) to gain access to expertise and learnings on best practices and innovations among global airlines, as well as help formulate policies on critical aviation issues. IATA, the trade association for the global airline industry, is comprised of over 290 member-airlines from 117 countries, representing 82% of global air traffic.

#### E.O. 28 and 29

In March 2011, the Philippine government issued E.O. 28 which provides for the reconstitution and reorganization of the existing Single Negotiating Panel into the Philippine Air Negotiating Panel (PANP) and Philippine Air Consultation Panel (PACP) (collectively, the Philippine Air Panels). The PANP shall be responsible for the initial negotiations leading to the conclusion of the relevant ASAs while the PACP shall be responsible for the succeeding negotiations of such ASAs or similar arrangements.

Also in March 2011, the Philippine government issued E.O. 29 which authorizes the CAB and the Philippine Air Panels to pursue more aggressively the international civil aviation liberalization policy to boost the country's competitiveness as a tourism destination and investment location. Among others, E.O. 29 provides the following:

- In the negotiation of the ASAs, the Philippine Air Panels may offer and promote third, fourth and fifth freedom rights to the country's airports other than the NAIA without restriction as to frequency, capacity and type of aircraft, and other arrangements that will serve the national interest as may be determined by the CAB; and
- Notwithstanding the provisions of the relevant ASAs, the CAB may grant any foreign air carriers increases in frequencies and/or capacities in the country's airports other than the NAIA, subject to conditions required by existing laws, rules and regulations. All grants of frequencies and/or capacities which shall be subject to the approval of the President shall operate as a waiver by the Philippines of the restrictions on frequencies and capacities under the relevant ASAs.

The issuance of the foregoing EOs may significantly increase competition.

#### ASEAN Open Skies Agreement

In February 2016, the Philippine government ratified the ASEAN Open Skies agreement which allows designated carriers of ASEAN countries to operate unlimited flights between capitals, leading to better connectivity and more competitive fares and services. Subject to regulatory approvals, this liberalized and equitable air services agreement further allows carriers to upgrade its ASEAN flights to wide-bodied aircraft and increase capacity without the need for air talks thus allowing airlines to focus on expanding its operations, stimulating passenger traffic, and improving customer experience rather than spending valuable resources on negotiating for additional air rights.

#### Air Passenger Bill of Rights

The Air Passenger Bill of Rights (the "Bill"), which was formed under a joint administrative order of the Department of Transportation and Communications, the CAB and the Department of Trade and Industry, was signed and published by the Government on December 11, 2012 and came into effect on December 21, 2012. The Bill sets the guidelines on several airline practices such as overbooking, rebooking, ticket refunds, cancellations, delayed flights, lost luggage and misleading advertisement on fares.

#### R.A. No. 10378 - Common Carriers Tax Act

R.A. No. 10378, otherwise known as the Common Carriers Tax Act, was signed into law on March 7, 2013. This act recognizes the principle of reciprocity as basis for the grant of income tax exceptions to international carriers and rationalizes other taxes imposed thereon by amending sections 28(A)(3)(a), 109, 108 and 236 of the National Internal Revenue Code, as amended.

Among the relevant provisions of the act follows:

- a.) An international carrier doing business in the Philippines shall pay a tax of two and one-half percent (2 1/2%) on its Gross Philippine Billings, provided, that international carriers doing business in the Philippines may avail of a preferential rate or exemption from the tax herein imposed on their gross revenue derived from the carriage of persons and their excess baggage on the basis of an applicable tax treaty or international agreement to which the Philippines is a signatory or on the basis of reciprocity such that an international carrier, whose home country grants income tax exemption to Philippine carriers, shall likewise be exempt from the tax imposed under this provision;
- b.) International air carriers doing business in the Philippines on their gross receipts derived from transport of cargo from the Philippines to another country shall pay a tax of three percent (3%) of their quarterly gross receipts; and
- c.) VAT exemption on the transport of passengers by international carriers.

While the removal of CCT takes away the primary constraint on foreign carrier's capacity growth and places the Philippines on an almost level playing field with that of other countries, this may still be a positive news for the industry as a whole, as it may drive tourism into the Philippines. With Cebu Pacific's dominant network, the Group can benefit from the government's utmost support for tourism.

#### R.A. No. 11659 – Public Service Act, as Amended

R.A. No. 11659, otherwise known as the Public Service Act, as Amended, was signed into law on March 21, 2022. The act amends Commonwealth Act No. 146, otherwise known as the Public Service Act passed in 1936.

Among others, the act distinguishes a public utility from a public service. The scope of a public utility is limited to persons who operate, manage and control for public use any of the following: (i) electricity distribution; (ii) electricity transmission; (iii) petroleum and petroleum products pipelines transmissions systems; (iv) water pipeline distribution systems and wastewater pipeline systems, including sewerage pipeline systems; (v) seaports; and (vi) public utility vehicles. It further provides that nationality requirements shall not be imposed by the relevant Administrative Agencies, as defined in the said act, on any public service not classified as a public utility.

The Parent Company is considered as a public service and not a public utility, therefore, no longer subject to the foreign ownership restrictions on public utilities under the 1987 Philippine Constitution as public utilities are only those enumerated in the said act.

#### ***Research and Development***

The Group incurred minimal amounts for research and development activities, which do not amount to a significant percentage of revenues.

#### ***Cost and Effects of Compliance with Environmental Laws***

The operations of the Group are subject to various laws enacted for the protection of the environment. The Group has complied with the following applicable environmental laws and regulations:

- Presidential Decree No. 1586 (Establishing an Environmental Impact Assessment System) which directs every person, partnership or corporation to obtain an Environmental Compliance Certificate (ECC) before undertaking or operating a project declared as environmentally critical by the President of the Philippines. Petro-chemical industries, including refineries and fuel depots, are considered environmentally critical projects for which an ECC is required. The Group has obtained ECCs for the fuel depots it operates and maintains for the storage and distribution of aviation fuel for its aircraft.
- R.A. No. 8749 (The Implementing Rules and Regulations of the Philippine Clean Air Act of 1999) requires operators of aviation fuel storage tanks, which are considered as a possible source of air pollution, to obtain a Permit to Operate from the applicable regional office of the Environment Management Bureau (EMB). The Group's aviation fuel storage tanks are subject to and are compliant with this requirement.
- R.A. No. 9275 (Implementing Rules and Regulations of the Philippine Clean Water Act of 2004) requires owners or operators of facilities that discharge regulated effluents to secure from the Laguna Lake Development Authority (LLDA) (Luzon area) and/or the applicable regional office of the EMB (Visayas and Mindanao areas) a Discharge Permit, which is the legal authorization granted by the Department of Energy and Natural Resources for the discharge of waste water. The Group's operations generate waste water and effluents for the disposal of which a Discharge Permit was obtained from the LLDA and the EMB of Region 7 which enables it to discharge and

dispose of liquid waste or water effluent generated in the course of its operations at specifically designated areas. The Group also contracted the services of government-licensed and accredited third parties to transport, handle and dispose its waste materials.

Compliance with the foregoing laws does not have a material effect to the Group's capital expenditures, earnings and competitive position.

On an annual basis, the Group spends approximately P36,000 in connection with its compliance with applicable environmental laws for the above.

### ***Employees***

As of December 31, 2022, the Group has 4,308 permanent full time employees, categorized as follows:

| <b>Division:</b>                   | <b>Employees</b> |
|------------------------------------|------------------|
| Operations <sup>(1)</sup>          | 3,472            |
| Commercial <sup>(2)</sup>          | 281              |
| Support Departments <sup>(3)</sup> | 555              |
|                                    | <hr/>            |
|                                    | <b>4,308</b>     |

Notes:

<sup>(1)</sup> Flight Operations, Customer Service Operations, Ground Operations, Engineering & Fleet Management, Network Control and Crew Scheduling

<sup>(2)</sup> Marketing, Commercial, Passenger Sales and Distribution

<sup>(3)</sup> Controllership, Corporate Finance, Corporate Strategy, Human Resources, Information Technology, Security, Treasury, Quality and Assurance, Safety, Fuel, Legal, Corporate Affairs, Internal Audit, Admin Services and Facilities

The Group anticipates having approximately 4,864 employees by the end of 2023.

Cabin crew members belong to a union and account for 13% of the Group's total employees. The Group has not experienced any labor strikes or work stoppages in the past three years.

### ***Risk***

As one of the leading airlines in the Philippines, the Airline Group adopted the low-cost carrier (LCC) business model, the core element of which is to offer affordable air services to passengers. This is achieved by having high-load, high-frequency flights, high aircraft utilization, a young and simple fleet composition, low distribution costs and being operationally efficient. Several factors can affect the way the Airline Group operates its aircraft and maintains the schedules of its flights, which may adversely affect its business, results and/or prospects.

The key elements of the Airline Group's business model are to maintain low operating costs while increasing passenger volumes by offering passengers low air fares. Any continued decrease of its average fares, whether as a result of competition or its pricing strategy, may adversely affect its future results of operations. In addition, due to the global travel restrictions due to COVID-19 which resulted in a decline in passenger volume and flight cancellations, there was a reduction in ancillary revenues and this has inadvertently caused an impact to the catering business and other ground handling services. If the Airline Group is unable to maintain low operating costs or to maintain or increase its passenger volumes sufficiently, the Airline Group's business would be materially and adversely affected.

In addition, the Airline Group's business model generally records higher domestic revenue in January, March, April, May and December as festivals and school holidays in the Philippines increase the Airline Group's Seat Load Factors in these periods. Accordingly, its revenue is relatively lower in July to

September due to decreased domestic travel during those months. Any prolonged disruption in its operations during such peak periods could materially affect its financial results.

While these risks are inherent in the LCC market, the Airline Group continually ensures it has a lean and dynamic network plan, highly flexible operations, efficient processes and a digital first mind set. Doing so allows the Airline Group to remain agile and adaptable to ever evolving demands of passengers and the LCC environment as a whole.

The major business risks facing the Group are as follows:

(1) Cost and Availability of Fuel

Fuel is the largest component of the Group's total expenses. As such, it has implemented various fuel management strategies to manage the risk of rising fuel prices including, but not limited to, hedging. The Group's fuel hedging policy is generally to match forward booking levels with its hedging volume levels. It may hedge up to 80% of its forecasted fuel requirements within three months, narrowing to up to 30% of its fuel requirements 1-2 calendar years forward. The Parent Company may execute commodity derivatives, such as swaps and collars, to manage its price risks on fuel purchases. These derivatives lock in fuel prices of future risk exposures hence providing cash flow predictability and mitigate fuel cost volatility to a certain level.

There is a risk, however, that the implementation of its fuel management strategies will be insufficient to protect it against increases in the price of fuel. In addition, fuel price volatility has in the past resulted, and in the future may further result, in losses from these hedging activities. There is no assurance that the Group will be able to continue such strategies, which include securing new fuel derivative contracts, on a commercially reasonable basis or at all. Both the cost and availability of fuel are subject to many economic and political factors and events occurring throughout the world, the most important of which are not within the Group's control. Fuel prices have been subject to high volatility, fluctuating substantially over the past several years. There is no assurance that the Group will be able to levy fuel surcharges or otherwise recover further fuel price increases from its passengers in the future. Given the highly competitive nature of the airline industry, the Group may have limited ability to increase its fares or fuel surcharges sufficiently to offset the full impact of increases in fuel prices.

Pursuant to CAB resolution No. 46 (BM 06-06-28-2021) on Passenger Fuel Surcharge for Domestic International Flights, the Civil Aeronautics Board has published various advisories throughout 2022 with amendment based on the fluctuating fuel prices in the country. Starting January 1, 2022 up to February 28, 2022, the applicable fuel surcharge rate is at Level 3 which later rose to Level 4 from March 1 to April 30, 2022. Due to the rising prices in fuel coupled with the depreciation of peso, as of December 31, 2022, the imposed fuel surcharge rate is at Level 8.

(2) Competition

The Airline Group is facing increasing competition from other regional and domestic airlines. Its main competitor in the Philippines is Philippine Airlines ("PAL"), a full-service Philippine flag carrier. Most of Airline Group's domestic and international destinations are also serviced by PAL. The Airline Group also competes in the Philippines with PAL Express, a low-cost domestic operator that has the same major shareholder as PAL and which codeshares with PAL on certain domestic routes and leases certain aircraft from PAL. In addition, the Airline Group also faces competition from Air Asia Philippines which have access to certain domestic routes as well as landing rights at Ninoy Aquino International Airport in Manila. In addition, the Airline Group also competes with the other low-cost carriers and full services airlines in its international operations such as Jetstar Airways, Singapore Airlines and Cathay Pacific, among

others. As a result of the COVID-19 outbreak, the Parent Company may reduce its international operations in the medium term in order to focus more on its domestic operations, which would result in a less extensive international network. The growth of competitors may put a downward pressure on the Airline Group's air fares and margins. New entrants into the aviation industry may also limit the availability and cost of terminal space, slots and aircraft parking, which are critical to the Airline Group's operations. There can be no assurance that the Airline Group will be able to maintain its market position or to compete effectively with the existing or new airlines in the market.

The Airline Group also faces competition from ground and sea transportation alternatives, including buses, trains, ferries, boats and cars, which are the principal means of transportation in the Philippines. Video conferencing and other methods of electronic communication, and improvements therein, also add a new dimension of competition to the industry as they, to a certain extent, provide lower-cost substitutes for air travel.

To mitigate this risk, the Airline Group focuses on areas of costs, on-time performance, service delivery, and efficient scheduling to remain competitive.

A-plus keeps an edge with other players in the market through maintaining lower costs in order to offer more competitive prices.

### (3) Economic Downturn

International air transportation is intimately linked and correlated with economic growth. The growth or decline in economic activity directly affects demand for business travel by air and for cargo space. Economic downturns can also impact leisure travel as discretionary income is affected.

Since a substantial portion of airline travel, for both business and leisure, is discretionary, the airline industry tends to experience adverse financial performance during an economic downturn. Yields may also experience a decline as airlines may offer fare discounts in certain markets to stimulate demand.

The Group's business depends substantially on general economic conditions in Asia. As the airline industry is generally characterized by high fixed costs, including aircraft costs such as aircraft depreciation, lease rentals, maintenance and repair costs, a drop in revenue levels as a result of a slower economic cycle could have an adverse impact on the Group's financial performance. It is difficult to predict the duration and effects of an economic downturn, which may be aggravated by volatility in the financial sector and the capital markets, leading to significant market-wide liquidity problems. These conditions may adversely affect the Group's financial condition and/or results of operations in the future.

While this risk is uncontrollable, the Group focuses on efficient service delivery, sensible cost reduction, and continuous process improvement in order to remain agile and adaptable in the event of an economic downturn.

### (4) Availability of Debt Financing

The Group's business is highly capital intensive. It has historically required debt financing to acquire aircraft and expects to incur significant amounts of debt in the future to fund the acquisition of additional aircraft, its operations, other anticipated capital expenditures, working capital requirements and expansion overseas.

The Group has significant obligations for aircraft delivery and spare engines that it has ordered from Airbus and ATR for delivery over the next five years.

The Group's ability to pay the fixed and other costs associated with its contractual obligations will depend on its operating performance, cash flow and its ability to secure adequate financing, which will in turn depend on, among other things, the success of its business strategy, fuel price volatility and the general economic and political conditions. In light of COVID-19 which resulted in cancellation of flights and decreased passenger volume, the Group may be unable to make timely payments or meet its contractual obligations.

To mitigate this risk, the Group practices prudent financial management to minimize any adverse effects.

(5) Finance Lease on Aircrafts

The Airline Group operates certain aircraft which were purchased by special-purpose companies from the manufacturers and leased to it pursuant to finance lease agreements. As the global economy recession worsens, it is likely that Airline Group may seek sale-and-leasebacks for more of its aircraft. Under its financing and lease arrangements, the Airline Group's lenders have security interests in such aircraft. If the Airline Group were to default under any of the finance leases or the related financing documents, its lenders have the right to take possession of such aircraft, which would have a material adverse effect on its business, prospects, financial condition and results of operations. Furthermore, each finance lease contains cross-default provisions. Any breach of the terms of one finance lease could result in a cross-default under the Airline Group's other finance leases, which could result in its lenders having a right to take possession of substantially all of its aircraft. This could put the Airline Group in a position where it is unable to operate its business.

(6) Foreign Exchange and Interest Rate Fluctuations

The Group's exposure to foreign exchange rate fluctuations is principally in respect of its U.S. Dollar-denominated long-term debt and lease liability as well as a majority of its operating costs, such as U.S. Dollar denominated purchases of aviation fuel. On the other hand, the Group's exposure to interest rate fluctuations is relative to debts incurred which have floating interest rates. In such cases, any significant devaluation of the Philippine peso and any significant increases in interest rates will result to increased obligations that could adversely impact the Group's result of operations.

To mitigate this risk, the Group may execute derivative contracts to hedge foreign exchange exposure, such as USD-PHP forwards to hedge its U.S. Dollar denominated expenses. These derivatives provide protection against Philippine Peso depreciation by locking in the USD-PHP exchange rates. The associated risk with these derivatives, however, is that these limit the Group's participation should Philippine Peso strengthen against the U.S. Dollar.

Further, the Group proactively manages its interest cost using a mix of fixed and variable rate debt. In addition, the Group may fix the interest rates for a portion of its loans to manage its exposure to interest rate volatility.

Lastly, the Group has interest rate exposures on some aircraft leases which are fixed only upon delivery. To mitigate this, the Group executed interest rate swaps to protect these leases from rising interest rates. The associated risk with these derivatives is that these limit the Group's participation should interest rates decline.

(7) Airport and Air Traffic Control Infrastructure Constraints

One of the key elements of the Airline Group's business strategy is to maintain a high daily aircraft utilization rate and to be operationally efficient. High daily aircraft utilization allows

the Airline Group to generate more revenue from its aircraft and is achieved in part by reducing turnaround times at airports. The Airline Group relies on operational efficiency to reduce unit costs and provide reliable service. Any delay to the addition of capacity at airports or upgrade of facilities in the Philippines at which the Airline Group operates could affect the operational efficiency and may affect its ability to maximize aircraft utilization. These factors could further affect the Airline Group's turnaround time and could materially and adversely affect our financial results. In addition, some airports in the Philippines are not yet equipped to handle night flights, thereby reducing our flexibility to provide air travel services to such destinations.

The Airline Group also relies upon the availability of the airports to which it flies in order to conduct its operations. However, the Airline Group is unable to guarantee that such airports will not be closed or their services suspended for reasons beyond its control. For instance, in March 2020, the Philippine government imposed a lockdown in Luzon following the COVID-19 outbreak. This meant that the Airline Group had to suspend its operations in Luzon and it proceeded to cancel flights into and out of Luzon, Visayas and Mindanao. However, there can be no assurances that other such incidents will not occur at other airports to which it flies, which may cause the Airline Group to suspend its flights to and from such airports affecting its international operations, thereby having a material adverse effect on its business. Further, there can be no assurance that the Airline Group will be able to enter into a definitive lease and operational agreement, or an arrangement with a new operator in the event of a change of control of various airports in the Philippines, on commercially reasonable terms, or at all, which could have a material adverse effect on its business, prospects, financial condition and results of operations.

(8) Reliance on Third Party Facilities, Service Providers and Sales Outlets

The availability and cost of terminal space, slots and aircraft parking are critical to the Airline Group's operations. These and other required facilities and equipment may be unavailable in a timely or economic manner. The Airline Group's inability to lease, acquire or access airport facilities on reasonable terms or at preferred times to support its growth or to maintain its current operations would have a material adverse effect on its business, prospects, financial condition and results of operations.

The Airline Group has entered into agreements with third-party operators to provide certain facilities and services required for its operations such as ground-handling, maintenance, refueling and airport facilities such as aerobridges. The loss or expiration of these agreements or its inability to renew these agreements or to negotiate new agreements with other providers at comparable rates could have a material adverse effect on the Airline Group's business, prospects, financial condition and results of operations. Furthermore, the Airline Group's reliance on third parties to provide essential services on Airline Group's behalf gives it less control over the efficiency, timeliness and quality of those services.

While part of the Airline Group's strategy is to increase bookings through the internet, sales through third party sales agents remain an important distribution channel for Cebu Pacific. There can be no assurance that Airline Group will be able to maintain favorable relationships with them nor be able to suitably replace them if required. The Airline Group's revenues could be adversely impacted if third parties who sell its air services elect to prioritize other airlines. The Airline Group's relationship with third party sales outlets may be affected by the terms of business and economic package offered to them by other airlines, changes in its arrangements with other distributors of air services and the introduction and growth of new methods of selling air services. Furthermore, these third parties interface with its passengers and potential passengers. In the event they act improperly, such behavior may harm the Airline Group's reputation and may adversely affect it.

(9) Maintenance Cost and Performance of Maintenance Repair Organizations

As its fleet ages, the Airline Group's maintenance and overhaul expenses will increase on an absolute basis and on a unit cost basis. Any significant increase in maintenance and overhaul expenses despite its efforts to mitigate such expenses by entering into long term contracts, could have a material adverse effect on its business, prospects, financial condition and results of operations.

(10) Reliance on Information Technology, Automated Systems and the Internet

The Group's business processes are widely supported by Information Technology (IT). More importantly, the Group depends on automated systems to operate its business, including, among others, its website, its reservation and its departure control systems. Any disruption to its website or online reservation and telecommunication services could result in losses, increased expenses and could harm its reputation. The use of IT involves risks for the stability of business processes and for the availability, confidentiality and integrity of data and information. Such risks may be in the form of cyberattacks, disruptions to the availability of applications, security breaches and other similar incidents. The Group implements information security measures and regularly reviews its data protection systems in order to minimize these risks.

(11) Dependence on the Efforts of Executive Officers and Other Key Management

The Group's success depends to a significant extent upon the continued services of its executive officers and other key management personnel. The unavailability of any of its executive officers and other key management or failure to recruit suitable or comparable replacements could have a material adverse effect on its business, prospects, financial condition and results of operations.

(12) Retaining and Attracting Qualified Personnel

The Group's business model requires it to have highly skilled, dedicated and efficient pilots, engineers and other personnel. Its growth plans will require the Group to hire, train and retain a significant number of new employees in the future. However, from time to time, the airline industry has experienced a shortage of skilled personnel, particularly pilots and engineers. The Group competes against full-service airlines which offer wage and benefit packages that exceed those offered by the Group. The inability of the Group to hire, train and retain qualified employees at a reasonable cost could result in inability to execute its growth strategy, which would have a material adverse effect on its business, prospects, financial condition and results of operations. In addition, the Group may find it increasingly challenging to maintain its corporate culture as it replaces or hires additional personnel.

The Group may have to increase wages and benefits to attract and retain qualified personnel.

To mitigate the risk, the Group adopts policies to ensure a healthy working environment for its employees along with market competitive compensation.

(13) Availability of Experienced Pilots

The Airline Group is dependent on the availability of an adequate supply of experienced pilots. Should there be shortage of experienced pilots in the Philippines, the Airline Group resorts to employing foreign pilots to meet its requirements. The Airline Group may compete with other airlines to employ such pilots which may lead to an increase in their operating cost. There can be no assurance that the Airline Group will be able attract and retain the experienced pilots it needs. Failure to attract and retain experienced pilots and the impact of increasing costs should there be shortage of such pilots may materially and adversely affect its business, financial condition and results of operations.

(14) Availability of Insurance

Insurance is fundamental to airline operations. Due to terrorist attacks or other world events or pandemics such as COVID-19, certain aviation insurance could become unavailable or available only for reduced amounts of coverage that are insufficient to comply with the levels of coverage required by the Airline Group's aircraft lenders and lessors or applicable government regulations. Any inability to obtain insurance, on commercially acceptable terms or at all, for the Group's general operations or specific assets would have a material adverse effect on its business, prospects, financial condition and results of operations.

The Airline Group cannot assure potential investors that its coverage will cover actual losses incurred or the losses incurred due to business disruptions caused by COVID-19. As a result, Group might have to incur substantial losses, which may have a material adverse effect on its business, prospects, financial condition and results of operations. The Group's lenders have the right, under its financing arrangements, to require the Group to obtain additional insurance coverage over the present industry practice. Furthermore, in line with industry practice, the Group leaves some business risks uninsured, including business interruptions, loss of profit or revenue and certain types of mechanical breakdown. To the extent that uninsured risks

materialize, the Group's business, prospects, financial condition and results of operations could be materially and adversely affected.

(15) Unionization, Work Stoppages, Slowdowns and Increased Labor Costs

If the Airline Group is unable to reach agreement on the terms of any renewal of a collective bargaining agreement, or if the Airline Group was to experience widespread employee dissatisfaction due to various factors like retrenchment or the change in pay structure from fixed to variable, it could be subject to work slowdowns or stoppages. In light of the COVID-19 outbreak, there is no certainty that there would not be further job cuts due to a slow recovery in economy. Any of these events would be disruptive to the Group's operations and could harm its business.

To mitigate this risk, the Group ensures constant and open communication between management and employees to enable the organization to address issues in a timely manner.

(16) Event of an Accident or Incident Involving its Aircraft

The Airline Group is exposed to potentially significant losses in the event that any of its aircraft is lost or subject to an accident, terrorist incident or other disaster. In addition, any such event would give rise to significant costs related to passenger claims, repairs or replacement of a damaged aircraft and its temporary or permanent loss from service.

The Airline Group is committed to operational safety and security. Its commitment to safety and security is reflected in its rigorous aircraft maintenance program and flight operations manuals, intensive flight crew, cabin crew and employee training programs and its strict compliance with local regulations, international standards and industry best practices regarding aircraft and operational safety and security. The Airline Group believes that its safety and security measures adhere to international standards. However, the Airline Group cannot assure that it will not be involved in any similar or other catastrophic event in the future. Although the Airline Group believes it currently maintains liability insurance in amounts and of the type generally consistent with industry practice and our insurance requirements are in part mandated under our long-term financing arrangements for our aircraft, its insurance coverage may not be adequate in the event such circumstances and any such event could cause a substantial increase in its insurance premiums. With the expansion of the Airline Group's fleet, insurance claims relating to incidents resulting in minor aircraft damage have also increased and this may further affect the insurance premiums. Moreover, aircraft accidents or incidents, even if fully insured, are likely to create a public perception that the airline is less safe than other airlines, which could significantly reduce its passenger volumes and have a material adverse effect on its business, prospects, financial condition and results of operations.

(17) Any Real or Perceived Problem with Airbus A320 Family, Airbus A330 or ATR 72 Aircraft including their Unavailability

The Airline Group currently operates a mixed Airbus and ATR fleet and use CFM 56-5B, Pratt & Whitney PW1100G-JM, Rolls Royce Trent 772B and Pratt & Whitney Canada PW127M series engines.

Its dependence on the Airbus A320 Family, Airbus A330 and ATR 72 aircraft and the CFM 56-5B, Pratt & Whitney PW1100G-JM, Rolls Royce Trent 772B and Pratt & Whitney Canada PW127M series engines makes the Airline Group particularly vulnerable to any problems that might be associated with such aircraft and engines. The Airline Group would be significantly harmed if a design defect or mechanical problem with the Airbus A320 Family, Airbus A330 or ATR 72 aircraft or the CFM 56-5B Pratt & Whitney PW1100G-JM, Rolls Royce Trent 772B and Pratt & Whitney Canada PW127M series engines were discovered, causing the aircraft to

be grounded while any such defect or problem is corrected, assuming it could be corrected at all. The Airline Group could be materially and adversely affected if the public avoids flying the aircraft as a result of an adverse perception of the Airbus A320 Family, Airbus A330 or ATR 72 aircraft due to real or perceived safety concerns or other problems.

In the event that the Airbus A320, A321 or A330 aircraft, as well as ATR 72-500 or ATR 72-600 aircraft and the CFM 56-5B and Pratt & Whitney PW 127M series engines become unavailable in the market and the Airline Group is constrained to acquire additional aircraft or engines of a different type, it could lose the benefits it derives from its current fleet composition and the engines it utilizes. There is no assurance that any replacement aircraft would have the same operating advantages as the Airbus A320, A321 or A330 aircraft, as well as ATR 72-500 or ATR 72-600 aircraft or that it could lease or purchase engines that would be as reliable and efficient as the CFM 56-5B and Pratt & Whitney PW 127M series engines. The Airline Group may also incur substantial transition costs, including higher costs associated with retraining or hiring pilots, cabin crew and engineers to operate and maintain a different type of aircraft or engine. It would also need access to a flight simulator for the new aircraft type. In addition, it would be exposed to the same risk of real or perceived problems with respect to the new type of aircraft and engines. Its operations could also be harmed by the failure or inability of Airbus, ATR, CFM International, Inc. or Pratt & Whitney to provide sufficient manufacturer or manufacturer vendor parts or related support services on a timely basis

(18) Dependency upon the Support of JG Summit Holdings, Inc. (“JG Summit”) for Various Services

The Group relies upon JG Summit for certain shared services such as debt management, corporate finance, corporate planning, and corporate communications. However, there is no guarantee JG Summit will continue to provide these services in the future. Should they cease to provide these services to the Group, it will have to obtain the services from elsewhere, most likely at a greater expense, which could have a negative impact on the business and results of operations.

In addition, JG Summit has provided guarantees of its obligations under finance leases in the past. However, JG Summit has ceased to provide these guarantees since the year 2009 pertaining to the Company’s ECA and commercial loans used to finance most of Cebu Pacific’s aircraft. There is no assurance that JG Summit will provide guarantees for future debt that may be required by the Group.

(19) Requirements of the Philippine Constitution and other Laws

On March 22, 2022, the President of the Philippines signed into law Republic Act 11659 which amends the Public Service Act, which, among others, removes the foreign equity restrictions on public service companies not defined as a public utility. The Parent Company is not considered a public utility under the said act.

- (20) The State may Take Over the Group's Business in the Event of War, Insurrection, Domestic Trouble, Public Calamity or National Emergency

The Philippine constitution provides that in times of national emergency when national interest requires, the state may, during the emergency and under reasonable terms prescribed by it, temporarily take over or direct the operation of any privately-owned public utility or business affected with the public interest, including airline companies. In addition, the Group's franchise specifically reserves the right of the Government, by order of the President of the Philippines, in case of war, insurrection, domestic trouble, public calamity or national emergency, to take over and operate its aircraft and other equipment, subject to payment to the Group by the Government of compensation for the use of its assets or for damage thereto. Although the Government has not taken over Group's operations during any national emergency in the past, there can be no assurance that its operations may not be disrupted or temporarily taken over in the future or that it would be adequately compensated for the use of its assets in the event of a takeover upon the occurrence of any of the events giving the President of the Philippines the right to exercise such power.

- (21) Domestic Concentration

Since the Group's operations have focused and, at least in the near term, will continue to focus on air travel in the Philippines, it would be materially and adversely affected by any circumstances causing a reduction in demand for air transportation in the Philippines, including adverse changes in local economic and political conditions, negative travel advisories issued by foreign governments, declining interest in the Philippines as a tourist destination, or significant price increases linked to increases in airport access costs and fees imposed on passengers.

- (22) Geo-political Events

The Group's business consists substantially of carriage of passengers and freight globally. It will be affected if there is a widespread reduction in the demand for air travel arising from geo-political events that cause customers to reduce or avoid air travel, or that prevent the Group from delivering its services. For example, instability in global trade policies may contribute to periods of increased global economic uncertainty. Uncertain and unfavorable economic conditions and, in particular, future political and economic factors which have the effect of reducing expenditure for air travel and freight services, may materially and adversely affect the Group's business, financial condition and results of operations or prospects.

- (23) Regulations

The operations of the Group are subject to aviation laws and regulations. Compliance with such laws and regulations may adversely impact its business operations and competitive position. For instance, the safety oversight audit of the CAAP conducted by the ICAO in 2008 identified a safety concern which it claims remains unresolved in the Philippines. As a result, the ICAO included the Philippines in its "Significant Safety Concerns" posting dated 18 December 2009, which prevents the Group from adding additional frequencies for certain international destinations which would otherwise have been permitted under previously negotiated bilateral landing rights. As a result of this safety concern, on 19 March 2010, the Aviation Safety Council ("ASC") of the European Union banned all Philippine commercial air carriers from operating flights to and from Europe. The ASC based its decision on the absence of sufficient oversight by the CAAP, including the renewal of air operator certificates by the CAAP without a prior audit. Although the Group does not currently operate flights to the European Union and has no current intention of doing so, this classification could negatively impact its ability to successfully expand its business to other international destinations including to the European

Union should it subsequently wishes to do so. In particular, there can be no assurance that other countries to which the Group currently operates flights or to which it may operate flights in the future will not take similar action. The Group's inability to expand its air services in these international destinations could impact its overall expansion plans, which could have a material adverse effect on its business, prospects, financial condition and results of operations.

(24) Outbreaks

Any present or future outbreak of contagious diseases could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

On January 30, 2020, the WHO declared the COVID-19 outbreak a Public Health Emergency of International Concern, and subsequently, with the continued increase in the number of confirmed cases throughout the world, a pandemic on March 11, 2020. In response to the pandemic, the Philippine government placed Metro Manila under "community quarantine", which, among others, restricted traveling land, domestic air, and domestic sea from Metro Manila. On the 2nd day of the implementation of the said community quarantine, the Philippine government declared a Luzon-wide "enhanced community quarantine" to arrest the continuing effect of the disease. The enhanced community quarantine prohibited mass gatherings and all means of public transportation, and restricted traveling through air, sea and land in and out of Luzon, except for diplomats and uniformed workers (carrying medical supplies), among others. Other local governments in the Philippines followed in implementing similar lockdowns. Between March and September, the government has implemented the community quarantine with varying degrees of restriction to combat the spread of COVID-19.

Varying requirements, processes, and limitations on the frequency of flights from local government units (LGUs) was a challenge for the Group's operations in 2020, amidst LGU's various concerns regarding COVID-19 such as infrastructure limitation concerns, medical assistance limits, quarantine facilities and testing sites available, as well as testing capacity and concerns on local transmission. Domestic travel restrictions in the Philippines contrasts with that of most ASEAN countries, such as Thailand, Vietnam and Malaysia. From 2020 to 2021, the Philippines' COVID-19 Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF) has imposed strict travel rules and regulations, and implemented a nationwide alert level classification framework which focused on the imposition of granular lockdown measures on various parts of the country based on those identified as high risk areas.

(25) Other Events Beyond the Group's Control could have an Adverse Effect on the Group's Business, Financial Condition and Results of Operation

This includes events such as catastrophes, political instability, acts of terrorism, territorial disputes and other factors beyond the Group's control. Like other airlines, the Airline Group is subject to delays caused by factors beyond its control, including weather conditions, traffic congestion at airports, air traffic control problems and increased security measures. In the event that the Airline Group delays or cancels flights for any of these reasons, revenues and profits would be reduced and the Group's reputation would suffer which could result in a loss of customers.

The foregoing risks are not all inclusive. Other risks that may affect the Group's business and operations may not be included in the above disclosure.

## **Item 2. Properties**

As of December 31, 2022, the Group does not own any land. The Parent Company however owns an office building that serves as its corporate headquarters and training center, and the buildings on either side of the corporate headquarters that serves as additional offices and storage of some departments,

office of 1Aviation, and office of A-Plus, all located at the Domestic Road, Barangay 191, Zone 20, Pasay City. The land on which said office buildings stand is leased from the Manila International Airport Authority (MIAA). The Group also leases its hangar, aircraft parking and other operational space from MIAA.

The Parent Company owns the Philippine Academy for Aviation Training, Inc. (PAAT) building located in C.M. Recto, Clark Freeport Zone, Philippines. This is subleased to PAAT. The land on which this building stands is leased from the Clark Development Corporation.

As of December 31, 2022, the Group has 76 aircraft consisting of 46 aircraft financed under lease liabilities, 24 aircraft financed under debt arrangements (including finance leases), and six (6) aircraft purchased off lease and unencumbered. Kindly refer to Notes 12, 18 and 33 of the notes to consolidated financial statements for the detailed discussions on properties, leases, purchases and capital expenditure commitments.

### **Item 3. Legal Proceedings**

The Group is subject to lawsuits and legal actions in the ordinary course of business. The Group is not a party to, and its properties are not subject of, any material pending legal proceedings that could be expected to have a material adverse effect on the Group's financial position or result of operations.

### **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the year covered by this report.

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## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

### **Item 5. Market for Registrant's Equity and Related Stockholder Matters**

#### *Market Information*

The principal market for the Parent Company's common and preferred equity is the Philippine Stock Exchange (PSE).

Sales prices of the common stock follow:

|                          | <b>High</b>   | <b>Low</b>    |
|--------------------------|---------------|---------------|
| <b>Year 2022</b>         |               |               |
| October to December 2022 | <b>₱40.02</b> | <b>₱35.76</b> |
| July to September 2022   | <b>45.80</b>  | <b>36.89</b>  |
| April to June 2022       | <b>48.30</b>  | <b>40.30</b>  |
| January to March 2022    | <b>48.88</b>  | <b>39.98</b>  |
| <hr/>                    |               |               |
|                          | High          | Low           |
| <b>Year 2021</b>         |               |               |
| October to December 2021 | ₱51.35        | ₱39.00        |
| July to September 2021   | 54.50         | 38.70         |
| April to June 2021       | 55.25         | 43.00         |
| January to March 2021    | 52.00         | 42.70         |

Sales prices of the preferred stock follow:

|                          | High          | Low           |
|--------------------------|---------------|---------------|
| <b>Year 2022</b>         |               |               |
| October to December 2022 | <b>₱39.20</b> | <b>₱35.48</b> |
| July to September 2022   | <b>46.01</b>  | <b>37.25</b>  |
| April to June 2022       | <b>47.46</b>  | <b>41.11</b>  |
| January to March 2022    | <b>48.01</b>  | <b>40.50</b>  |
|                          | High          | Low           |
| <b>Year 2021</b>         |               |               |
| October to December 2021 | ₱50.00        | ₱39.10        |
| July to September 2021   | 52.90         | 38.55         |
| April to June 2021       | 53.35         | 40.70         |
| January to March 2021    | 41.50         | 38.05         |

As of March 24, 2023, the latest trading date prior to the completion of this annual report, sales price of the common and preferred stock is at ₱38.85 and ₱39.00, respectively.

### **Holders**

The number of shareholders of record and outstanding shares as of December 31, 2022 is as follows:

|                 | Number of<br>Stockholders | Number of Shares<br>Outstanding |
|-----------------|---------------------------|---------------------------------|
| Common Stock    | 106                       | 616,313,711                     |
| Preferred Stock | 11                        | 314,044,357                     |

### **List of Top 20 Stockholders of Record As of December 31, 2022**

#### **A. Common Stock**

| Name of Stockholders  | Number of<br>Shares Held | % to Total<br>Outstanding |
|---|--------------------------|---------------------------|
| 1. CPAir Holdings, Inc.   | 400,816,841              | 65.03%                    |
| 2. PCD Nominee Corporation (Filipino)*  | 136,525,287              | 22.15%                    |
| 3. PCD Nominee Corporation (Non-Filipino)   | 71,684,343               | 11.63%                    |
| 4. JG Summit Holdings, Inc.   | 6,595,190                | 1.07%                     |
| 5. William T. Enrile or Nelly R. Enrile or<br>Edwin R. Enrile or William R. Enrile II | 311,300                  | 0.05%                     |
| 6. Berck Y. Cheng Or Alvin Y. Cheng Or Diana Y. Cheng Or<br>Cheryl Y. Cheng           | 150,000                  | 0.02%                     |
| 7. Pablo M. Pagtalunan &/Or Francisca P. Pagtalunan                                   | 50,000                   | 0.01%                     |
| 8. Leyla Agro-Industries Corporation  | 17,000                   | 0.01%                     |
| 9. Raul Veloso Del Mar  | 16,000                   | 0.01%                     |
| 10. Luis Gantioqui Romero   | 10,300                   | 0.01%                     |
| 11. Jayson Enriquez Reyes Or Michelle Perlas Reyes                                    | 7,000                    | 0.00%                     |
| 12. Lisa Gokongwei Cheng  | 6,667                    | 0.00%                     |
| 13. Lance Yu Gokongwei  | 6,667                    | 0.00%                     |
| 14. Faith Gokongwei Lim   | 6,667                    | 0.00%                     |
| 15. Robina Gokongwei Pe   | 6,667                    | 0.00%                     |
| 16. Hope Gokongwei Tang   | 6,667                    | 0.00%                     |
| 17. Marcia Yu Gokongwei   | 6,666                    | 0.00%                     |
| 18. Roseller A. Mendoza   | 6,500                    | 0.00%                     |
| 19. Eric Macario Bernabe  | 5,000                    | 0.00%                     |

| Name of Stockholders               | Number of Shares Held | % to Total Outstanding |
|------------------------------------|-----------------------|------------------------|
| 20. Estevez Villaruz (Esvill) Inc. | 5,000                 | 0.00%                  |
| Other stockholders                 | 73,949                | 0.01%                  |
| <b>Total Outstanding</b>           | <b>616,313,711</b>    | <b>100.00%</b>         |

*\*The number of shares reflected excludes Cebu Air, Inc.'s 5,636,630 treasury shares under PCD Nominee Filipino Corporation.*

## B. Preferred Stock

| Name of Stockholders                | Number of Shares Held | % to Total Outstanding |
|-------------------------------------|-----------------------|------------------------|
| 1. CPAir Holdings, Inc.             | 219,625,666           | 69.93%                 |
| 2. PCD Nominee Corp. (Filipino)     | 50,308,719            | 16.02%                 |
| 3. JG Summit Holdings, Inc.         | 25,555,398            | 8.14%                  |
| 4. PCD Nominee Corp. (Non-Filipino) | 18,252,042            | 5.81%                  |
| 5. Abacus Securities Corporation    | 200,000               | 0.06%                  |
| 6. William Tycangco Enrile          | 100,000               | 0.03%                  |
| 7. David Go Securities Corp.        | 1,000                 | 0.01%                  |
| 8. Myra P. Villanueva               | 767                   | 0.00%                  |
| 9. Milagros Ureshii L. Gutierrez    | 547                   | 0.00%                  |
| 10. Milagros P. Villanueva          | 109                   | 0.00%                  |
| 11. Myrna P. Villanueva             | 109                   | 0.00%                  |
| <b>Total Outstanding</b>            | <b>314,044,357</b>    | <b>100.00%</b>         |

### Dividends

There were no dividends declared in 2022 and 2021.

### Recent Sales of Unregistered Securities

#### A. Stock Rights Offering

On March 29, 2021, the Parent Company issued Convertible Preferred Shares through a rights offering solely to shareholders of record as of February 26, 2021. The transaction relates to ₱12,499,999,984 rights offer of 328,947,368 Convertible Preferred Shares with a par value of ₱1.00 per share which was offered at the offer Price of ₱38.00 per entitlement right, with ratio of one entitlement right for every 1.8250 Common Shares held as of the said record date (the "Rights Offer").

The Parent Company also approved the increase in its authorized capital stock from ₱1,340,000,000 to ₱1,740,000,000 divided into the following shares: (i) ₱1,340,000,000 worth of common shares with a par value of ₱1.00 per share; and (ii) the creation of new convertible preferred shares amounting to ₱400,000,000 with a par value of ₱1.00 per share (the "Application to Increase Authorized Capital Stock"). The same was approved by the Securities and Exchange Commission on March 19, 2021.

BPI Capital Corporation is the Sole Global Coordinator, Bookrunner, and Underwriter for this transaction. As required by the PSE rules on Additional Listing of Securities, the entitlement rights that remain unsubscribed after the Rights Offer would have been taken up by the Sole Global Coordinator, Bookrunner, and Underwriter who shall procure purchasers in the Philippines who are qualified institutional buyers as defined under the SRC, or failing which, shall purchase the unsubscribed Rights Shares ("Domestic Institutional Offer"). There were no entitlement rights that remain unsubscribed after the Rights Offer.

The Securities and Exchange Commission confirmed in its Certificate of Exemption dated January 20, 2021, as amended on February 11, 2021, that (i) the first and second round of Rights Offer (ii) the Application to Increase Authorized Capital Stock, and (iii) Domestic Institutional Offer are exempt transactions under Sections 10.1 (e), (i) and (l) of the Code, respectively.

As of December 31, 2022, 314,044,357 shares remain as outstanding Convertible Preferred Shares.

## **B. Long Term Incentive Plan**

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 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 vested in full at the end of 2021. Vesting is conditional on the eligible person's employment and achievement of a minimum individual performance rating of "Meets Expectations" within the vesting period. The fair value of each share is ₱48.40 which is the stock price at grant date.

Additionally, six (6) eligible persons were granted RSUs with three (3) years vesting period, commencing 2022. These will vest in three (3) tranches: 20%, 30% and 50% at the end of 2022, 2023 and 2024, respectively. The fair value of each share varies considering the grant date. Details are as follow:

| Date granted     | Fair value |
|------------------|------------|
| January 5, 2022  | ₱40.75     |
| January 7, 2022  | 40.00      |
| January 13, 2022 | 43.30      |
| January 31, 2022 | 45.00      |
| March 9, 2022    | 43.05      |

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. Further, on December 31, 2022, 1,327,000 RSUs have vested. The shares were subsequently listed with the Philippine Stock Exchange on January 13, 2023 (see Notes 23 and 37).

### Stock Options

On November 26, 2021, 5,205,000 stock options were granted to 16 eligible persons with 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 vested in full at the end of 2021. Vesting is conditional on the eligible person's employment and achievement of a minimum individual performance rating of "Meets Expectations" 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, 2022 and 2021, 1,387,500 and 1,265,000 stock options have vested. No options were exercised, forfeited or expired during both years. Thus, as of December 31, 2022, a total of 2,652,500 vested stock options remain to be outstanding and exercisable.

No underwriters were involved for this transaction.

The Securities and Exchange Commission confirmed in its Certificate of Exemption dated November 26, 2021 that the LTIP is an exempt transaction pursuant to Section 10.2 of the Code.

### **C. Convertible Bonds**

The BOD of the Parent Company, at a special meeting held on April 16, 2021, approved the USD250.0 million investment in the form of Convertible Bonds from the International Finance Corporation, the IFC Emerging Asia Fund and Indigo Philippines LLC (an affiliate of Indigo Partners LLC). The Philippine Stock Exchange thereafter approved, on July 8, 2021, the application of the Parent Company to list a total of 318,755,000 underlying common shares with a par value of ₱1.00 per share upon conversion by bondholders of the USD250.0 million 4.5% Convertible Bonds due 2027 at a conversion price of ₱38.00. The principal amount of the Convertible Bonds will be paid in full on maturity date unless earlier converted.

The price at which the Conversion Shares will be issued upon conversion will initially be ₱38.00 per Conversion Share, as translated to U.S. Dollars at the fixed exchange rate of USD1.00 = ₱48.45 and subject to any adjustments from time to time in accordance with the adjustment provisions. Conversion period shall begin forty days after the issue date of the Convertible Bonds and shall end twenty business days before the maturity date.

No underwriters were involved for this transaction.

### **Item 6. Management's Discussion and Analysis or Plan of Operation**

The following discussion should be read in conjunction with the accompanying consolidated financial statements and notes thereto, which form part of this Report. The consolidated financial statements and notes thereto have been prepared in accordance with the Philippine Financial Reporting Standards (PFRSs).

## ***Results of Operations***

*Year Ended December 31, 2022 Compared with Year Ended December 31, 2021*

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### Revenues

The Group recorded revenues amounting to ₱56.751 billion for the year ended December 31, 2022, 260.5% higher than the ₱15.741 billion revenues earned in the same period last year. The overall increase in revenues was primarily driven by significant increase in passenger volume, cargo services and flight activities as the COVID-19 restrictions already eased by March 2022. Starting second quarter of 2022, most parts of the country have remained to be classified under the more relaxed Alert Level classification and this was retained until the end of the year. As a result, the Group has restored almost the same level of its pre-pandemic system-wide capacity following the continuous ramp-up of its domestic and international routes. Currently, the Group is expecting the level of demand to increase further for airline services not just within the Philippines but even abroad. The positive development has not only allowed the Group to carry more passengers, but also boosted the Group's cargo services. The increase in revenues is accounted for as follows:

#### *Passenger Revenues*

Passenger revenues increased by ₱28.850 billion or 458.70% to ₱35.139 billion for the year ended December 31, 2022 from ₱6.289 billion generated in 2021.

This was mainly attributable to the 335.1% increase in passenger volume from 3.4 million to 14.8 million brought about by higher number of flights by 214.3% together with a 14.7 ppts increase in seat load factor from 60.6% to 75.3%. An increase in average fares by 28.4% to ₱2,367 in 2022 from ₱1,844 from last year also contributed to the increase in passenger revenues.

#### *Cargo Revenues*

Cargo revenues grew by ₱0.649 billion or 10.0% to ₱7.120 billion for the year ended December 31, 2022 from ₱6.471 billion for the year ended December 31, 2021 mostly due to increase in kilograms carried by about 7.3% and higher yield by 2.5%.

#### *Ancillary Revenues*

Ancillary revenues increased by ₱11.512 billion or 386.3% to ₱14.493 billion for the year ended December 31, 2022 from ₱2.981 billion recorded in the same period last year mainly due to higher passenger volume and flight activity during the period.

### Expenses

The Group incurred operating expenses of ₱68.180 billion for the year ended December 31, 2022, higher by 75.3% compared to the ₱38.899 billion operating expenses incurred for year ended December 31, 2021.

This was mostly driven by the increase in Group's operations due to the eased COVID-19 restrictions, since a material portion of its expenses are based on flights and flight hours. The weakening of the Philippine peso against the U.S. Dollar as referenced by the depreciation of the Philippine peso to an average of ₱54.50 per U.S. Dollar for the year ended December 31, 2022 from an average of ₱49.27 per U.S. Dollar during the same period last year based on the Philippine Bloomberg Valuation (PH BVAL) weighted average rates also contributed to the increase in operating expenses.

#### *Flying Operations*

Flying operations expenses increased by ₱20.923 billion or 294.9% to ₱28.020 billion for the year ended December 31, 2022 from ₱7.097 billion incurred in the same period last year. This was largely accounted for by higher fuel consumption by 163.9% in line with the increased flight activity during the period, coupled with the increase in average published fuel MOPS price to U.S. \$126.65 per barrel for the December 31, 2022 from U.S. \$75.09 per barrel for the year ended December 31, 2021. The

weakening of the Philippine Peso against the U.S. Dollar to an average of ₱54.50 per U.S. Dollar for the year ended December 31, 2022 from an average of ₱49.27 per U.S. Dollar last year based on PH BVAL weighted average rates also contributed to higher fuel costs. Flight deck expenses also increased due to higher pilot headcount.

#### *Repairs and Maintenance*

Repairs and maintenance expenses went up by ₱5.032 billion or 52.1% to ₱14.686 billion for the year ended December 31, 2022 from ₱9.654 billion posted during the same period last year. This was mostly due to the increase in provision for asset restoration obligation and heavy maintenance visits of various aircraft. Increase was also due to higher block hours and the effect of weakening of the Philippine Peso against the U.S. Dollar to an average of ₱54.50 per U.S. Dollar for the year ended December 31, 2022 from an average of ₱49.27 per U.S. Dollar same period last year based on PH BVAL weighted average rates.

#### *Depreciation and Amortization*

Depreciation and amortization expenses decreased by ₱2.263 billion or 15.8% to ₱ 12.092 billion for the year ended December 31, 2022 from ₱ 14.355 billion for the year ended December 31, 2021. The decrease is mostly brought about by lower depreciation for capitalized overhaul costs related to the two (2) A320 aircraft and two (2) A330 aircraft returned offset by the delivery of one (1) A321 NEO, two (2) A330 NEO and three (3) A320 NEO aircraft delivered mostly throughout the latter part of 2021 and 2022 plus the sale and leaseback of seven (7) A320 aircraft in December 2021.

#### *Aircraft and Traffic Servicing*

Aircraft and traffic servicing expenses increased by ₱2.591 billion or 97.1% to ₱5.261 billion for the year ended December 31, 2022 from ₱2.670 billion posted in the same period last year still relative to the significant increase in number of flights as most parts of the country are under the more relaxed COVID-19 restrictions. The depreciation of the Philippine Peso against the U.S. Dollar to an average of ₱54.50 per U.S. Dollar for the year ended December 31, 2022 from an average of ₱49.27 per U.S. Dollar last year based on PH BVAL weighted average rates also contributed to higher charges for international operations.

#### *General and Administrative*

General and administrative expenses increased by ₱21.986 million or 0.7% to ₱3.142 billion for the year ended December 31, 2022 from ₱3.120 billion incurred for the same period last year. The increase was mostly attributable to the increase in staff expenses, computer, security and other services, taxes and licenses, insurance expenses, representation expenses, and travel and transportation expenses offset by decrease in professional expenses incurred by the Group.

#### *Reservation and Sales*

Reservation and sales expenses increased by ₱1.492 billion or 166.0% to ₱2.392 billion for the year ended December 31, 2022 from ₱899.254 million for the year ended December 31, 2021. This is significantly attributable to higher commission costs due to more sales for the year ended December 31, 2022 as compared to the same period last year. The increase was also coupled by higher GDS cost and higher advertising costs.

#### *Passenger Service*

Passenger service expenses increased by ₱833.444 million or 126.3% to ₱1.493 billion for the year ended December 31, 2022 from ₱659.762 million recorded for the year ended December 31, 2021 primarily accounted for by increased cabin crew costs and higher passenger food and supplies in line with increased headcount and number of flights.

#### *Aircraft and Engine Lease*

Aircraft and engine lease expenses went up by ₱649.947 million or 146.6% to ₱1,093.4 million for the year ended December 31, 2022 from ₱443.481 million charged last year. Increase was due to the higher number of aircraft and engines being leased during the current period as compared to same period in

the prior year and the effect of the depreciation of the Philippine peso against the U.S. Dollar to an average of ₱54.50 per U.S. Dollar for the year ended December 31, 2022 from an average of ₱49.27 per U.S. Dollar same period last year based on PH BVAL weighted average rates.

#### Operating Loss

As a result of the foregoing, the Group sustained an operating loss of ₱11.429 billion for the year ended December 31, 2022, 50.6% lower than the ₱23.158 billion operating loss incurred for the same period last year.

#### Other Income (Expenses)

##### *Interest Income*

Interest income increased by ₱271.804 million or 745.1% to ₱308.283 million for the year ended December 31, 2022 from ₱36.479 million earned in the same period last year largely due to higher cash balance and significantly higher average interest rates for cash in bank and short term placements.

##### *Market Valuation Gains (Losses) on Derivative Financial Instruments*

The Group's market valuation gains amounting to ₱997.908 million for the year ended December 31, 2022 originated from the market valuation gains recognized for the Group's embedded derivative arising from its convertible bonds and interest rate derivatives. As compared to same period last year, the Group incurred a loss of ₱1.318 billion.

##### *Foreign Exchange Losses*

Net foreign exchange losses of ₱3.324 billion for the year ended December 31, 2022 primarily resulted from the weakening of the Philippine Peso against the US Dollar to ₱55.76 per US Dollar for the year ended December 31, 2022 from ₱51.00 per US Dollar for the year ended December 31, 2021. The Group's major exposure to foreign exchange rate fluctuations is in respect to U.S. Dollar-denominated long-term debt, short-term notes payable and convertible bonds payable.

##### *Equity in Net Loss of Joint Ventures and Associates*

The Group had equity in net loss of joint ventures and associates of ₱113.288 million for the year ended December 31, 2022, ₱61.143 million lower than the ₱174.431 million equity in net loss of joint venture and associates incurred in the same period last year. The decrease is due to lower net loss recognized by the Group's joint ventures and associates.

##### *Financing and other charges*

Interest expense and accretion expense from lease liability increased by ₱870.166 million or 34.6% to ₱3.381 billion for the year ended December 31, 2022 from ₱2.511 billion for the same period last year due to the addition of one (1) A321 NEO, three (3) A330 NEO, three (3) A320 NEO and one (1) ATR 72-600 delivered mostly in the latter part of 2021 and 2022 plus sale and leaseback of seven (7) A320 aircraft in December 2021 offset by the return of two (2) A320 CEO and two (2) A330 CEO aircraft to the lessor in 2021 and sale of one (1) A330 CEO in 2022. The increase is coupled with the effect of depreciation of the Philippine Peso against the U.S. Dollar to an average of ₱54.50 per U.S. Dollar for the year ended December 31, 2022 from an average of ₱49.27 per U.S. Dollar for the same period last year based on PH BVAL weighted average rates.

##### *Gain from Insurance Claims*

In 2022 and 2021, the Group received ₱6.175 million and ₱138.049 million, respectively, pertaining to insurance proceeds claimed for damages sustained by various aircraft from several incidents and loss events.

##### *Gain (Loss) on Disposal - Net*

During 2022, the Group has entered into swap transactions to replace its two (2) engines resulting to the recognition of gain on exchange amounting to ₱99.529 million. In addition, the Group entered into sale and lease back transactions that resulted to a gain of ₱1,523.862 million. Also, during the year,

the Group has written down various property and equipment and recognized loss amounting to ₱427.618 million. Lastly, the Group entered into buyback agreement of its one (1) A330 aircraft which resulted to a loss of ₱381.566 million.

In 2021, the Group sold and leased back seven (7) A320 aircraft which resulted to an overall gain of ₱1,142.3 million.

#### *Impairment Loss*

As of December 31, 2022, the Group incurred losses of ₱86.747 million arose from the reclassification of RPC 7258 as asset held for sale.

In 2021, the Group assessed that its investment in Value Alliance Travel System Pte. Ltd (VATS) was impaired. VATS has incurred operating losses since it started its operations and is currently on a capital deficiency. Its target growth turned significantly lower than actual and expectation has also been further tempered due to the impact of ongoing COVID-19 pandemic. Based on the foregoing, the Group has recognized impairment loss amounting to ₱36.916 million.

#### Loss before Income Tax

As a result of the foregoing, the Group incurred a loss before income tax of ₱16.228 billion for the year ended December 31, 2022, 39.7% or ₱10.699 billion lower than the ₱26.927 billion loss before income tax posted for the year ended December 31, 2021.

#### Benefit from Income Tax

Benefit from income tax for the year ended December 31, 2022 amounted to ₱2.249 billion mainly resulting from the recognition of deferred tax assets on future deductible amounts such as those from unrealized foreign exchange losses, additional provision for asset retirement obligation and heavy maintenance visits among others.

#### Net Loss

Net loss for the year ended December 31, 2022 amounted to ₱13.979 billion, 43.9% lower than the ₱24.899 billion net loss incurred for the year ended December 31, 2021.

#### Year Ended December 31, 2021 Compared with Year Ended December 31, 2020

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#### Revenues

The Group recorded revenues amounting to ₱15.741 billion for the year ended December 31, 2021, 30.4% lower than the ₱22.618 billion revenues earned in the same period last year. The Group was still operating at a normal capacity for most of the first quarter of 2020. Revenues, however, started to decline due to the rapid escalation of the COVID-19 situation and imposition of a strict community quarantine which prompted the Group to suspend all its scheduled flights beginning March 19, 2020. Revenues were almost nil in the second quarter of 2020 except for the mounting of some sweeper flights for stranded tourists and cargo services. Commercial passenger operations restarted last June 3, 2020 for domestic flights, but in a very limited capacity. Subsequently, the Group gradually resumed more regular services including international flights. Despite the resumption of more flights in 2021, the Group's operations are still far behind its pre-COVID activity levels due to flight restrictions and weak demand for travel. The drop in revenues is accounted for as follows:

#### *Passenger Revenues*

Passenger revenues dropped by ₱6.340 billion or 50.2% to ₱6.289 billion for the year ended December 31, 2021 from ₱12.629 billion generated in 2020. This was largely due to the 32.1% decline in passenger volume from 5.0 million to 3.4 million in line with lesser number of flights by 17.6% coupled with a 15.3 ppts decrease in seat load factor from 75.9% to 60.6%. Lower average fares by 26.7% to ₱1,843 for the year ended December 31, 2021 from ₱2,513 for the same period last year also contributed to lower revenues.

### *Cargo Revenues*

Cargo operations continued to supplement the business as revenues grew by ₱1.069 billion or 19.8% to ₱6.471 billion for the year ended December 31, 2021 from ₱5.402 billion for the year ended December 31, 2020 mostly due to increase in kilograms carried by about 10.4% and higher yield by 8.5%.

### *Ancillary Revenues*

Ancillary revenues decreased by ₱1.606 billion or 35.0% to ₱2.981 billion for the year ended December 31, 2021 from ₱4.587 billion recorded in the same period last year mainly attributable to lesser passenger volume and flight activity during the period.

### Expenses

The Group incurred operating expenses of ₱38.899 billion for the year ended December 31, 2021, lower by 10.3% compared to the ₱43.387 billion operating expenses incurred for year ended December 31, 2020. This was primarily brought about by the Group's reduced operations due to the COVID-19 global pandemic since a material portion of its expenses are based on flights and flight hours. The slight strengthening of the Philippine peso against the U.S. Dollar as referenced by the appreciation of the Philippine peso to an average of ₱49.27 per U.S. Dollar for the year ended December 31, 2021 from an average of ₱49.61 per U.S. Dollar during the same period last year based on the Philippine Bloomberg Valuation (PH BVAL) weighted average rates also contributed to the drop in operating expenses.

### *Flying Operations*

Flying operations expenses declined by ₱2.271 billion or 24.2% to ₱7.097 billion for the year ended December 31, 2021 from ₱9.368 billion incurred in the same period last year. This was mostly attributable to lesser fuel consumption by 23.3% in line with the lower flight activity during the period, offset by the increase in average published fuel MOPS price to U.S. \$75.09 per barrel for the year ended December 31, 2021 from U.S. \$44.73 per barrel for the year ended December 31, 2020. The strengthening of the Philippine Peso against the U.S. Dollar to an average of ₱49.27 per U.S. Dollar for the year ended December 31, 2021 from an average of ₱49.61 per U.S. Dollar last year based on PH BVAL weighted average rates also contributed to the decrease in fuel costs. Flight deck expenses also decreased due to lower pilot headcount.

### *Aircraft and Traffic Servicing*

Aircraft and traffic servicing expenses decreased by ₱704.663 million or 20.9% to ₱2.670 billion for the year ended December 31, 2021 from ₱3.374 billion posted in the same period last year still relative to the overall reduction in number of flights due to the COVID-19 outbreak. The appreciation of the Philippine Peso against the U.S. Dollar to an average of ₱49.27 per U.S. Dollar for the year ended December 31, 2021 from an average of ₱49.61 per U.S. Dollar during the same period last year based on the PH BVAL weighted average rates also contributed to lower charges for international operations.

### *Depreciation and Amortization*

Depreciation and amortization expenses reduced by ₱1.719 billion or 10.7% to ₱14.355 billion for the year ended December 31, 2021 from ₱16.074 billion for the year ended December 31, 2020. The decrease is mostly brought about by the return of four (4) A320 aircraft and two (2) A330 aircraft to its lessors in 2021. This was offset by the delivery of two (2) A321 NEO aircraft, two (2) A330 NEO aircraft, one (1) A320 NEO aircraft and one (1) ATR 72-600 aircraft mostly during the latter part of 2021.

### *Repairs and Maintenance*

Repairs and maintenance expenses went up by 12.8% to ₱9.654 billion for the year ended December 31, 2021 from ₱8.557 billion incurred during the same period last year. This was mostly due to the higher provision for asset retirement obligation and heavy maintenance visits for aircraft under operating lease with the delivery of two (2) A321 NEO aircraft, two (2) A330 NEO aircraft, one (1) A320 NEO aircraft and one (1) ATR 72-600 coupled with the sale and leaseback of seven (7) A320

CEO aircraft in 2021, partially offset by various aircraft returned to lessors during the year. The increase in cost was also mitigated by lower flight-based maintenance costs due to lesser flight activity during the year and the effect of the slight strengthening of the Philippine Peso against the U.S. Dollar.

#### *Aircraft and Engine Lease*

Aircraft and engine lease expenses went up by ₱158.816 million or 55.8% to ₱443.481 million for the year ended December 31, 2021 from ₱284.665 million charged last year. Increase was due to the higher lease charge of two (2) A330 aircraft partially offset by the return of an A330 engine to its lessor in 2020 and the effect of the appreciation of the Philippine peso against the U.S. Dollar during the current period.

#### *Reservation and Sales*

Reservation and sales expenses dropped by ₱599.929 million or 40.0% to ₱899.254 million for the year ended December 31, 2021 from ₱1.499 billion for the year ended December 31, 2020. This is mainly accounted for by lower advertising costs in line with the Group's cost saving measures and lesser commission and booking-related expenses consequent to the overall decrease in sales transactions due to the COVID-19 outbreak.

#### *General and Administrative*

General and administrative expenses declined by ₱99.799 million or 3.1% to ₱3.120 billion for the year ended December 31, 2021 from ₱3.220 billion incurred for the same period last year generally driven by the overall reduction in operations and cost-saving initiatives. This was offset by information technology (IT)-related expenses incurred by the Group for its digitalization projects to automate and streamline its front-end and back-end processes, other costs incurred in relation to its fund-raising initiatives and cost of share-based payments in line with the Parent Company's LTIP.

#### *Passenger Service*

Passenger service expenses decreased by ₱349.794 million or 34.6% to ₱659.762 million for the year ended December 31, 2021 from ₱1.010 billion incurred for year ended December 31, 2020 primarily accounted for by reduced cabin crew costs and lower passenger food and supplies in line with reduced headcount and lesser number of flights.

### Operating Income (Loss)

As a result of the foregoing, the Group sustained an operating loss of ₱23.158 billion for the year ended December 31, 2021, 11.5% higher than the ₱20.769 billion operating loss incurred for the same period last year.

### Other Income (Expenses)

#### *Interest Income*

Interest income decreased by ₱121.438 million or 76.9% to ₱36.479 million for the year ended December 31, 2021 from ₱157.917 million earned in the same period last year largely due to lesser cash balance particularly in the early months of 2021 and lower average interest rates on USD short term placements.

#### *Market Valuation Losses on Derivative Financial Instruments*

For the year ended December 31, 2021, the Group recognized market valuation losses from its embedded derivative liability arising from its issuance of the convertible bonds amounting to ₱1.318 billion. For the year ended December 31, 2020, the Group incurred a hedging loss of ₱2.150 billion due to the discontinuation of hedge accounting application on non-effective hedges last year.

#### *Foreign Exchange Gains (Losses)*

Net foreign exchange losses of ₱1.291 billion for the year ended December 31, 2021 primarily resulted from the weakening of the Philippine Peso against the US Dollar to ₱51.00 per US Dollar for the year ended December 31, 2021 from ₱48.02 per US Dollar for the year ended December 31, 2020. The Group's major exposure to foreign exchange rate fluctuations is in respect to U.S. Dollar-denominated long-term debt, short-term notes payable and convertible bonds payable.

#### *Equity in Net Loss of Joint Ventures and Associates*

The Group had equity in net loss of joint ventures and associates of ₱174.431 million for the year ended December 31, 2021, ₱141.684 million lower than the ₱316.115 million equity in net loss of joint venture and associates incurred in the same period last year. A-plus and SIA Engineering (Philippines) Corporation (SIAEP) ceased to be joint ventures of the Group in November 2020, thus, reducing the Group's equity in net loss in its joint ventures.

#### *Financing and other charges (interest expense on loans, promissory notes and bonds payable)*

Financing and other charges increased by ₱300.956 million or 17.5% to ₱2.018 billion for the year ended December 31, 2021 from ₱1.717 billion for the same period last year due to the accrual of interest on convertible bonds issued last May 2021 and promissory notes availed in the latter part of 2020 and early 2021. This was offset by the sale and leaseback of five (5) A320 aircraft in the latter part of 2020 and the effect of the slight appreciation of the Philippine Peso against the U.S. Dollar.

#### *Financing costs – PFRS 16 leases*

Accretion expense on leases slightly increased by ₱7.449 million or 1.5% to ₱493.863 million for the year ended December 31, 2021 from ₱486.414 million for the same period last year due to the reduced balance of lease liability of existing aircraft as scheduled payments are made throughout the lease term. Decrease was also due to the return of four (4) A320 aircraft and two (2) A330 aircraft to its lessors during the year offset by the delivery of two (2) A321 NEO aircraft, two (2) A330 NEO aircraft, one (1) A320 NEO aircraft and one (1) ATR 72-600 aircraft mostly during the latter part of 2021.

#### *Gain from Insurance Claims*

In 2021, the Group received ₱138.049 million pertaining to insurance proceeds claimed for damages sustained by various aircraft from several incidents and loss events in 2019 and 2018.

In September 2020, the Group received ₱807.410 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.

*Gain (loss) on disposal of property and equipment*

In 2021, the Group sold and leased back seven (7) A320 aircraft which resulted to an overall gain of ₱1,388.7 million.

In 2020, the Group sold and leased back five (5) A320 aircraft and eight (8) engines which resulted to an overall loss of ₱259.977 million.

In 2019, the Group sold and delivered three (3) Airbus A320 aircraft to a subsidiary of Allegiant Travel Company (Allegiant) which resulted to a loss of ₱352.119 million. The Group also sold and delivered two (2) Rolls – Royce Trent 772B engines to RRP Engine Leasing Limited which resulted to a gain of ₱126.444 million.

*Re-measurement and sale of an investment in joint venture*

On November 3, 2020, the Parent Company signed a Deed of Absolute Sale of its 35% shareholding in SIA Engineering (Philippines) Corporation (SIAEP) to SIAEC which resulted to a gain from sale of an investment in joint venture of ₱34.465 million. As of December 31, 2020, the Parent Company no longer has any equity interest in SIAEP. On the same date, the Parent Company acquired SIAEC's 51% interest in A-plus, making the latter a wholly-subsiary of the Parent Company. The recognition of the investment in A-plus as a subsidiary resulted to a gain on remeasurement of ₱71.324 million on the Parent Company's existing 49% shareholding.

*Impairment loss*

The Group assessed that its investment in Value Alliance Travel System Pte. Ltd (VATS) was impaired. VATS has incurred operating losses since it started its operations and is currently on a capital deficiency. Its target growth turned significantly lower than actual and expectation has also been further tempered due to the impact of ongoing COVID-19 pandemic. Based on the foregoing, the Group has recognized impairment loss amounting to ₱36.916 million.

Loss before Income Tax

As a result of the foregoing, the Group incurred a loss before income tax of ₱26.927 billion for the year ended December 31, 2021, 17.6% or ₱4.031 billion higher than the ₱22.896 billion loss before income tax posted for the year ended December 31, 2020.

Benefit from Income Tax

Benefit from income tax for the year ended December 31, 2021 amounted to ₱2.028 billion mainly resulting from the recognition of deferred tax assets on future deductible amounts such as those from realizable net operating loss carryover (NOLCO) incurred during the period, unrealized foreign exchange losses, additional provision for asset retirement obligation and heavy maintenance visits among others.

Net Loss

Net loss for the year ended December 31, 2021 amounted to ₱24.899 billion, 12.0% higher than the ₱22.236 billion net loss incurred for the year ended December 31, 2020.

### Revenues

The Group generated revenues of ₱22.618 billion for the year ended December 31, 2020, 73.3% lower than the ₱84.807 billion revenues earned last year. The overall decline in revenues was brought about by the impact of the COVID-19 outbreak which started with cancellation of flights to China, Hong Kong, Macau and South Korea in varying periods due to the imposition of travel restrictions. With the rapid escalation of the situation surrounding COVID-19, the Philippine government implemented a community quarantine which then prompted the Group to suspend all its scheduled flights beginning March 19, 2020. While some sporadic arrangements for sweeper flights to assist with stranded tourists did occur, for the most part, the Group's operations were virtually nil until April when some cargo flights within the Philippines and eventually to countries like Japan, Thailand, China, Hong Kong recommenced. Commercial passenger operations restarted last June 3, 2020 for domestic flights, but in a limited capacity. Subsequently, the Group gradually resumed more regular services, however, it is still far behind its normal activity level. The drop in revenues is accounted for as follows:

#### *Passenger Revenues*

Passenger revenues decreased by ₱49.053 billion or 79.5% to ₱12.629 billion for the year ended December 31, 2020 from ₱61.682 billion posted in 2019. The Group saw a 77.6% decline in passenger traffic from 22.5 million to 5.0 million driven by lesser number of flights by 70.9% coupled with a 10.5 pts decrease in seat load factor from 86.4% to 75.9%. Lower average fares by 8.5% to ₱2,513 for the 12 months ended December 31, 2020 from ₱2,745 for the same period last year also contributed to the reduction of revenues.

#### *Cargo Revenues*

Cargo revenues declined by ₱343.207 million or 6.0% to ₱5.402 billion for the year ended December 31, 2020 from ₱5.475 billion for the year ended December 31, 2019 mainly attributable to the decrease in volume transported in 2020 by 48.0% offset by a higher yield primarily from chartered cargo services.

#### *Ancillary Revenues*

Ancillary revenues went down by ₱12.792 billion or 73.6% to ₱4.587 billion for the year ended December 31, 2020 from ₱17.379 billion reported in the same period last year primarily due to lesser passenger volume and flight activity during the period.

### Expenses

The Group incurred operating expenses of ₱43.387 billion for the year ended December 31, 2020, lower by 39.9% than the ₱72.186 billion operating expenses recorded for the year ended December 31, 2019. This was mostly driven by the suspension of the Group's operations due to the COVID-19 global pandemic since a material portion of its expenses are based on flights and flight hours. The strengthening of the Philippine peso against the U.S. dollar as referenced by the appreciation of the Philippine peso to an average of ₱49.61 per U.S. dollar for the year ended December 31, 2020 from an average of ₱51.79 per U.S. Dollar last year based on the Philippine Bloomberg Valuation (PH BVAL) weighted average rates as well as lower fuel prices also contributed to the decrease in operating expenses.

#### *Flying Operations*

Flying operations expenses reduced by ₱20.893 billion or 69.0% to ₱9.368 billion for the year ended December 31, 2020 from ₱30.261 billion incurred in the same period last year. This was largely accounted for by the 42.1% decrease in average published fuel MOPS price to U.S. \$44.73 per barrel for the year ended December 31, 2020 from U.S. \$77.24 per barrel in 2019 coupled with the strengthening of the Philippine Peso against the U.S. Dollar to an average of ₱49.61 per U.S. Dollar for the year ended December 31, 2020 from an average of ₱51.79 per U.S. Dollar last year based on PH

BVAL weighted average rates. Lesser fuel consumption by 71.1% in line with the lesser number of flights during the period also caused the decrease in fuel cost.

#### *Aircraft and Traffic Servicing*

Aircraft and traffic servicing expenses decreased by ₱5.888 billion or 63.6% to ₱3.374 billion for the year ended December 31, 2020 from ₱9.262 billion recorded in the same period in 2019 still relative to the decrease in number of flights due to the COVID-19 outbreak. The appreciation of the Philippine Peso against the U.S. Dollar to an average of ₱49.61 per U.S. Dollar for the year ended December 31, 2020 from an average of ₱51.79 per U.S. Dollar last year based on PH BVAL weighted average rates also contributed to lower charges for international operations.

#### *Depreciation and Amortization*

Depreciation and amortization expenses increased by ₱675.379 million or 4.4% to ₱16.074 billion for the year ended December 31, 2020 from ₱15.399 billion for the year ended December 31, 2019. The increase is mostly brought about by the arrival of one (1) A320 NEO and two (2) A321 NEO in 2020.

#### *Repairs and Maintenance*

Repairs and maintenance expenses grew by 7.0% to ₱8.557 billion for the year ended December 31, 2020 from ₱7.994 billion posted last year. This was due to the increase in provision for return cost by ₱1.192 billion to ₱3.132 billion for the year ended December 31, 2020 from ₱1.940 billion for the same period last year with the delivery of one (1) A320 NEO and one (1) A321 NEO aircraft under operating leases coupled with the sale and leaseback of five (5) A320 aircraft and eight (8) A320 engines during the year. The set up of a provision for heavy maintenance visits for aircraft under operating lease amounting to ₱345.964 million also contributed to the increase. This was offset by lower flight-based maintenance costs due to lesser flight activity during the year and the effect of strengthening of the Philippine Peso against the U.S. Dollar to an average of ₱49.61 per U.S. Dollar for the year ended December 31, 2020 from an average of ₱51.79 per U.S. Dollar last year based on PH BVAL weighted average rates

#### *Aircraft and Engine Lease*

Aircraft and engine lease expenses dropped by ₱29.275 million or 9.3% to ₱284.665 million for the year ended December 31, 2020 from ₱313.940 million charged for the year ended December 31, 2019. Decrease was due to the return of an A330 engine to its lessor during the year and the effect of the appreciation of the Philippine peso against the U.S. dollar during the current period.

#### *Reservation and Sales*

Reservation and sales expenses decreased by ₱2.560 billion or 63.1% to ₱1.499 billion for the year ended December 31, 2020 from ₱4.059 billion for the year ended December 31, 2019. This is mainly due to lower commission expenses consequent to the overall decrease in sales transactions due to the COVID-19 situation and lower advertising costs in line with the Group's cost reduction measures.

#### *General and Administrative*

General and administrative expenses grew by ₱243.446 million or 8.2% to ₱3.220 billion for the year ended December 31, 2020 from ₱2.976 billion incurred for the year ended December 31, 2019 as the Group incurred more information technology (IT)-related costs for its various digitalization projects to automate and streamline its front-end and back-end processes.

#### *Passenger Service*

Passenger service expenses decreased by ₱909.864 million or 47.4% to ₱1.010 billion for the year ended December 31, 2020 from ₱1.919 billion posted for the year ended December 31, 2019 primarily accounted for by reduced cabin crew costs and lower passenger food and supplies in line with reduced headcount and lesser number of flights.

#### Operating Income (Loss)

As a result of the foregoing, the Group finished with an operating loss of ₱20.769 billion for the year ended December 31, 2020, 264.6% lower than the ₱12.621 billion operating income earned last year.

#### Other Income (Expenses)

##### *Interest Income*

Interest income decreased by ₱512.682 million or 76.5% to ₱157.917 million for the year ended December 31, 2020 from ₱670.600 million earned in the same period last year due to the lesser cash in bank and short term placements balance and lower interest rates year on year.

##### *Market Valuation Losses on Derivative Financial Instruments*

The Group incurred a hedging loss of ₱2.150 billion for the year ended December 31, 2020, a ₱2.086 billion drop from a hedging loss of ₱63.352 million for the same period last year mainly due to the discontinuation of hedge accounting application on non-effective hedges in 2020.

##### *Foreign Exchange Gains*

Net foreign exchange gains of ₱1.732 billion for the year ended December 31, 2020 resulted from the strengthening of the Philippine Peso against the U.S. Dollar as referenced by the appreciation of the Philippine Peso to ₱48.02 per U.S. Dollar for the year ended December 31, 2020 from ₱50.64 per U.S. Dollar for the year ended December 31, 2019 based on PH BVAL closing rates. The Group's major exposure to foreign exchange rate fluctuations is in respect to U.S. Dollar denominated short and long-term debt incurred in connection with aircraft acquisitions.

##### *Equity in Net Income (Loss) of Joint Ventures and Associates*

The Group had equity in net loss of joint ventures and associates of ₱316.115 million for the year ended December 31, 2020, ₱383.074 million lower than the ₱66.959 million equity in net income of joint ventures and associates earned in the same period last year. The decrease was caused by the net losses incurred by its joint ventures and associates in 2020.

##### *Financing and other charges (interest expense on loans and promissory note)*

Financing and other charges decreased by ₱881.820 million or 33.9% to ₱1.717 billion for the year ended December 31, 2020 from ₱2.599 billion registered in 2019 due to the sale and leaseback of five (5) A320 aircraft in the latter part of 2020 and the effect of appreciation of the Philippine Peso against the U.S. Dollar to an average of ₱49.61 per U.S. Dollar for the year ended December 31, 2020 from an average of ₱51.79 per U.S. Dollar last year based on PH BVAL weighted average rates.

##### *Financing costs – PFRS 16 leases*

Accretion expense on leases increased by ₱25.466 million or 5.5% to ₱486.414 million for the year ended December 31, 2020 from ₱460.948 million for the same period last year due to the sale and leaseback of five (5) A320 CEO aircraft, delivery of one (1) A321 NEO aircraft and one (1) A320 NEO aircraft under operating lease offset by the return of four (4) A320 CEO to lessors in 2020.

##### *Gain from insurance claims*

In September 2020, the Group received ₱807.410 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.

### *Loss on disposal*

In 2020, the Group sold and leased back five (5) A320 aircraft and eight (8) engines which resulted to an overall loss of ₱259.977 million.

On November 3, 2020, the Parent Company signed a Deed of Absolute Sale of its 35% shareholding in SIA Engineering (Philippines) Corporation (SIAEP) to SIAEC which resulted to a gain from sale of an investment in joint venture of ₱34.465 million. As of December 31, 2020, the Parent Company no longer has any equity interest in SIAEP. On the same date, the Parent Company acquired SIAEC's 51% interest in A-plus, making the latter a wholly-subsiary of the Parent Company. The recognition of the investment in A-plus as a subsidiary resulted to a gain on remeasurement of ₱71.324 million on the Parent Company's existing 49% shareholding.

In 2019, the Group sold and delivered three (3) Airbus A320 aircraft to a subsidiary of Allegiant Travel Company (Allegiant) which resulted to a loss of ₱352.119 million. The Group also sold and delivered two (2) Rolls – Royce Trent 772B engines to RRP Engine Leasing Limited which resulted to a gain of ₱126.444 million.

### Income before Income Tax

As a result of the foregoing, the Group recorded loss before income tax of ₱22.896 billion for the year ended December 31, 2020, a decrease of 322.6% or ₱33.180 billion lower than the ₱10.284 billion income before income tax posted for the year ended December 31, 2019.

### Benefit from Income Tax

Benefit from income tax for the year ended December 31, 2020 amounted to ₱659.090 million mainly resulting from the recognition of deferred tax assets on future deductible amounts for realizable net operating loss carryover (NOLCO) incurred during the period.

### Net Income (Loss)

Net loss for the year ended December 31, 2020 amounted to ₱22.236 billion, a decrease of 343.7% from the ₱9.123 billion net income earned in 2019.

### ***Financial Position***

#### *December 31, 2022 versus December 31, 2021*

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As of December 31, 2022, consolidated assets increased to ₱147.156 billion from ₱138.254 billion as of December 31, 2021 mainly due to increase in cash and cash equivalents, receivables, other current assets, right of use asset and deferred tax asset. Equity decreased to a deficit balance of ₱2.885 billion from ₱10.610 billion due to the net loss recognized during the period. Book value per common share amounted to (₱26.04) as of December 31, 2022 from (₱3.21) as of December 31, 2021.

The Group's cash requirements have been mainly sourced through cash flow from operations. As of December 31, 2022, net cash provided by operating activities amounted to ₱11.860 billion. Net cash provided by investing activities amounted to ₱6.501 billion which mostly pertain to proceeds from sale and lease-back transactions and refund of pre-delivery payments offset by acquisitions of property and equipment during the period. Net cash used in financing activities amounted to ₱19.521 billion which is comprised of repayments of debt and lease liability amounting to ₱12.208 billion and ₱7.313 billion, respectively.

As of December 31, 2022, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

### **Material Changes in the 2022 Financial Statements**

**(Increase/Decrease of 5% or more versus 2021)**

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Material changes in the Statements of Consolidated Comprehensive Income were explained in detail in the management's discussion and analysis or plan of operations stated above.

Consolidated Statements of Financial Position – December 31, 2022 versus December 31, 2021

*30.9% increase in Receivables*

Due to the increased sales of the Group arising from increased operations

*42.6% increase in Expendable Parts, Fuel, Materials and Supplies*

Due to increased expendable parts, fuel and materials and supplies kept in stock

*100% increase in Assets Held for Sale*

Due to reclassification of four (4) ATR aircrafts to assets held for sale

*26.6% increase in Other Current Assets*

Due to increase in current portion of advances to suppliers and prepaid expenses

*13.0% decrease in Property and Equipment*

Due to reclassification of ATR aircrafts to assets held for sale and write down of various property and equipment

*43.1% increase in Right of Use Asset*

Due to delivery of one (1) A321 NEO, two (2) A320 NEO and (1) A330 NEO in 2022 offset by the return of one (1) A320 CEO and depreciation during the period

*33.8% decrease in Investment in Joint Ventures and Associates*

Due to share in net loss of joint ventures and associates during the period

*61.9% increase in Deferred Tax Assets - net*

Due mainly to the increase in future deductible amounts such as those from unrealized foreign exchange losses, net lease liability and additional provision for asset retirement obligations and heavy maintenance visits posted during the period

*38.9% increase in Accounts Payable and Other Accrued Liabilities*

Due to additional trade payables and accruals for the period

*35.4% increase in Due to Related Parties*

Due to additional of advances from affiliates

*100.0% decrease in Short-Term Debt*

Due to payment of unsecured promissory notes (PN) with JG Summit Philippines, Limited, a subsidiary of JG Summit Holdings, Inc., the Parent Company's ultimate parent

*153.0% increase in Unearned Transportation Revenue*

Due to significantly higher forward bookings as of December 31, 2022 compared to December 31, 2021 in line with the increased airline services demand during the period

*100.0% decrease in Income Tax Payable*

Due to the Group's available creditable withholding taxes, no tax payment is due.

*12.1% decrease in Long-Term Debt (including Current Portion)*

Due to repayment of outstanding long-term debt in accordance with the repayment schedule

*49.2% increase in Lease Liability (including Current Portion)*

Due to additional lease liability set up for one (1) A321 NEO, two (2) A320 NEO and (1) A330 NEO delivered in 2022 offset by payments made during the period

*10.2% increase in Bonds Payable*

Due to amortization of bond issue costs coupled with the depreciation of Philippine Peso against U.S. Dollar.

*51.1% decrease in Derivative Financial Liabilities at Fair Value through Profit or Loss*

Due to lower fair valuation of the embedded derivative liabilities from the Group's convertible bonds

*85.9% decrease in Travel Fund Payable - net of current portion*

Due to customers utilizing the travel fund in line with the increase in flight activity during the period and actual and estimated expiry of travel fund

*78.7% increase in Retirement Liability*

Due to increase in number of employees covered by the retirement plan and remeasurement arising from the changes in actuarial assumptions for the current year

*51.6% increase in Other Noncurrent Liabilities*

Due to additional provision for ARO and heavy maintenance visits, net of applications.

*20.9% increase in Share-based payments*

Due to the recognition of the share-based payments during the period net of the exercise of 1,094,000 vested Restricted Stock Units last January 2022.

*362.9% increase in Other Comprehensive Income (Losses)*

Due to the higher net mark-to-market gain for interest rate derivative contracts designated as cash flow hedges offset by actuarial losses from retirement liability

*136.9% decrease in Retained Earnings*

Due to net loss incurred during the period

For 2022, there are no significant element of income that did not arise from the Group's continuing operations.

The Group generally records higher revenues in January, March, April, May and December as festivals and school holidays in the Philippines increase the Group's seat load factors in these periods. Accordingly, the Group's revenues are relatively lower in July to September due to decreased travel during these months. Accordingly, the Group's revenues are relatively lower in July to September due to decreased travel during these months. Any prolonged disruption in the Group's operations during such peak periods could materially affect its financial condition and/or results of operations.

In addition, the Group has capital expenditure commitments which principally relate to the acquisition of aircraft. Kindly refer to Note 33 of the Notes to Consolidated Financial Statements for the detailed discussion on Purchase and Capital Expenditure Commitments.

*December 31, 2021 versus December 31, 2020*

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As of December 31, 2021, consolidated assets increased to ₱138.254 billion from ₱128.459 billion as of December 31, 2020 mainly due to increase in cash from the receipt of proceeds from the issuance of convertible preferred shares, convertible bonds, promissory note availments as well as proceeds from sale and leaseback of aircraft. Equity decreased to ₱10.610 billion from ₱22.691 billion last year due to

net losses incurred offset by the aforementioned issuance of preferred shares. Book value per common share amounted to (₱3.21) as of December 31, 2021 from ₱37.80 as of December 31, 2020.

The Group's cash requirements have been mainly sourced through cash flow from operations which was significantly reduced due to the current COVID-19 situation. As of December 31, 2021, net cash used in operating activities amounted to ₱6.257 billion. Net cash from investing activities amounted to ₱10.428 billion mostly from proceeds from sale and leaseback of aircraft. Net cash from financing activities amounted to ₱9.057 billion which largely comprised of proceeds from issuance of convertible preferred shares and convertible bonds amounting to ₱12.500 billion and ₱11.956 billion, respectively and from promissory note availments amounting to ₱4.234 billion, net of repayments of long term debt, notes payable and lease liability for a total of ₱19.427 billion.

As of December 31, 2021, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

### **Material Changes in the 2021 Financial Statements (Increase/Decrease of 5% or more versus 2020)**

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Material changes in the Statements of Consolidated Comprehensive Income were explained in detail in the management's discussion and analysis or plan of operations stated above.

Consolidated Statements of Financial Position – December 31, 2021 versus December 31, 2020

*319.6% increase in Cash and Cash Equivalents*

Due to receipt of proceeds from issuance of convertible preferred shares, convertible bonds, promissory note availments and sale and leaseback of aircraft

*31.4% increase in Restricted Cash*

Due to additional deposits with certain banks to securitize standby letters of credit issued in favor of lessors and higher Philippine Peso to US Dollar closing exchange rate as of December 31, 2021

*11.4% decrease in Receivables*

Due to lesser trade receivables and provision for additional allowance for doubtful debts

*6.8% decrease in Expendable Parts, Fuel, Materials and Supplies*

Due to decreased volume of fuel and parts kept in stock

*15.9% increase in Other Current Assets*

Due to increase in current portion of advances to suppliers

*18.6% decrease in Property and Equipment*

Due to sale and leaseback of seven (7) A320 CEO aircraft and depreciation during the period

*71.6% increase in Right of Use Asset*

Due to delivery of two (2) A321 NEO aircraft, two (2) A330 NEO aircraft, one (1) A320 NEO aircraft and one (1) ATR 72-600 aircraft plus the sale and leaseback of seven (7) A320 CEO aircraft during the period, offset by the return of four (4) A320 aircraft and two (2) A330 aircraft to its lessors and depreciation during the period

*38.7% decrease in Investment in Joint Ventures and Associates*

Due to share in net loss of joint ventures and associates and recognition of impairment loss of an associate during the period

*133.6% increase in Deferred Tax Assets-net*

Due mainly to increase in future deductible amounts such as those from recoverable NOLCO, unrealized foreign exchange losses and additional provision for asset retirement obligation and heavy maintenance visits among others

*38.6% decrease in Other Noncurrent Assets*

Due to transfer of noncurrent advances to suppliers to current assets

*15.9% increase in Accounts Payable and other accrued liabilities*

Largely due to payments of refunds to passengers

*70.7% decrease in Due to Related Parties*

Due to payments of advances from affiliates

*24.4% increase in Unearned Transportation Revenue*

Due to higher forward bookings as of December 31, 2021 compared to December 31, 2020

*100.0% increase in Income Tax Payable*

Due to minimum current income tax due for A-plus during the period

*7.1% decrease in Short-Term Debt*

Due to payment of unsecured promissory notes (PN) with JG Summit Philippines, Limited, a subsidiary of JG Summit Holdings, Inc., the Parent Company's ultimate parent, offset by additional PN availments during the period

*13.7% decrease in Long-Term Debt (including Current Portion)*

Due to repayment of outstanding long-term debt in accordance with the repayment schedule

*76.9% increase in Lease Liability (including Current Portion)*

Due to delivery of two (2) A321 NEO aircraft, two (2) A330 NEO aircraft, one (1) A320 NEO aircraft and one (1) ATR 72-600 aircraft plus the sale and leaseback of seven (7) A320 CEO aircraft during the period, offset by the return of four (4) A320 aircraft and two (2) A330 aircraft to its lessors and payments made during the period

*100.0% increase in Bonds Payable*

Due to receipt of proceeds from the issuance of convertible bonds net of unamortized bond issue costs and the value of bifurcated embedded derivative liability from its conversion options feature

*100.0% increase in Derivative Financial Liabilities at fair value through profit or loss*

Due to the valuation of the embedded derivative liability arising from the Group's convertible bonds

*100.0% decrease in Financial Liabilities at fair value through other comprehensive income*

Due to the settlement of derivatives during the year

*46.1% decrease in Travel Fund Payable - net of current portion*

Due mainly to conversion of ring-fenced Getgo loyalty points to Cebu Pacific Travel Fund last July 2021. Increase was also due to customers availing of the option to convert the amount paid for their cancelled bookings to a travel fund. These are still primarily driven by flight cancellations caused by COVID-19-related travel restrictions.

*28.0% decrease in Retirement Liability*

Due to benefits paid during the period

*3.2% increase in Other Noncurrent Liabilities*

Due to additional provision for ARO and heavy maintenance visits, net of applications. Increase was largely mitigated by the transfer of ring-fenced Getgo loyalty points to Cebu Pacific Travel Fund last July 2021

*53.6% increase in Capital stock*

Due to issuance of 328,947,368 convertible preferred shares at ₱1 par value, some of which have been converted to common shares during the period

*144.4% increase in Capital paid in excess of par value*

Due to issuance of 328,947,368 convertible preferred shares at an offer price of ₱38, net of transaction costs and vesting of 1,094,000 restricted stock units at a fair value of ₱48.40

*100.0% increase in Share-based Payments*

Due to recognition of costs pertaining to the grant of RSUs and Stock options to eligible persons in line with the Parent Company's LTIP

*264.2% increase in Other Comprehensive Income (Losses)*

Due to the recognition of other comprehensive gain for retirement liability and derivative instruments designated as cash flow hedges relative to higher mark-to-market valuation of fuel derivative contracts

*169.5% decrease in Retained Earnings*

Due to net loss incurred during the period

For 2021, there are no significant element of income that did not arise from the Group's continuing operations.

The Group generally records higher revenues in January, March, April, May and December as festivals and school holidays in the Philippines increase the Group's seat load factors in these periods. Accordingly, the Group's revenues are relatively lower in July to September due to decreased travel during these months. The disruption in the Group's operations due to the repercussions brought about by the COVID-19 crisis had a negative impact on its financial condition and results of operations during the period as discussed in the previous sections.

In addition, the Group has capital expenditure commitments which principally relate to the acquisition of aircraft. Kindly refer to Note 33 of the Notes to Consolidated Financial Statements for the detailed discussion on Purchase and Capital Expenditure Commitments.

*December 31, 2020 versus December 31, 2019*

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As of December 31, 2020, consolidated assets decreased to ₱128.459 billion from ₱157.733 billion as of December 31, 2019 mainly due to a reduced cash balance and the depreciation recognized for its aircraft during the period. Equity also decreased to ₱22.691 billion from ₱44.901 billion last year while book value per share amounted to ₱37.80 as of December 31, 2020 from ₱74.72 as of December 31, 2019.

The Group's cash requirements have been mainly sourced through cash flow from operations which was significantly reduced due to the current COVID-19 situation. As of December 31, 2020, net cash used in operating activities amounted to ₱13.217 billion. Net cash from investing activities amounted to ₱3.508 billion which pertains to proceeds from disposal of aircraft and engines net of payments in connection with the purchase of aircraft. Net cash used in financing activities amounted to ₱3.941 billion which largely comprised of repayments of long-term debt and lease liability which amounted to ₱14.947 billion, net of proceeds from borrowings of ₱11.051 billion.

As of December 31, 2020, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

### **Material Changes in the 2020 Financial Statements (Increase/Decrease of 5% or more versus 2019)**

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Material changes in the Statements of Consolidated Comprehensive Income were explained in detail in the management's discussion and analysis or plan of operations stated above.

Consolidated Statements of Financial Position - December 31, 2020 versus December 31, 2019

*76.2% decrease in Cash and Cash Equivalents*

Due to lower forward booking sales and collections consequent to the 73.3% drop in revenues

*100.0% increase in Restricted Cash*

Due to deposits with certain banks to securitize standby letters of credit issued in favor of lessors

*17.8% decrease in Receivables*

Due to lesser trade receivables relative to the reduced sales activity during the period

*3.5% decrease in Expendable Parts, Fuel, Materials and Supplies*

Due to decreased volume of fuel kept in stock

*16.4% decrease in Other Current Assets*

Due to decrease in advances to suppliers

*14.3% decrease in Property and Equipment*

Due to depreciation offset by addition of one (1) A321 NEO delivered during the period

*0.8% decrease in Right of Use Asset*

Due to depreciation offset by addition of one (1) A320 NEO, one (1) A321 NEO and eight (8) engines during the period

*55.3% decrease in Investment in Joint Ventures and Associates*

Due to share in net loss of joint ventures and associates during the period

*88.0% increase in Deferred Tax Assets-net*

Due mainly to increase in future deductible amounts such as NOLCO

*27.3% increase in Goodwill*

Due to goodwill on acquisition of A-Plus as a wholly-owned subsidiary during the year

*4.9% decrease in Other Noncurrent Assets*

Due to decrease in advances to suppliers

*31.8% decrease in Accounts Payable and other accrued liabilities (excluding Refunds Payable)*

Due to decline in trade payables and accruals of certain operating expenses as a result of lesser flight and passenger activity during the period

*1,938.7% increase in Refunds Payable*

Due to surge in refund requests with the increase in flight cancellations brought about by the COVID -19 outbreak

*146.1% increase in Due to Related Parties*

Due to additional advances from affiliates and payable to Digital Analytics Ventures, Inc. (DAVI) for issued loyalty points and service fee

*69.1% decrease in Unearned Transportation Revenue*

Due to lower forward bookings as of December 31, 2020 driven by weak travel demand brought about by the COVID-19 global pandemic

*100.0% increase in Short-Term Debt*

Due to an unsecured promissory note with JG Summit Philippines, Limited, a subsidiary of JG Summit Holdings, Inc., the Parent Company's ultimate parent, the proceeds from which will be used to support working capital requirements of the Group

*6.8% decrease in Long-Term Debt (including Current Portion)*

Due to repayment of outstanding long-term debt in accordance with the repayment schedule

*74.5% decrease in Derivative Financial Liabilities (including Current Portion)*

Due to lower mark-to-market valuation of fuel derivative contracts

*100.0% decrease in Income Tax Payable*

Due to a zero tax due since the Group is in a gross and net taxable loss position for the period

*4.8% increase in Lease Liability (including Current Portion)*

Due to additional lease liability set up for one (1) A320 NEO, one (1) A321 NEO and eight (8) engines offset by payments made during the period

*14,194.0% increase in Travel Fund Payable*

Due to significant increase in flight cancellations due to the COVID-19 outbreak. Customers were given the option to convert the amount paid for their cancelled bookings to a travel fund. This is valid for two years to be used as payment for future bookings

*36.1% decrease in Retirement Liability*

Due to benefits paid during the period and reduction of liability due to significant changes in demographic and experience adjustment resulting from employee retrenchment in 2020

*11.5% increase in Other Noncurrent Liabilities*

Due to additional provision for ARO and heavy maintenance visits offset by the decrease in deferred revenues with the redemption and expiration of customer loyalty points

*4.9% increase in Treasury stock*

Due to additional treasury shares in line with the Parent Company's share buyback program

*51.8% decrease in Other Comprehensive Losses*

Due to recognition of actuarial gains on pension liability offset by the recognition of other comprehensive loss for derivative instruments designated as cash flow hedges relative to lower mark-to-market valuation of fuel derivative contracts

*60.2% decrease in Retained Earnings*

Due to net loss incurred during the period

For 2020, there are no significant element of income that did not arise from the Group's continuing operations.

The Group generally records higher revenues in January, March, April, May and December as festivals and school holidays in the Philippines increase the Group's seat load factors in these periods. Accordingly, the Group's revenues are relatively lower in July to September due to decreased travel during these months. The disruption in the Group's operations due to the repercussions brought about by the COVID-19 crisis had a negative impact on its financial condition and results of operations during the period as discussed in the previous sections.

In addition, the Group has capital expenditure commitments which principally relate to the acquisition of aircraft. Kindly refer to Note 33 of the Notes to Consolidated Financial Statements for the detailed discussion on Purchase and Capital Expenditure Commitments.

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## **Key Performance Indicators**

The Group sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are major performance measures, which the Group has identified as reliable performance indicators. Analyses are employed by comparisons and measurements based on the financial data for the years ended December 31, 2022 and 2021:

| <b>Key Financial Indicators</b>               | <b>2022</b>              | <b>2021</b>       |
|---|--------------------------|-------------------|
| Total Revenue                                 | <b>₱56.751 billion</b>   | ₱15.741 billion   |
| Pre-tax Core Net Income (Loss)                | <b>(₱14.616 billion)</b> | (₱25.808 billion) |
| EBITDAR Margin                                | <b>15.0%</b>             | (25.0%)           |
| Cost per Available Seat Kilometer (ASK) (PHP) | <b>3.94</b>              | 7.95              |
| Cost per ASK (U.S. cents)                     | <b>7.24</b>              | 16.14             |
| Seat Load Factor                              | <b>75.3%</b>             | 60.6%             |

The manner by which the Group calculates the above key performance indicators for both year-end 2022 and 2021 is as follows:

|                                |   |
|--------------------------------|---|
| Total Revenue                  | The sum of revenue obtained from the sale of air transportation services for passengers and cargo and ancillary revenue.  |
| Pre-tax Core Net Income (Loss) | Operating income (loss) after deducting net interest expense and adding equity in net income/loss of joint venture.   |
| EBITDAR Margin                 | Operating income (loss) after adding depreciation and amortization, provision for ARO and heavy maintenance visits and aircraft and engine lease expenses divided by total revenue.                                       |
| Cost per ASK                   | Operating expenses, including depreciation and amortization expenses and the costs of operating leases, but excluding fuel hedging effects, foreign exchange effects, net financing charges and taxation, divided by ASK. |
| Seat Load Factor               | Total number of passengers divided by the total number of actual seats on actual flights flown.   |

As of December 31, 2022, the Group's operations have significantly improved due to the easing of COVID-19 restrictions which started during the second quarter. In line with this, the Group's liquidity position has been augmented, mainly sourced from the enhanced cash flows from operating activities during the period. Accordingly, the Group will have sufficient financial resources to enable the Group to subsequently finance its operations and pay its debts as and when they fall due. However, the Group's balance sheet was significantly affected by the revaluation of its foreign currency-denominated provisions and debts due to the depreciation of the local currency against foreign currencies. Consequently, the Group's equity position has declined due to the net loss recognized during the period. The net loss recognized was mostly attributable to significantly higher fuel prices, foreign exchange losses and interest costs. Nevertheless, the continuous growth in demand for domestic and international airline services which started during the second quarter has provided the Group with the positive outlook to regain its strong balance sheet and equity position in the subsequent periods. This is coupled by the Group's effort to manage the impact of COVID-19 pandemic in its business operations. Hence, despite the continuing impact of the COVID-19 pandemic, the Group still believes that it remains a resilient airline company.

The COVID-19 pandemic has continuously affected the operations of the Group as its scale and duration remain uncertain as at the report date. In response, the Group is actively engaged in planning and executing various measures to mitigate the impact of the COVID-19 pandemic on its business operations. Further, the Group is still monitoring the recent developments as these situations may subsequently result to a material impact on the Group's financial results for 2023 and even periods thereafter. The Group, however, is encouraged by the strong demand for airline services and anticipates the same to continue as a result of the easing of COVID-19 restrictions in most parts of the country.

#### **Item 7. Financial Statements**

The financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (page 67) are filed as part of this Form 17-A.

#### **Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### ***Independent Public Accountants and Audit Related Fees***

SyCip Gorres Velayo & Co. (SGV & Co.) has acted as the Group's independent public accountant. The same accounting firm is tabled for reappointment for the current year at the annual meeting of stockholders. The representatives of the principal accountant have always been present at prior year's meetings and are expected to be present at the current year's annual meeting of stockholders. They may also make a statement and respond to appropriate questions with respect to matters for which their services were engaged. The current handling partner of SGV & Co. has been engaged by the Group in 2016 and is expected to be rotated every five years.

### ***Audit Fees***

The following table sets out the aggregate fees billed for each of the last three years for professional services rendered by SGV & Co.

|                                  | 2022              | 2021       | 2020        |
|----------------------------------|-------------------|------------|-------------|
| Audit and non-audit-related fees | <b>₱7,112,679</b> | ₱6,791,794 | ₱10,844,000 |

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## **PART III - CONTROL AND COMPENSATION INFORMATION**

### **Item 9. Board of Directors and Executive Officers of the Registrant**

The tables below set forth certain information regarding the members of the Board of Directors, member of the advisory board and executive officers of the Group.

#### **A. Board of Directors**

The Board consists of nine (9) members, of which three (3) are independent directors.

| <b>Name</b>                | <b>Age</b> | <b>Position</b>  | <b>Citizenship</b> |
|----------------------------|------------|--|--------------------|
| James L. Go                | 83         | Chairman*  | Filipino           |
| Lance Y. Gokongwei         | 56         | Director, President and Chief Executive Officer (CEO)* | Filipino           |
| Jose F. Buenaventura       | 88         | Director   | Filipino           |
| Robina Gokongwei Pe        | 61         | Director   | Filipino           |
| Frederick D. Go            | 53         | Director   | Filipino           |
| Brian H. Franke            | 59         | Director   | American           |
| Bernadine T. Siy           | 63         | Independent Director                                   | Filipino           |
| Brian Mathew P. Cu         | 40         | Independent Director                                   | Filipino           |
| Richard Raymond B. Tantoco | 56         | Independent Director                                   | Filipino           |

*\*Effective January 1, 2023, Lance Y. Gokongwei was appointed as Chairman of the Board of Directors, and Alexander G. Lao as member of the Board of Directors.*

Bernadine T. Siy, Brian Mathew P. Cu and Richard Raymond B. Tantoco are the independent directors of the Parent Company.

#### **B. Executive Officers**

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| <b>Name</b>           | <b>Age</b> | <b>Position</b>               | <b>Citizenship</b> |
|-----------------------|------------|-------------------------------|--------------------|
| Michael B. Szucs..... | 56         | Chief Executive Adviser*..... | British            |

| <b>Name</b>                          | <b>Age</b> | <b>Position</b>                         | <b>Citizenship</b>    |
|--------------------------------------|------------|---|-----------------------|
| Andrew L. Huang*                     | 66         | Chief Compliance Officer*               | Filipino/<br>Canadian |
| Michael Ivan S. Shau                 | 59         | Chief Corporate Affairs Officer         | Filipino              |
| Alexander G. Lao                     | 47         | Chief Commercial Officer*               | Filipino              |
| Jose Alejandro B. Reyes              | 55         | Chief Strategy Officer                  | Filipino              |
| Laureen M. Cansana                   | 53         | Chief Information Officer               | Filipino              |
| Mark Julius V. Cezar                 | 41         | Chief Financial Officer*                | Filipino              |
| Javier Luis Massot Ramis de Ayreflor | 51         | Chief Operations Officer*               | Spanish               |
| Samuel S. Avila II                   | 55         | Vice President                          | Filipino              |
| Materno C. Ilagan                    | 53         | Vice President                          | Filipino              |
| Felix Dan S. Lopez                   | 42         | Vice President*                         | Filipino              |
| Maria Leonora A. Apostol             | 45         | Vice President                          | Filipino              |
| Candice Jennifer A. Iyog             | 50         | Vice President*                         | Filipino              |
| Anne Romadine P. Tieng               | 46         | Vice President and Corporate Secretary* | Filipino              |
| Shevantha K. Weerasekera             | 43         | Senior Adviser*                         | Sri Lankan            |
| Ma. Elynore J. Villanueva            | 60         | Treasurer                               | Filipino              |
| Angeli S. Tristeza                   | 30         | Assistant Corporate Secretary           | Filipino              |

*\*Effective January 1, 2023, Michael B. Szucs was appointed as Chief Executive Officer; Alexander G. Lao as President and Chief Commercial Officer; Mark Julius V. Cezar as Chief Financial Officer and Compliance Officer (replacing Andrew L. Huang who retired as of January 1, 2023); Javier L. Massot as Chief Operations Officer; Felix Dan S. Lopez as Chief Human Resources Officer; Candice Jennifer A. Iyog as Chief Marketing and Customer Experience Officer; Anne Romadine P. Tieng as General Counsel and Corporate Secretary; and Shevantha K. Weerasekera as Vice President.*

Unless otherwise stated herein, the above directors and executive officers have served their respective offices since May 11, 2022.

A brief description of the business experience and other directorships held in other reporting companies of our directors, executive officers and senior consultants are provided as follows:

**James L. Go** has been the Chairman of the Parent Company from May 2018 until December 31, 2023. He currently serves as a Board Advisor of Parent Company since January 1, 2023. He is also the Chairman of JGSHI and is also the Chairman and Chief Executive Officer of Oriental Petroleum and Minerals Corporation, the Vice Chairman of Robinsons Retail Holdings, Inc. He is the Chairman Emeritus of Universal Robina Corporation, Robinsons Land Corporation and JG Summit Olefins Corporation. He is also the President and Trustee of the Gokongwei Brothers Foundation, Inc. He has been a Director of PLDT, Inc. (“PLDT”) since November 3, 2011, and serves as an Advisor to the Audit Committee, and as a member of the Risk Committee and the Technology Strategy Committee of PLDT. He was elected a Director of Manila Electric Company (“MERALCO”) on December 16, 2013 and is a member of the Executive Committee, Finance Committee, Nomination and Governance Committee, Audit Committee, Risk Management Committee, and Related Party Transactions Committee of MERALCO. Mr. James L. Go received his Bachelor of Science Degree and Master of Science Degree in Chemical Engineering from Massachusetts Institute of Technology, USA.

**Lance Y. Gokongwei** has been the President and Chief Executive Officer of the Parent Company since 1997 until December 31, 2022. Effective January 1, 2023, he serves as Chairman of the Board of Directors of the Parent Company. He is also the President and Chief Executive Officer of JG Summit Holdings, Inc., Universal Robina Corporation, Robinsons Land Corporation, Robinsons Retail

Holdings, Inc., Altus Property Ventures, Inc., Robinsons Bank Corporation, and JG Summit Olefins Corporation. He is a Director and a Vice Chairman of the Executive Committee of Manila Electric Company. He is also a Director of RL Commercial REIT, Inc., Oriental Petroleum and Minerals Corporation, Singapore Land Group Limited, Shakey's Asia Pizza Ventures, Inc., AB Capital and Investment Corporation, and Endeavor Acquisition Corporation. He is a Trustee and the Chairman of the Gokongwei Brothers Foundation, Inc. He received a Bachelor of Science degree in Finance and a Bachelor of Science degree in Applied Science from the University of Pennsylvania.

**Jose F. Buenaventura** has been a director of the Parent Company since December 1995. He is a Senior Partner in Romulo Mabanta Sayoc & de los Angeles. He is Chairman and Director of Consolidated Coconut Corporation, Gladtohome, Inc. and GROW, Inc. He is a member of the Board of Grow Holdings, Inc., Hicap Properties Corporation, Himap Properties Corporation, La Concha Land Investment Corp., Philplans First, Inc., Techzone Philippines, Inc., Total Consolidated Asset Management, Inc., and Turner Entertainment Manila, Inc. He is also a member of the Board of Advisors of BDO Unibank, Inc. Mr. Buenaventura received his Bachelor of Laws degree from the Ateneo de Manila University and his Master of Laws degree from Georgetown University Law Center, Washington D.C. He was admitted to the Philippine Bar in 1960.

**Robina Gokongwei Pe** has been a director of the Parent Company since August 1, 2007. She is the President and Chief Executive Officer of Robinsons Retail Holdings, Inc. (RRHI). Operating a diverse portfolio of brands, RRHI is one of the largest multi-format retailers in the country. She is also a Director of JG Summit Holdings, Inc., Robinsons Land Corporation and Robinsons Bank Corporation. She is a Trustee and the Secretary of the Gokongwei Brothers Foundation, Inc. and a Trustee and Vice Chairman of the Immaculate Concepcion Academy Scholarship Fund. She is also a member of the Xavier School Board of Trustees. She was formerly a member of the University of the Philippines Centennial Commission. She attended the University of the Philippines-Diliman from 1978 to 1981 and obtained a Bachelor of Arts degree (Journalism) from New York University in 1984. She has two children, Justin, 27 and Joan, 17. She is married to Perry Pe, a lawyer.

**Frederick D. Go** has been a director of the Parent Company since August 1, 2007. He is currently the President and Chief Executive Officer of Robinsons Land Corporation (RLC). He concurrently serves as the President and Chief Executive Officer of Altus Property Ventures, Inc. and the President and Chief Executive Officer of Universal Hotels and Resorts, Inc. He is also the Chairman of RL Commercial REIT, Inc. and the Vice Chairman of Luzon International Premier Airport Development Corporation. He is a Trustee and the President of Robinsons Land Foundation, Inc. and Universal Cultural Foundation, Inc. He is the Group General Manager of Shanghai Ding Feng Real Estate Development Company Limited, Xiamen Pacific Estate Investment Company Limited, Chengdu Ding Feng Real Estate Development Company Limited, Taicang Ding Feng Real Estate Development Company Limited, Taicang Ding Sheng Real Estate Development Company Limited, Chongqing Robinsons Land Real Estate Company Limited, and Chongqing Ding Hong Real Estate Development Company Limited. He is a Director of Manila Electric Company and Cebu Light Industrial Park. He is the Vice Chairman of the Board of Directors of Robinsons Bank Corporation and of the Executive Committee of the said bank. He also serves as the Vice Chairman of the Philippine Retailers Association. In January 2023, he was appointed by the President of the Philippines as Presidential Adviser for Investment and Economic Affairs. He received a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University.

**Brian H. Franke** has been a director of the Parent Company since July 15, 2021. Mr. Franke has been a principal of Indigo Partners LLC, a private equity fund focused on air transportation, since April 2004. He has served as a member of the Frontier Airlines Board of Directors since December 2013. Mr. Franke has served on the boards of directors of Concesionaria Vuela Compañía de Aviación, S.A.B. de C.V., an airline based in Mexico doing business as Volaris, since July 2010, including as board chair since April 2020; several entities within the JetSMART SpA group, an airline based in South America, since March 2017; and APIJET, LLC, a software company focused on providing real-time cost saving analytics to airlines, since November 2020. He previously served on the boards of Tiger Aviation Pte.

Ltd, a Singapore-based airline, from 2008 to 2010, and Tiger Airways Australia Pty Ltd., an Australian-based airline, from 2009 to 2010. Mr. Franke also serves on the University of Arizona Foundation board and its investment and executive committees. Mr. Franke holds a B.S. from the University of Arizona and a Masters of International Management from the Thunderbird School of Global Management.

**Bernadine T. Siy** has been a director of the Parent Company since March 3, 2021. She is a current member of the Board of Directors of Epicurean Partners Exchange Inc., the operators of the Kenny Rogers restaurant chain which she founded in 1994, and Seattle's Best Coffee which she introduced to the Philippine market in 2000. She is currently the Chairman of the Board of Trustees of the Ateneo de Manila University, making her the first woman to hold the position. She also serves as an independent director of PLDT Inc. since June 2021. She received her Bachelor of Arts in Economics (Honors Program) from the Ateneo de Manila University and graduated magna cum laude. Ms. Siy also has a Masters in Management degree from the J.L. Kellogg Graduate School of Management Northwestern University in Chicago in the United States.

**Brian Mathew P. Cu** has been a director of the Parent Company since March 3, 2021. He is the former President and Co-Founder for Grab Philippines. His role revolved around a duo directional and strategic leadership for core capabilities in Grab Philippines, other areas of focus include, strategies for business development and technology. He started his career as a management consultant with the Boston Consulting Group. While in BCG, he co-founded GoJek in Indonesia. He decided to jump full time into the world of entrepreneurship in 2012 when he co-founded Zalora Philippines. He left in mid-2013 to co-found Grab Philippines and served as its president until August 2020. He has a real passion for building companies that deliver a positive impact in society. Aside from enjoying getting into the weeds and fixing a company's operational challenges and defining growth strategies, he also finds time to build up the next generation of entrepreneurs through mentorship or investments.

**Richard Raymond B. Tantoco** has been a director of the Parent Company since May 12, 2021. He is the President and Chief Operating Officer (COO) of Energy Development Corporation (EDC), the country's largest renewable power company. He is also a member of the Board of Directors of First Philippine Holdings Corporation, First Gen Corporation, Energy Development Corporation, and several of these companies' subsidiaries. Prior to joining Energy Development Corporation and First Gen Corporation, Mr. Tantoco worked with the management-consulting firm Booz, Allen & Hamilton, Inc. in New York and London as well as Procter and Gamble Philippines. Mr. Tantoco serves as a Trustee in the board of several non-profit organizations – Business for Sustainable Development, Oscar M. Lopez Center For Climate Change Adaptation and Disaster Risk Management Foundation, Inc., and The Eugeno Lopez Foundation, Inc. Mr. Tantoco obtained his B.S. Business Management degree from the Ateneo de Manila University where he graduated with honors, and his MBA in Finance from the Wharton School of Business of the University of Pennsylvania..

**Michael B. Szucs** is currently the Chief Executive Officer after serving as Chief Executive Adviser from February 2016 to December 2022. He has extensive airline experience in senior management and executive positions spanning over thirty years. He started his airline career as a pilot with British Airways in 1990 flying Boeing 737, 757, 767 and Airbus A320 aircraft. He moved into management within British Airways in 1996. Having served in senior roles in both Operations and Commercial, he joined EasyJet as Operations Director and then Chief Operating Officer. In 2006, Mr. Szucs successfully established his first airline, as the CEO of then start-up LCC VivaAerobus in Mexico. He subsequently took on a breadth of CEO challenges: trying to rescue a massively distressed airline in Europe (Spanair), successfully starting another Latin American LCC (VivaColombia) and leading the efforts to establish a new LCC for Qatar Airways in Saudi Arabia (Al Maha). He joined Cebu Pacific as Chief Executive Adviser in February 2016, a role that he served for almost seven years prior to being appointed as Chief Executive Officer. He holds a first class honors degree in Aeronautical Engineering from Manchester University, UK.

**Andrew L. Huang** was appointed as the Chief Finance Officer of the Group on October 1, 2015 and was appointed Compliance Officer on June 11, 2020 until December 31, 2022. He has over 36 years of

extensive experience in Finance and Management with organizations such as Chase Manhattan Bank, BA Finance Corp., Philippine Airlines, San Miguel Corporation and Filinvest Development Corporation. He has previously served as Chief Operating Officer of Wi-Tribe Telecoms Holding, Inc. and President of Eastern Telecommunications Philippines, Inc. Since 2013, he has also been an Adjunct Professor of Finance at the Asian Institute of Management where he also finished his Master's degree in Business Management after graduating from De La Salle University with a degree in Business Administration.

**Michael Ivan S. Shau** was appointed as Chief Corporate Affairs Officer last November 1, 2021. He joined the Gokongwei Group under Universal Robina Corporation Packaging Division from 1999-2007 as Business Unit General Manager. Previous to that, he also had a background in manufacturing in the field of packaging materials. He joined the Parent Company in 2007, as the Vice-President for Airport Services Department. Since then, he has held various positions that include procurement, human resources, information technology, facilities, cargo, administration and ground support. In between his career, he was appointed as President and CEO of CEBGO, Inc. By September 2016, he was brought back to the Parent Company to lead the development of the airline's airport activity and entry into service of A321 containerized aircraft. He graduated with a degree in Industrial Management Engineering, Minor in Mechanical Engineering at the De La Salle University, completing all academic requirements of a Master's Degree in Business Management, Major in Production from the same university. He has 15 years of experience in the airline industry, and 23 years with the Gokongwei group of companies. He is also an alumni of the Advanced Management Program from Harvard Business School.

**Alexander G. Lao** is presently the President and Chief Commercial Officer of the Parent Company following his appointment on January 1, 2023. He became Chief Commercial Officer last May 10, 2021. Prior that, he was previously the Chief Strategy Officer since August 16, 2019. Prior to this, he served as Vice President for Commercial Planning since February 2012 and Director of Revenue Management from October 8, 2007 to February 2012. Before joining the Group, he worked as Assistant Vice President of Philamlife from August 2001 to September 2007 and as Business Development Assistant of Ayala Life from 1998 to 1999. He graduated from Ateneo De Manila University with a Bachelor of Science degree in Legal Management. He also received his Master's degree in Business Administration from the Asian Institute of Management. He has 15 years of experience in the airline industry, all of which have been with the Group.

**Jose Alejandro B. Reyes** was appointed as Chief Strategy Officer last May 10, 2021. He is concurrently the President and Chief Executive Officer of CEBGO, Inc. He was previously the Vice President for Commercial since August 16, 2019. Prior to that, he served as Vice President for Cargo since June 2016 and the General Manager for long-haul operations starting February 2012. He was also the former Vice President for Commercial Planning of the Group from January 2008 to January 2012. Prior to joining the Group, he previously worked as Senior Vice President of PhilWeb. Prior to this, he held various positions with The Inquirer Group, the last of which was Senior Vice President and Chief Operating Officer of the Inquirer Publications, Inc. He graduated Summa Cum Laude from Georgetown University with a Bachelor of Science degree in International Economics. He received his Master's degree in Business Administration from the University of Virginia. He has 15 years of experience in the airline industry, all of which have been with the Group.

**Laureen M. Cansana** was appointed as Chief Information Officer last November 7, 2016. Prior to joining the Group, she was the Global IT Support Director for Coats, PLC from June 2013 to March 2016. She has 32 years of experience in information technology both on the applications and infrastructure environment. She assumed positions ranging from Chief Information Officer, Global IT Support Head, Global Program Manager, Project Management Office Director, Regional IT Services and Integration Director for Asia Pacific and Middle East, Regional Applications Manager, Solutions Delivery and Applications Demand Manager and IT Consultant. She is a graduate of De La Salle University with a Bachelor of Science degree in Computer Science Major in Information Technology.

**Mark Julius V. Cezar** was appointed as Chief Financial Officer and Compliance Officer with effect from January 1, 2023. He started his career as a Junior Management Trainee with JG Summit Holdings Inc. and was transferred to the Parent Company where he held various positions including leadership roles in the Network Planning Group under its Commercial Department. He then expanded his career when he was appointed to lead as Director for the Fleet Planning team under the Finance Department. Collectively, Mr. Cezar has over 15 years of experience in the Aviation business all of which have been with the Airline Group. He is a licensed Certified Public Accountant and he graduated Cum Laude from the University of the Philippines – Diliman where he completed his Bachelor of Science Degree in Business Administration and Accountancy.

**Javier Luis Massot Ramis de Ayreflor** is currently the Chief Operations Officer, and was formerly Chief Operations Adviser and Senior Adviser for Ground Operations. He has over 25 years of experience in the aviation industry working with companies such as Jetstar Airway Singapore as Head of Airport and Network Operations, Qatar Airways as Vice President for the Doha Hub, Etihad Airport Services Ground as General Manager for Hub Operations and Bangalor International Airport in India as SVP for Airport Operations to name a few. Prior to joining the Group, he served MIASCOR Ground Handling as Chief Executive Adviser. He has a Master of Science degree in Aeronautical Engineering from Universidad Politecnica de Madrid and a Master in Business Administration from IE Business School.

**Capt. Samuel S. Avila II** was appointed as Vice President for Flight Operations last June 2016. Prior to this, he also served as Vice President for Flight Operations of CEBGO, Inc. and worked as Chief Pilot for the ATR fleet of Cebu Air since April 2005. He was first appointed as a management pilot in 2002. He joined the Group in 1999 as a DC 9 First Officer and upgraded to Captain in 2001. He also served as a Type Rating Examiner (TRE) on the DC-9, A320/319, ATR 72-500 and is currently an A330 Captain. He is a graduate of Ateneo De Manila University with a Degree in AB Management Economics and worked as airline pilot of Philippine Airlines for 6 years. He has 28 years of experience in the airline industry, the last 21 years of which have been with the Group.

**Capt. Materno C. Ilagan** was appointed as Vice President for Safety, Quality and Security last April 2019. Prior to this, he served as Chief Pilot for the A330 fleet for 6 years, and before that as Deputy Chief Pilot for the A320 fleet for 2 years. He graduated from the De La Salle University with a Bachelor of Science Physics degree, major Computer Applications. He then completed his pilot training course with Philippine Airlines in 1993. Capt. Ilagan also completed the Safety Management Course of ICAO Global Aviation Training in 2020, the Aviation Data-driven Decision Making (AD3M) course of ICAO GAT in 2021, and the Airline Safety Investigation course of IATA in 2021. He has been in the aviation industry for 30 years, 22 years of which has been with the Group, with 8 years as a management pilot and 4 years in Safety, Quality and Security Group. His other flying stints were with PAL and Eva Air.

**Felix Dan S. Lopez** is the Chief Human Resources Officer effective January 1, 2023. He joined the Parent Company as Vice President for People Department last April 1, 2019. He is an experienced human resources executive who has been serving the field for more than 20 years now. He graduated Cum Laude from the University of the Philippines – Diliman with a Bachelors' Degree in Political Science. His first job was with San Miguel Corporation, where he stayed close to five (5) years. In 2006, he first ventured into the JG Summit Holdings, Inc. (JGSHI) conglomerate through Universal Robina Corporation (URC), where he gained experience in several managerial roles, namely Branded Consumer Foods Group Sales HR, and Management & Organization Development and Employee & Labor Relations. In 2008, he transferred to JGS Corporate Human Resources (CHR) as a Manager under the same function. Felix took on various roles ranging from Talent Management to Total Rewards. In 2010, he was promoted to Director, and in 2016, he was appointed as Vice President.

**Maria Leonora A. Apostol** is currently the Vice President for Customer Service Operations, a position she has held since November 1, 2021. She joined the Parent Company in 2019 as Vice President for Cabin Services. Prior to joining the Group, Ms. Apostol has served as General Manager for Double

Dragon Properties Corporation and The Manila Polo Club. She has also held leadership roles in various large scale local and international hotels such as The Hyatt Regency, Sofitel Philippines, The Peninsula Manila, Pangulasian Resort in El Nido and Epikurean Hotels in Vietnam. She received her Bachelor of Science Degree in Tourism from the University of Santo Tomas in 1997. With 24 years of robust experience in the hospitality industry, she brings to the Group her expertise in integrating business and operational excellence while ensuring best-in-class quality customer service is provided for our customers.

***Candice Jennifer A. Iyog*** is the Chief Marketing and Customer Experience Officer. She has been with the Group since September 2003 and has served as Vice President for Marketing and Distribution from September 2008 to December 2022. Prior to this position, she was Vice President for Marketing and Product from February 2007 to September 2008. She was formerly the General Manager of Jobstreet.com and was also the marketing manager of NABISCO. She also worked at URC as Product Manager and, as such, handled major snack food brands of URC such as Chippy, Piattos and Nova. She received her Bachelor of Science degree in Management from the Ateneo de Manila University. She has 22 years of experience in the airline industry, all of which have been with the Group.

***Atty. Anne Romadine P. Tieng*** is currently the Parent Company's General Counsel. She was appointed as Vice President for Legal Affairs last December 1, 2018 and was appointed Corporate Secretary on October 1, 2020. She has worked with organizations such as Villaraza & Angangco Law Offices and Shell Philippines Exploration B.V. prior to joining Cebu Pacific in August 2011. She is a graduate of De La Salle University majoring in BS Legal Management for her undergraduate course and Ateneo De Manila School of Law for her post graduate course where she obtained her Juris Doctor degree.

***Shevanta K. Weerasekera*** is currently the Vice President – Engineering and Fleet Management since January 1, 2023. He joined the Parent Company as Senior Advisor of EFM last February 1, 2022. He is a seasoned executive with more than 20 years of experience in leading multidisciplinary engineering and maintenance team for international airlines and MROs. He has previously worked for Etihad Engineering (formerly Abu Dhabi Aircraft Technologies), the longest in his career, as the Head of Engineering. He was also with Sri Lankan Airlines as the Head of Engineering and Maintenance.

***Ma. Elynore J. Villanueva*** was appointed as the Treasurer of the Airline Group on November 2, 2015. She started her career in the JG Summit Group in 1996 as Senior Treasury Manager for Manila Galleria Suites. In 2003, she transferred to Big R Stores as Assistant Treasurer and was later on moved to Universal Robina Corporation and handled Cebu Pacific. In 2010, her group was formally transferred from URC to the Parent Company with her being appointed as Director - Treasury for Cebu Pacific. Since March 2014, she also assumed a concurrent role as Director - Treasury for Cebgo, Inc.. She graduated as Cum Laude from St. La Salle University in Bacolod with a Bachelor of Science Degree in Commerce Major in Accounting.

***Atty. Angeli S. Tristeza*** joined the Parent Company as Assistant Legal Counsel on April 11, 2019 and was appointed as Assistant Corporate Secretary on May 11, 2022. She concurrently serves as Corporate Secretary of Aviation Partnership (Philippines) Corporation effective March 2021. She graduated from Ateneo de Manila University majoring in BS Legal Management in 2011 and the University of the Philippines College of Law for her post-graduate course where she obtained her Juris Doctor degree in 2017. She was admitted to the Philippine Bar in 2018.

The Airline Group's executive officers can be reached at its business office at the Cebu Pacific Building, Domestic Road, Barangay 191, Zone 20, Pasay City.

#### ***Involvement in Certain Legal Proceedings of Directors and Executive Officers***

To the best of the Group's knowledge and belief and after due inquiry, none of the Group's directors, nominees for election as director, or executive officer have in the past five years: (i) had any petition filed by or against any business of which such person was a general partner or executive officer either

at the time of the bankruptcy or within a two year period of that time; (ii) convicted by final judgment in a criminal proceeding, domestic or foreign, or have been subjected to a pending judicial proceeding of a criminal nature, domestic or foreign, excluding traffic violations and other minor offences; (iii) subjected to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities; or (iv) found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

***Family Relationship***

- Mr. James L. Go is the uncle of Mr. Lance Y. Gokongwei
- Mr. Frederick D. Go is the cousin of Mr. Lance Y. Gokongwei
- Ms. Robina Gokongwei Pe is the sister of Mr. Lance Y. Gokongwei

## Item 10. Executive Compensation

The following are the Group’s Chief Executive Officer (“CEO”) and four most highly compensated executive officers for the year ended 2022:

| Name                          | Position                        |
|-------------------------------|---------------------------------|
| Lance Y. Gokongwei . . . . .  | President and CEO*              |
| Andrew L. Huang. . . . .      | Chief Compliance Officer*       |
| Alexander G. Lao. . . . .     | Chief Commercial Officer*       |
| Michael Ivan S. Shau. . . . . | Chief Corporate Affairs Officer |
| Mark Julius V. Cezar. . . . . | Chief Financial Officer*        |

*\*Effective January 1, 2023, Lance Y. Gokongwei was appointed as Chairman of the Board of Directors; Alexander G. Lao as President and Chief Commercial Officer; and Mr. Mark Julius V. Cezar was appointed as Chief Financial Officer and Compliance Officer.*

The following table identifies and summarizes the aggregate compensation of the Group’s CEO and the four most highly compensated executive officers for the years ended 2021, 2022 and 2023 estimates:

|  | Actual - Fiscal Year 2021 |             |                           |              |
|--|---------------------------|-------------|---------------------------|--------------|
|  | Salaries                  | Bonuses     | Other Income <sup>1</sup> | Total        |
| <b>CEO and four (4) most highly compensated executive officers</b><br>1. Lance Y. Gokongwei - President and CEO<br>2. Andrew L. Huang - CFO and Compliance Officer<br>3. Alexander G. Lao - Chief Commercial Officer<br>4. Jose Alejandro B. Reyes - Chief Strategy Officer<br>5. Michael Ivan S. Shau - Chief Corporate Affairs Officer | ₱98,012,911               | ₱9,140,549  | ₱200,000                  | ₱107,353,460 |
| <b>Aggregate compensation paid to all officers and directors as a group unnamed</b>  | ₱140,900,362              | ₱15,547,939 | ₱2,625,000                | ₱159,073,301 |

<sup>1</sup>Includes per diem of directors

|   | Actual - Fiscal Year 2022 |             |                           |              |
|---|---------------------------|-------------|---------------------------|--------------|
|   | Salaries                  | Bonuses     | Other Income <sup>1</sup> | Total        |
| <b>CEO and four (4) most highly compensated executive officers</b><br>1. Lance Y. Gokongwei - President and CEO<br>2. Andrew L. Huang - Compliance Officer<br>3. Alexander G. Lao - Chief Commercial Officer<br>4. Michael Ivan S. Shau - Chief Corporate Affairs Officer<br>5. Mark V. Cezar - Chief Financial Officer | ₱99,991,538               | ₱9,085,387  | ₱280,000                  | ₱109,356,925 |
| <b>Aggregate compensation paid to all officers and directors as a group unnamed</b>   | ₱158,348,397              | ₱19,562,400 | ₱2,945,000                | ₱180,855,797 |

<sup>1</sup>Includes per diem of directors

|  | <b>Fiscal Year 2023 Estimates</b> |                |                                 |              |
|--|-----------------------------------|----------------|---------------------------------|--------------|
|  | <b>Salaries</b>                   | <b>Bonuses</b> | <b>Other Income<sup>1</sup></b> | <b>Total</b> |
| <b>CEO and four (4) most highly compensated executive officers</b><br>1. Michael B. Szucs - CEO<br>2. Alexander G. Lao – President and Chief Commercial Officer<br>3. Michael Ivan S. Shau - Chief Corporate Affairs Officer<br>4. Mark V. Cezar – Chief Financial Officer<br>5. Candice A. Iyog – Chief Marketing and Customer Experience Officer | ₱85,543,275                       | ₱7,824,568     | ₱300,000                        | ₱93,667,843  |
| <b>Aggregate compensation paid to all officers and directors as a group unnamed</b>  | ₱170,453,394                      | ₱20,463,430    | ₱3,120,000                      | ₱194,036,824 |

<sup>1</sup>Includes per diem of directors

### ***Standard Arrangements***

Other than payment of reasonable per diem as may be determined by the Board for every meeting, there are no standard arrangements pursuant to which directors of the Group are compensated, or are to be compensated, directly or indirectly, for any services provided as a director for the last completed year and the ensuing year.

### ***Other Arrangements***

There are no other arrangements pursuant to which directors of the Group are compensated, or are to be compensated, directly or indirectly, for any services provided as a director for the last completed year and the ensuing year.

### ***Employment Contracts and Termination of Employment and Change-in-Control Arrangement***

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

### ***Long Term Incentive Plan (see page 28)***

### ***Warrants Outstanding***

There are no outstanding warrants held by the Group's CEO, the named executive officers, and all officers and directors as a group.

**Item 11. Security Ownership of Certain Record and Beneficial Owners and Management**

**(1) Security Ownership of Certain Record and Beneficial Owners**

As of December 31, 2022, the Group knows no one who beneficially owns in excess of 5% of the Group’s voting stock except as set forth in the table below.

| <b>Title of Class</b> | <b>Names and addresses of record owners and relationship with the Corporation</b>  | <b>Name of beneficial owner and relationship with record owner</b> | <b>Citizenship</b> | <b>Number of shares held</b> | <b>% to Total Outstanding Voting Stock</b> |
|-----------------------|--|--|--------------------|------------------------------|--|
| Common                | CPAir Holdings, Inc.<br>43/F Robinsons Equitable Tower, ADB Avenue corner Poveda Street Ortigas Center, Pasig City (stockholder)         | Same as record owner<br>(See note 1)                               | Filipino           | 400,816,841                  | 65.03%                                     |
| Common                | PCD Nominee Corporation - Filipino<br>37/F Tower 1, The Enterprise Center, Ayala Ave. cor. Paseo de Roxas, Makati City (stockholder)     | PDTC Participants and their clients<br>(See note 2)                | Filipino           | 136,525,287<br>(See note 3)  | 22.15%                                     |
| Common                | PCD Nominee Corporation - Non-Filipino<br>37/F Tower 1, The Enterprise Center, Ayala Ave. cor. Paseo de Roxas, Makati City (stockholder) | PDTC Participants and their clients<br>(See note 2)                | Non-Filipino       | 71,684,343<br>(See note 3)   | 11.63%                                     |

Notes:

- CPAir Holdings, Inc. is a wholly-owned subsidiary of JG Summit Holdings, Inc. Under the By-Laws of CP Air Holdings, Inc., the President is authorized to represent the corporation at all functions and proceedings. The incumbent President of CP Air Holdings, Inc. is Mr. Lance Y. Gokongwei.
- PCD Nominee Corporation is the registered owner of the shares in the books of the Corporation’s transfer agent. PCD Nominee Corporation is a corporation wholly-owned by Philippine Depository and Trust Corporation, Inc. (formerly the Philippine Central Depository) (“PDTC”), whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. PDTC is a private corporation organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. Under the current system of the PDTC, only participants (brokers and custodians) are recognized by PDTC as the beneficial owners of the lodged shares. Each beneficial owner of shares through his participant is the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee.
- The number of shares reflected excludes Cebu Air, Inc.’s 5,636,630 treasury shares under PCD Nominee Corporation - Filipino. Out of the PCD Nominee Corporation account for voting stock, “Citibank N.A.,” hold for various trust accounts the following shares of the Corporation as of December 31, 2022:

|               | <u>No. of shares</u> | <u>% to Outstanding Voting Stock</u> |
|---------------|----------------------|--------------------------------------|
| Citibank N.A. | 63,261,991           | 10.26%                               |

Voting instructions may be provided by the beneficial owners of the shares.

**(2) Security Ownership of Management as of December 31, 2022**

| Title of Class                              | Name of beneficial Owner                                | Position                        | Amount & nature of beneficial ownership (Direct) | Citizenship           | % to Total Outstanding Voting Stock |
|---|---|---------------------------------|--|-----------------------|-------------------------------------|
| <u>Named Executive Officers<sup>1</sup></u> |   |                                 |  |                       |                                     |
| Common                                      | 1. Lance Y. Gokongwei                                   | Director, President and CEO*    | 6,668  | Filipino              | **                                  |
| Common                                      | 2. Andrew L. Huang                                      | Chief Compliance Officer*       | 100,000  | Filipino/<br>Canadian | 0.02%                               |
| Common                                      | 3. Alexander G. Lao                                     | Chief Commercial Officer*       | 20,000   | Filipino              | **                                  |
| Common                                      | 4. Michael Ivan S. Shau                                 | Chief Corporate Affairs Officer | 25,000   | Filipino              | **                                  |
| Common                                      | 5. Mark Julius V. Cezar                                 | Chief Financial Officer*        | 19,000   | Filipino              | **                                  |
| Common                                      | Subtotal  |                                 | 170,668  |                       | 0.03%                               |
| <u>Other Directors and Key Officers</u>     |   |                                 |  |                       |                                     |
| Common                                      | 6. James L. Go  | Chairman*                       | 1,442,991  | Filipino              | 0.23%                               |
| Common                                      | 7. Jose F. Buenaventura                                 | Director                        | 1  | Filipino              | **                                  |
| Common                                      | 8. Robina Y. Gokongwei-Pe                               | Director                        | 6,668  | Filipino              | **                                  |
| Common                                      | 9. Frederick D. Go                                      | Director                        | 1  | Filipino              | **                                  |
| Common                                      | 10. Brian H. Franke                                     | Director                        | 1  | American              | **                                  |
| Common                                      | 11. Bernadine T. Siy                                    | Director<br>(Independent)       | 63,200   | Filipino              | 0.01%                               |
| Common                                      | 12. Brian Mathew P. Cu                                  | Director<br>(Independent)       | 100  | Filipino              | **                                  |
| Common                                      | 13. Richard Raymond B. Tantoco                          | Director<br>(Independent)       | 1  | Filipino              | **                                  |
| Common                                      | 14. Michael B. Szucs                                    | Chief Executive Adviser*        | 571,780  | British               | 0.09                                |
| Common                                      | 15. Jose Alejandro B. Reyes                             | Chief Strategy Officer          | 19,000   | Filipino              | **                                  |
| Common                                      | 16. Anne Romadine P. Tieng                              | Corporate Secretary             | 19,000   | Filipino              | **                                  |
| Common                                      | 17. Ma. Elynore J. Villanueva                           | Treasurer                       | 17,500   | Filipino              | **                                  |
|   | Subtotal  |                                 | 2,140,243  |                       | 0.35%                               |
|   | All directors and executive officers as a group unnamed |                                 | 2,310,911  |                       | 0.38%                               |

*\*Effective January 1, 2023, Lance Y. Gokongwei was appointed as Chairman of the Board of Directors; Michael B. Szucs as Chief Executive Officer; Alexander G. Lao as President and Chief Commercial Officer and Mr. Mark Julius V. Cezar as Chief Financial Officer and Compliance Officer.*

Notes:

- As defined under Part IV (B) (1) (b) of Annex “C” of SRC Rule 12, the “named executive officers” to be listed refer to the Chief Executive Officer and those that are the four (4) most highly compensated executive officers as of December 31, 2022.
- Under the Long-Term Incentive Plan of the Parent Company, Restricted Stock Units (“RSU”) were vested in favor of certain Executive Officers as of December 31, 2021 and December 31, 2022, and have been listed with the Philippine Stock Exchange on January 21, 2022 and January 13, 2023, respectively.

\*\* less than 0.01%

**(3) Voting Trust Holders of 5% or More**

As of December 31, 2022, there are no persons holding more than 5% of a class under a voting trust or similar agreement.

**(4) *Change in Control***

As of December 31, 2022, there has been no change in the control of the Group since the beginning of its last fiscal year.

**Item 12. Certain Relationships and Related Transactions**

The Group, in its regular conduct of business, had engaged in transactions with its ultimate parent company, its joint venture and affiliates. See Note 30 (Related Party Transactions) of the Notes to the Consolidated Financial Statements in the accompanying Audited Financial Statements filed as part of this Form 17-A.

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**PART IV - CORPORATE GOVERNANCE AND SUSTAINABILITY REPORT**

**Item 13. Corporate Governance**

The Group adheres to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual, Code of Ethics and related SEC Circulars. Continuous improvement and monitoring of governance and management policies have been undertaken to ensure that the Group observes good governance and management practices. This is to assure the shareholders that the Group conducts its business with the highest level of integrity, transparency and accountability.

The Group likewise consistently strives to raise its financial reporting standards by adopting and implementing prescribed Philippine Financial Reporting Standards (PFRSs).

**Item 14. Sustainability Report**

Please refer to the attached Sustainability Report.

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**PART V – EXHIBITS AND SCHEDULES****Item 15. Exhibits and Reports on SEC Form 17-C*****Exhibits***

See accompanying Index to Exhibits (page 65)

***Reports on SEC Form 17-C***

**List of Corporate Disclosures/Replies to SEC Letters  
Under SEC Form 17-C  
July 1, 2022 to December 31, 2022**

| <b>Date of Disclosure</b> | <b>Description</b>  |
|---------------------------|---|
| August 10, 2022           | Notice of Analysts'/Investors' Briefing: Notice of Participation to PSE Star Investor Day 2   |
| August 11, 2022           | Press Release regarding Cebu Air, Inc.'s 2nd Quarter 2022 Financial Statements  |
| October 11, 2022          | Updated PSE Disclosure Form 4-4 to reflect date of SEC approval of Amendments to Cebu Air, Inc.'s By-Laws   |
| November 10, 2022         | Press Release regarding Cebu Air, Inc.'s 3rd Quarter 2022 Financial Statements  |
| December 5, 2022          | Change in Directors and/or Officers: Resignation of Mr. James L. Go as Chairman and Director, Election of Mr. Lance Y. Gokongwei as Chairman, Appointment of Mr. Michael B. Szucs as Chief Executive Officer, and Election and Appointment of Mr. Alexander G. Lao as Director, President and Chief Commercial Officer with effect from January 1, 2023 |
| December 22, 2022         | Change in Directors and/or Officers: Resignation of Mr. Andrew H. Huang as Compliance Officer and Appointment of Mr. Mark Julius V. Cezar as Chief Financial Officer and Compliance Officer with effect from January 1, 2023  |

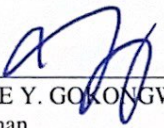
**SIGNATURES**

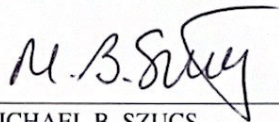
Pursuant to the requirements of Section 17 of the SRC and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Pasay on March 27, 2023.

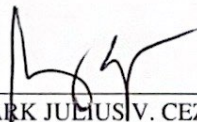
**CEBU AIR, INC.**  
**Issuer**


Pursuant to the requirements of the Securities Regulation Code, this annual report has been signed by the following persons in the capabilities and on the dates indicated.

By:

  
\_\_\_\_\_  
LANCE Y. GOKONGWEI  
Chairman  
Date March 27, 2023

  
\_\_\_\_\_  
MICHAEL B. SZUCS  
Chief Executive Officer  
Date March 27, 2023

  
\_\_\_\_\_  
MARK JULIUS V. CEZAR  
Chief Financial Officer  
Date March 27, 2023

  
\_\_\_\_\_  
ANNE ROMADINE P. TIENG  
General Counsel and Corporate Secretary  
Date March 27, 2023

SUBSCRIBED AND SWORN to before me this 27<sup>th</sup> day of March, 2023 affiants exhibiting to me their Government issued IDs/Philippine passports, as follows:

| NAMES                  | ID NO.                             | DATE OF ISSUE                                  | PLACE OF ISSUE  |
|------------------------|------------------------------------|--|-----------------|
| Lance Y. Gokongwei     | P6235422B<br>(Philippine Passport) | February 05, 2021<br>until February 04, 2031   | DFA NCR Central |
| Michael B. Szucs       | 529070626<br>(British Passport)    | January 28, 2016<br>until January 28, 2026     | HMPO            |
| Mark Julius V. Cezar   | P4965589B<br>(Philippine Passport) | February 27, 2020<br>until February 26, 2030   | DFA Manila      |
| Anne Romadine P. Tieng | P7730149B<br>(Philippine Passport) | September 30, 2021<br>until September 29, 2031 | DFA Manila      |

Doc. No. 27;  
Page No. 8;  
Book No. 1;  
Series of 2023.

  
ATTY. ANGELI S. TRISTEZA  
Commission No. 23-20  
Notary for Pasay City until 31 December 2024  
Cebu Pacific Bldg., Domestic Road, Brgy. 191 Zone 20, Pasay City  
Roll No. 71193  
PTR No. 8060373 / 01-11-2023 / Pasay City  
IBP No. 190343 / 11-23-2022 / Cebu City

**CEBU AIR, INC.**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**  
**SEC FORM 17-A**

**CONSOLIDATED FINANCIAL STATEMENTS**

Statement of Management's Responsibility for Financial Statements

Report of Independent Auditors

Consolidated Statements of Financial Position as of December 31, 2022 and 2021

Consolidated Statements of Comprehensive Income for the Years Ended  
December 31, 2022, 2021 and 2020

Consolidated Statements of Changes in Equity for the Years Ended  
December 31, 2022, 2021 and 2020

Consolidated Statements of Cashflows for the Years Ended  
December 31, 2022, 2021 and 2020

**SUPPLEMENTARY SCHEDULES**

Report of Independent Auditors on Supplementary Schedules

- I. Supplementary schedules required by Annex 68-J
  - A. Financial Assets (Current Marketable Equity and Debt Securities and Other Short-Term Cash Investments)
  - B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
  - C. Amounts Receivable from and Payable to Related Parties which are Eliminated during Consolidation of Financial Statements
  - D. Long-Term Debt
  - E. Indebtedness to Related Parties (Noncurrent)\*
  - F. Guarantees of Securities of Other Issuers\*
  - G. Capital Stock
  - H. Property, Plant and Equipment
  - I. Accumulated Depreciation
  - J. Intangible Assets and Other Assets\*

\*These schedules, which are required by Revised SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included/shown in the related consolidated financial statements or in the notes thereto.

II. Map of the relationships of the companies within the group (Part 1, 4H)

III. Schedule of Financial Soundness Indicators

IV. Reconciliation of Retained Earnings Available for Dividend Declaration (Annex 68-D)



Cebu Air, Inc.  
 Cebu Pacific Building  
 Domestic Road, Pasay City  
 1301 Philippines  
 cebupacificair.com

**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. and its Subsidiaries (collectively referred to as the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2022, 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 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 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.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

SyCip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Group 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.

Lance Y. Gokongwei  
 Chairman of the Board

Michael B. Szucs  
 Chief Executive Officer

Alexander G. Lao  
 President and Chief  
 Commercial Officer

Mark Julius V. Cezar  
 Chief Finance Officer

Signed this 27<sup>th</sup> day of March, 2023.

Subscribed and Sworn to before me this March 27, 2023 in the City of PASAY CITY, affiants exhibiting to me their Passport, as follows:

| NAMES                | PASSPORT NO. | DATE OF ISSUE               | PLACE OF ISSUE  |
|----------------------|--------------|-----------------------------|-----------------|
| Lance Y. Gokongwei   | P6235422B    | 02/05/2021 until 02/04/2031 | DFA NCR Central |
| Michael B. Szucs     | 529070626    | 01/28/2016 until 01/28/2026 | HMPO            |
| Alexander G. Lao     | P7185526B    | 07/13/2021 until 07/12/2031 | DFA Manila      |
| Mark Julius V. Cezar | P4965589B    | 02/27/2020 until 02/26/2030 | DFA Manila      |

Doc. No. 26  
 Page No. 7  
 Book No. I  
 Series of 2022

NOTARY PUBLIC  
  
 ATTY. ANGELI S. TRISTEZA  
 Commission No. 23-20  
 Notary for Pasay City until 31 December 2024  
 Cebu Pacific Building, Domestic Road, Brgy. 191 Zone 20, Pasay City  
 Roll No. 71193  
 PTR No. 8060373 / 01-11-2023 / Pasay City  
 IBP No. 180343 / 11-23-2022 / Cagayan

## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Cebu Air, Inc.  
Level 4, Unit 4030 - 4031, Robinsons Galleria Cebu  
General Maxilom Avenue cor.  
Sergio Osmeña Boulevard, Cebu City

### 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, 2022 and 2021, and the consolidated statements of comprehensive income, consolidated statements of changes in equity (capital deficiency) and consolidated statements of cash flows for each of the three years in the period ended December 31, 2022, 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, 2022 and 2021, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2022 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.

### Material Uncertainty Related to Going Concern

For the year ended December 31, 2022, we draw attention to Note 1 to the financial statements, which indicates that the Group has incurred total comprehensive loss amounting to ₱13.58 billion and has a capital deficiency of ₱2.88 billion as of December 31, 2022. Also, the Group's current liabilities have exceeded its current assets by ₱14.01 billion as of December 31, 2022. As discussed in Note 1, these conditions, among others, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



## **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.

### ***Estimation of Asset Retirement Obligation***

As of December 31, 2022, the Group operates thirty-nine (39) aircraft under lease where the Group is contractually required to either restore certain leased aircraft and engine to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. Refer to 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's 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 in 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.

### ***Impairment Testing of Goodwill, Intangible Assets, Property and Equipment and Right-of-Use Assets***

As required under PFRSs, the Group annually tests for impairment the carrying values of goodwill and intangible assets and, where impairment indicators exist, tests for impairment its property and equipment and right-of-use assets. As of December 31, 2022 and 2021, the carrying values of the Group's 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 ₱64.62 billion and ₱43.39 billion and ₱74.29 billion and ₱30.32 billion, respectively.



The disruption caused by the COVID-19 pandemic, operations to which is attributed the Group's significant net loss in 2022 and 2021, 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.

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 (CGUs) 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, 2022 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, 2022, 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*

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. 9564644, January 3, 2023, Makati City

March 27, 2023



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

|   | December 31             |                         |
|---|-------------------------|-------------------------|
|   | 2022                    | 2021                    |
| <b>ASSETS</b>   |                         |                         |
| <b>Current Assets</b>   |                         |                         |
| Cash and cash equivalents (Note 7)  | ₱19,175,471,185         | ₱18,804,565,807         |
| Restricted cash (Note 7)  | 832,055,494             | 778,038,403             |
| Derivative financial assets at fair value through other comprehensive income (FVOCI) (Note 8) | 60,911,157              | –                       |
| Receivables (Note 9)  | 2,591,146,276           | 1,978,916,405           |
| Expendable parts, fuel, materials and supplies (Note 10)                                      | 2,532,533,554           | 1,776,575,069           |
| Assets held for sale (Note 12)  | 819,869,232             | –                       |
| Other current assets (Note 11)  | 3,783,004,607           | 2,988,829,444           |
| <b>Total Current Assets</b>   | <b>29,794,991,505</b>   | <b>26,326,925,128</b>   |
| <b>Noncurrent Assets</b>  |                         |                         |
| Property and equipment (Notes 12 and 33)  | 64,624,019,956          | 74,292,302,693          |
| Right-of-use assets (Note 33)   | 43,390,959,427          | 30,320,961,533          |
| Investments in joint ventures and associates (Note 13)  | 221,880,769             | 335,169,240             |
| Goodwill (Note 14)  | 721,648,970             | 721,648,970             |
| Deferred tax assets - net (Note 28)   | 5,566,514,112           | 3,437,863,668           |
| Other noncurrent assets (Note 15)   | 2,835,847,733           | 2,818,890,093           |
| <b>Total Noncurrent Assets</b>  | <b>117,360,870,967</b>  | <b>111,926,836,197</b>  |
| <b>TOTAL ASSETS</b>   | <b>₱147,155,862,472</b> | <b>₱138,253,761,325</b> |
| <b>LIABILITIES AND EQUITY</b>   |                         |                         |
| <b>Current Liabilities</b>  |                         |                         |
| Accounts payable and other accrued liabilities (Note 16)                                      | ₱21,814,994,648         | ₱15,711,587,990         |
| Unearned transportation revenue (Note 17)   | 11,559,106,245          | 4,568,640,575           |
| Short-term debt (Note 18)   | –                       | 4,462,412,500           |
| Current portion of long-term debt (Note 18)   | 3,699,412,710           | 3,855,439,137           |
| Current portion of lease liability (Note 33)  | 5,851,121,778           | 5,048,003,499           |
| Derivative financial liabilities at fair value through profit or loss (Notes 8 and 19)        | 846,835,509             | 1,730,960,768           |
| Due to related parties (Note 30)  | 37,729,742              | 27,855,289              |
| Income tax payable (Note 28)  | –                       | 1,270,183               |
| <b>Total Current Liabilities</b>  | <b>43,809,200,632</b>   | <b>35,406,169,941</b>   |
| <b>Noncurrent Liabilities</b>   |                         |                         |
| Long-term debt - net of current portion (Note 18)   | 36,680,069,698          | 42,099,660,479          |
| Lease liability - net of current portion (Note 33)  | 42,597,441,915          | 27,422,378,514          |
| Bonds payable (Note 19)   | 13,423,322,594          | 12,184,836,126          |
| Travel fund payable - net of current portion (Note 21)  | 260,283,120             | 1,850,992,630           |
| Retirement liability (Note 27)  | 759,343,717             | 424,820,436             |
| Other noncurrent liabilities (Note 20)  | 12,511,343,360          | 8,255,157,986           |
| <b>Total Noncurrent Liabilities</b>   | <b>106,231,804,404</b>  | <b>92,237,846,171</b>   |
| <b>Total Liabilities</b>  | <b>150,041,005,036</b>  | <b>127,644,016,112</b>  |
| <b>Equity (Capital Deficiency)</b>  |                         |                         |
| Capital stock (Note 22)   | 943,277,918             | 942,183,918             |
| Capital paid in excess of par value (Note 22)   | 20,596,009,593          | 20,544,153,993          |
| Share-based payments (Note 23)  | 211,441,630             | 174,824,362             |
| Treasury stock (Note 22)  | (950,881,502)           | (950,881,502)           |
| Other comprehensive income (Note 31)  | 503,754,596             | 108,822,123             |
| Deficit   | (24,188,744,799)        | (10,209,357,681)        |
| <b>Total Equity (Capital Deficiency)</b>  | <b>(2,885,142,564)</b>  | <b>10,609,745,213</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>₱147,155,862,472</b> | <b>₱138,253,761,325</b> |

See accompanying Notes to Consolidated Financial Statements



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

|  | Years Ended December 31  |                   |                   |
|--|--------------------------|-------------------|-------------------|
|  | 2022                     | 2021              | 2020              |
| <b>REVENUES</b>  |                          |                   |                   |
| Sale of air transportation services  |                          |                   |                   |
| Passenger  | ₱35,138,497,462          | ₱6,289,010,220    | ₱12,629,120,592   |
| Cargo  | 7,119,561,258            | 6,471,159,954     | 5,401,966,490     |
| Ancillary revenues (Notes 21 and 24)   | 14,493,307,139           | 2,980,586,682     | 4,586,880,083     |
|  | <b>56,751,365,859</b>    | 15,740,756,856    | 22,617,967,165    |
| <b>EXPENSES</b>  |                          |                   |                   |
| Flying operations (Notes 10 and 25)  | 28,019,925,825           | 7,097,414,932     | 9,367,977,937     |
| Repairs and maintenance (Notes 10, 20 and 25)  | 14,685,821,909           | 9,653,563,335     | 8,557,241,666     |
| Depreciation and amortization (Notes 6, 12 and 33)   | 12,092,864,031           | 14,355,454,086    | 16,074,455,051    |
| Aircraft and traffic servicing (Note 25)   | 5,261,211,374            | 2,669,596,916     | 3,374,260,034     |
| General and administrative (Note 26)   | 3,142,074,591            | 3,120,089,028     | 3,219,887,830     |
| Reservation and sales (Note 25)  | 2,391,683,559            | 899,253,672       | 1,499,182,703     |
| Passenger service  | 1,493,206,278            | 659,762,025       | 1,009,555,914     |
| Aircraft and engine lease (Notes 6 and 33)   | 1,093,428,049            | 443,481,482       | 284,665,157       |
|  | <b>68,180,215,616</b>    | 38,898,615,476    | 43,387,226,292    |
| <b>OPERATING LOSS</b>  | <b>(11,428,849,757)</b>  | (23,157,858,620)  | (20,769,259,127)  |
| <b>OTHER INCOME (EXPENSE)</b>  |                          |                   |                   |
| Interest income (Notes 6 and 7)  | 308,283,217              | 36,478,759        | 157,917,380       |
| Gain from insurance claims (Note 12)   | 6,174,764                | 138,049,029       | 807,409,620       |
| Market valuation gains (losses) on derivative financial instruments - net (Note 8)                         | 977,907,505              | (1,318,117,077)   | (2,149,932,480)   |
| Re-measurement gain on investment in joint venture (Note 13)   | -                        | -                 | 71,324,225        |
| Gain on sale of an investment in joint venture (Notes 6 and 13)  | -                        | -                 | 34,465,240        |
| Gain (loss) on disposal of property and equipment - net (Notes 12 and 33)                                  | 814,206,941              | 1,388,678,985     | (259,977,067)     |
| Equity in net loss of joint ventures and associates (Notes 6 and 13)                                       | (113,288,471)            | (174,431,012)     | (316,115,081)     |
| Impairment loss (Notes 12 and 13)  | (86,746,894)             | (36,915,815)      | -                 |
| Foreign exchange gains (losses) - net  | (3,324,123,371)          | (1,290,685,244)   | 1,731,990,762     |
| Financing costs and other charges:   |                          |                   |                   |
| Financing and others (Notes 8, 18, 19 and 20)  | (2,230,271,097)          | (2,017,896,899)   | (1,716,940,825)   |
| Leases (Note 33)   | (1,151,655,726)          | (493,863,414)     | (486,414,472)     |
|  | <b>(4,799,513,132)</b>   | (3,768,702,688)   | (2,126,272,698)   |
| <b>LOSS BEFORE INCOME TAX</b>  | <b>(16,228,362,889)</b>  | (26,926,561,308)  | (22,895,531,825)  |
| <b>BENEFIT FROM INCOME TAX</b> (Note 28)   | <b>(2,248,975,771)</b>   | (2,027,958,421)   | (659,089,849)     |
| <b>NET LOSS</b>  | <b>(13,979,387,118)</b>  | (24,898,602,887)  | (22,236,441,976)  |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>   |                          |                   |                   |
| <i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i> |                          |                   |                   |
| Net fair value changes in cash flow hedge reserve (Note 8)   | 744,822,569              | 27,705,335        | (284,522,331)     |
| Tax effect   | (186,205,642)            | (8,311,601)       | 85,357,699        |
| <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)   | (218,245,939)            | 210,443,808       | 386,098,893       |
| Tax effect   | 54,561,485               | (54,723,660)      | (115,829,668)     |
|  | <b>394,932,473</b>       | 175,113,882       | 71,103,594        |
| <b>TOTAL COMPREHENSIVE LOSS</b>  | <b>(₱13,584,454,645)</b> | (₱24,723,489,005) | (₱22,165,338,382) |
| <b>Basic and Diluted Loss Per Share</b> (Note 29)  | <b>(₱23.89)</b>          | (₱42.13)          | (₱37.14)          |

See accompanying Notes to Consolidated Financial Statements



**CEBU AIR, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)**

|                                      | Other Comprehensive Income (Loss) |  |                                   |                             |  |                                     |                      | Retained Earnings (Deficit) |                             |                          | Total Equity (Capital Deficiency) |
|--------------------------------------|-----------------------------------|--|-----------------------------------|-----------------------------|--|-------------------------------------|----------------------|-----------------------------|-----------------------------|--------------------------|-----------------------------------|
|                                      | Capital Stock<br>(Note 22)        | Capital Paid in Excess of Par Value<br>(Note 22) | Share-based payments<br>(Note 23) | Treasury Stock<br>(Note 22) | Remeasurement                                    | Cash flow hedge reserve<br>(Note 8) | Total                | Appropriated<br>(Note 22)   | Unappropriated<br>(Note 22) | Total                    |                                   |
|                                      |                                   |  |                                   |                             | Gain (Loss) on Retirement Liability<br>(Note 27) |                                     |                      |                             |                             |                          |                                   |
| <b>Balance at January 1, 2022</b>    | <b>₱942,183,918</b>               | <b>₱20,544,153,993</b>                           | <b>₱174,824,362</b>               | <b>(₱950,881,502)</b>       | <b>₱108,822,123</b>                              | <b>₱-</b>                           | <b>₱108,822,123</b>  | <b>₱-</b>                   | <b>(₱10,209,357,681)</b>    | <b>(₱10,209,357,681)</b> | <b>₱10,609,745,213</b>            |
| Net loss                             | -                                 | -  | -                                 | -                           | -  | -                                   | -                    | -                           | (13,979,387,118)            | (13,979,387,118)         | (13,979,387,118)                  |
| Other comprehensive income (loss)    | -                                 | -  | -                                 | -                           | (163,684,454)                                    | 558,616,927                         | 394,932,473          | -                           | -                           | -                        | 394,932,473                       |
| Total comprehensive income (loss)    | -                                 | -  | -                                 | -                           | (163,684,454)                                    | 558,616,927                         | 394,932,473          | -                           | (13,979,387,118)            | (13,979,387,118)         | (13,584,454,645)                  |
| Cost of restricted stock units (RSU) | -                                 | -  | 61,690,810                        | -                           | -  | -                                   | -                    | -                           | -                           | -                        | 61,690,810                        |
| Cost of stock options                | -                                 | -  | 27,876,058                        | -                           | -  | -                                   | -                    | -                           | -                           | -                        | 27,876,058                        |
| Issuance of vested RSUs              | 1,094,000                         | 51,855,600                                       | (52,949,600)                      | -                           | -  | -                                   | -                    | -                           | -                           | -                        | -                                 |
| <b>Balance at December 31, 2022</b>  | <b>₱943,277,918</b>               | <b>₱20,596,009,593</b>                           | <b>₱211,441,630</b>               | <b>(₱950,881,502)</b>       | <b>(₱54,862,331)</b>                             | <b>₱558,616,927</b>                 | <b>₱503,754,596</b>  | <b>₱-</b>                   | <b>(₱24,188,744,799)</b>    | <b>(₱24,188,744,799)</b> | <b>(₱2,885,142,564)</b>           |
| 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                             | -                                 | -  | -                                 | -                           | -  | -                                   | -                    | -                           | (24,898,602,887)            | (24,898,602,887)         | (24,898,602,887)                  |
| Other comprehensive income           | -                                 | -  | -                                 | -                           | 155,720,148                                      | 19,393,734                          | 175,113,882          | -                           | -                           | -                        | 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              | -                        | -                                 |
| <b>Balance at December 31, 2021</b>  | <b>₱942,183,918</b>               | <b>₱20,544,153,993</b>                           | <b>₱174,824,362</b>               | <b>(₱950,881,502)</b>       | <b>₱108,822,123</b>                              | <b>₱-</b>                           | <b>₱108,822,123</b>  | <b>₱-</b>                   | <b>(₱10,209,357,681)</b>    | <b>(₱10,209,357,681)</b> | <b>₱10,609,745,213</b>            |
| 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          | ₱44,900,975,660                   |
| Net loss                             | -                                 | -  | -                                 | -                           | -  | -                                   | -                    | -                           | (22,236,441,976)            | (22,236,441,976)         | (22,236,441,976)                  |
| Other comprehensive income (loss)    | -                                 | -  | -                                 | -                           | 270,269,225                                      | (199,165,631)                       | 71,103,594           | -                           | -                           | -                        | 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)                      |
| <b>Balance at December 31, 2020</b>  | <b>₱613,236,550</b>               | <b>₱8,405,568,120</b>                            | <b>₱-</b>                         | <b>(₱950,881,502)</b>       | <b>(₱46,898,025)</b>                             | <b>(₱19,393,734)</b>                | <b>(₱66,291,759)</b> | <b>₱12,000,000,000</b>      | <b>₱2,689,245,206</b>       | <b>₱14,689,245,206</b>   | <b>₱22,690,876,615</b>            |

See accompanying Notes to Consolidated Financial Statements



# CEBU AIR, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | December 31       |                   |                   |
|---|-------------------|-------------------|-------------------|
|   | 2022              | 2021              | 2020              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                   |                   |
| Loss before income tax  | (P16,228,362,889) | (P26,926,561,308) | (P22,895,531,825) |
| Adjustments for:  |                   |                   |                   |
| Depreciation and amortization (Notes 6, 12 and 33)                                      | 12,092,864,031    | 14,355,454,086    | 16,074,455,051    |
| Provision for asset retirement obligation (Note 20)                                     | 5,285,474,877     | 3,566,104,161     | 3,132,239,751     |
| Financing costs and other charges (Notes 6, 18, 19, 20 and 33)                          | 3,381,926,823     | 2,511,760,313     | 2,203,355,297     |
| Unrealized foreign exchange losses (gains) – net  | 2,840,856,561     | 1,464,946,976     | (1,383,081,305)   |
| Provision for heavy maintenance (Note 6, 20 and 25)                                     | 1,481,580,686     | 849,950,290       | 345,964,168       |
| Equity in net loss of joint ventures and associates (Note 13)                           | 113,288,471       | 174,431,012       | 316,115,081       |
| Share-based payments  | 89,566,869        | 174,824,362       | –                 |
| Impairment loss on assets held for sale (Note 12)                                       | 86,746,894        | –                 | –                 |
| Provision for expected credit losses (Note 9)   | 3,181,233         | 130,516,567       | 102,043,756       |
| Gain on sale of other property and equipment  | (14,670,590)      | (62,304,670)      | (1,408,161)       |
| Interest income (Note 7)  | (308,283,217)     | (36,478,759)      | (157,917,380)     |
| Loss (gain) on disposal of property and equipment - net (Notes 12 and 33)               | (814,206,941)     | (1,388,678,985)   | 259,977,067       |
| Net changes in fair value of derivatives (Note 8)                                       | (977,907,505)     | 1,318,117,077     | 2,149,932,480     |
| Earned and expired portion of travel fund/deferred revenue on rewards program (Note 21) | (1,121,830,228)   | (13,740,128)      | (172,850,095)     |
| Impairment loss on investment in an associate (Note 13)                                 | –                 | 36,915,815        | –                 |
| 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                                  | 5,910,225,075     | (3,844,743,191)   | (132,495,580)     |
| Decrease (increase) in:   |                   |                   |                   |
| Restricted cash   | (54,017,091)      | 134,032,031       | (912,070,434)     |
| Derivative financial assets   | 802,491,663       | –                 | –                 |
| Receivables   | (566,898,351)     | 146,708,730       | 677,100,942       |
| Expendable parts, fuel, materials and supplies  | (755,958,485)     | 129,488,752       | 101,662,371       |
| Other current assets  | (806,764,176)     | 2,043,268,058     | 540,311,176       |
| Increase (decrease) in:   |                   |                   |                   |
| Accounts payable and other accrued liabilities  | 5,512,107,776     | (250,717,172)     | 952,943,230       |
| Unearned transportation revenue   | 6,990,465,671     | 897,172,810       | (8,210,131,827)   |
| Retirement liability  | 116,277,342       | 45,176,068        | (55,196,953)      |
| Amounts due to related parties  | 49,834,160        | (67,151,950)      | 66,196,171        |
| Other noncurrent liabilities  | (3,355,751,482)   | (3,133,622,567)   | (2,535,689,551)   |
| Financial liabilities at fair value through profit or loss                              | –                 | 20,235,264        | (3,118,041,861)   |
| Cash generated from (used in) operations  | 13,842,012,102    | (3,880,153,167)   | (12,625,412,316)  |
| Interest paid   | (2,269,121,872)   | (1,933,873,077)   | (1,622,358,037)   |
| Income tax paid with creditable withholding taxes                                       | –                 | –                 | (197,879,264)     |
| Interest received   | 286,747,469       | 35,168,921        | 181,735,905       |
| Net cash provided by (used in) operating activities                                     | 11,859,637,699    | (5,778,857,323)   | (14,263,913,712)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |                   |                   |
| Proceeds from sale of:  |                   |                   |                   |
| Property and equipment (Note 12)  | 10,493,214,671    | 10,705,940,871    | 7,336,303,774     |
| Shares of stocks in a joint venture (Note 13)   | –                 | –                 | 373,377,600       |
| Acquisitions of property and equipment (Note 12)  | (9,782,769,849)   | (5,506,681,706)   | (4,044,960,019)   |
| Refund of pre-delivery payments (Note 12)   | 5,807,816,618     | 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)     |
| Decrease (increase) in advances to suppliers and other noncurrent assets                | (16,957,642)      | (682,412,153)     | 236,362,339       |
| Net cash provided by investing activities   | 6,501,303,798     | 10,428,221,098    | 4,739,867,616     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                   |                   |                   |
| Proceeds from availment of:   |                   |                   |                   |
| Long-term debt (Note 18)  | –                 | –                 | 6,210,960,215     |
| Short-term debt (Note 18)   | –                 | 4,234,107,500     | 4,839,600,000     |
| Proceeds from issuance of:  |                   |                   |                   |
| Convertible preferred shares (Note 22)  | –                 | 12,467,533,241    | –                 |
| Convertible bonds (Note 19)   | –                 | 11,782,473,335    | –                 |
| Payments of:  |                   |                   |                   |
| Long-term debt (Notes 18 and 34)  | (7,046,553,461)   | (8,368,272,347)   | (8,584,556,361)   |
| Short-term debt (Notes 18 and 34)   | (5,161,625,000)   | (4,791,800,000)   | –                 |
| Lease liability (Note 33)   | (7,313,010,731)   | (6,267,349,863)   | (6,362,210,157)   |
| Purchase of treasury stock (Note 22)  | –                 | –                 | (44,760,662)      |
| Net cash provided by (used in) financing activities                                     | (19,521,189,192)  | 9,056,691,866     | (3,940,966,965)   |
| <b>EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS</b>                    | 1,531,153,073     | 590,110,620       | (221,963,106)     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                             | 370,905,378       | 14,296,166,261    | (13,686,976,167)  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                   | 18,804,565,807    | 4,508,399,546     | 18,195,375,713    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>                                | P19,175,471,185   | P18,804,565,807   | P4,508,399,546    |

See accompanying Notes to Consolidated Financial Statements



# CEBU AIR, INC. AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 ten (10) special purpose entities (SPEs) that it controls, namely, *Summit C Aircraft Leasing Limited (SCALL)*, *Tikgi One Aviation Designated Activity Company (TOADAC)*, *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).

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. In June 2021, two (2) of the four (4) aircraft were further transferred from EOS Aviation 6 Ireland Limited to EOS Aviation 9 Ireland Limited.

In August 2022, Summit D Aircraft Leasing Limited (SDALL) was dissolved following the repayment of last aircraft loan in 2021.

As of December 31, 2022, the Parent Company, the ten (10) SPEs, CEBGO, Inc. and A-Plus (collectively known as "the Group") are consolidated for financial reporting purposes. Whereas, as of December 31, 2021, there were eleven (11) SPEs, prior to the dissolution of SDALL in August 2022, that form part of the consolidated financial reporting of the Group (see Note 2).

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.

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).

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 21).

The Parent Company's ultimate parent is JG Summit Holdings, Inc. (JGSHI). The Parent Company is 66.10%-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 June 30, 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.

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.

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 three (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 three (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.

#### Status of Operations

The Group incurred net loss of ₱14.0 billion and ₱24.9 billion for the years ended December 31, 2022 and 2021, respectively. Also, the Group’s current liabilities exceeded its current assets by ₱14.0 billion and ₱9.1 billion as of December 31, 2022 and 2021, respectively. The Group has incurred deficit amounting to ₱24.2 billion and ₱10.2 billion as of December 31, 2022 and 2021, respectively. As of December 31, 2022, the Group’s capital deficiency amounted to ₱2.9 billion. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern and, therefore, that the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

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 of December 31, 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 ₱19.2 billion as of



December 31, 2022 is sufficient to support the operations of the Group for the next eighteen (18) months. Based on management's cash flow projections for the next twelve (12) months, the Group will maintain sufficient cash and cash equivalents from internally generated cash flows, refund of pre-delivery payments, sale and lease back of certain aircraft and drawdown from the Group's existing loan facilities with various banks. 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 (12) months from December 31, 2022. As such the accompanying consolidated financial statements have been prepared on a going concern basis of accounting.

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## 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, 2022 and 2021 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.

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### 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, 2022.

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.

- 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 from 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 period beginning on or after January 1, 2022 and apply prospectively. The amendments did not impact the Group's consolidated financial statements as of December 31, 2022.

- 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 did not impact the Group's consolidated financial statements as of December 31, 2022.

- *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 applies 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 did not impact the Group's consolidated financial statements as of December 31, 2022.

- *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 did not impact the Group's consolidated financial statements as of December 31, 2022.

- *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 applies 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 did not impact the Group's consolidated financial statements as of December 31, 2022.



- 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 did not impact the Group's consolidated financial statements as of December 31, 2022.

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#### 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, fair value through 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), receivables and certain refundable deposits.

b. Financial Assets and 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) and interest rate swap to manage the volatilities on swap rates causing uncertainty on monthly rent of the aircraft. 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 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 - net' 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 derivatives with maturity dates from 2020 onwards.



#### *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 hedge item and hedging instrument 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 - net' 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 - net' 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 cashflows 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 effective interest rate (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 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 track 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.

#### Assets Held for Sale

Noncurrent assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale must be highly probable. For the sale to be highly probable, (a) an appropriate level of management must be committed to a plan to sell the asset, (b) an active program must have been initiated, (c) the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value, (d) the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and (e) actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Noncurrent assets classified as held for sale are measured at the lower of their previous carrying amount, net of any impairment, and fair value less costs to sell.

Impairment loss is recognized for any subsequent write-down of the asset to fair value less costs to sell. Gain for any subsequent increase in fair value less costs to sell of an asset is also recognized, but not in excess of the cumulative impairment loss that has been previously recognized.

If the Group has classified an asset as held for sale but the criteria as set out above no longer met, the Group ceases to classify the asset as held for sale. The Group measures a noncurrent asset that ceased to be classified as held for sale at the lower of (a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale, and (b) is recoverable amount at the date of the subsequent decision not to sell.



### 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                    |
| 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                     |

*\*With residual value of 15.00%*

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, 2022 and 2021 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 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. For certain lease agreements, the Group provides for these costs over the terms of the leases through contribution to a maintenance reserve fund (MRF) which is recorded as outright expense. If the estimated cost of restoration is expected to exceed the cumulative MRF, an additional obligation is



accounted on an accrual basis. Regular aircraft maintenance is accounted for as expense when incurred.

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.

#### 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 advice. 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 the effective interest method.

#### Travel Fund

Travel fund is a virtual wallet that can be used as a form of payment for booking new flights and purchasing add-ons. Travel fund is offered for cancelled flights or for flights with schedule changes of more than 60 minutes. Prior to March 15, 2020 (pre-COVID), the validity of travel fund was only 90 days from the travel fund creation date. However, due to the COVID-19, the Group extended the validity of travel fund from 90 days to two (2) years to give guests enough time to plan on their next trip.

The Group further provided an option for guest to refund their travel fund if unused after one (1) year but this is specific only for flights affected by COVID-19 between March 15, 2020 to July 31, 2020.

Starting August 1, 2020, refund of travel fund is no longer an option for flights yet the validity of travel fund remains two (2) years.

However, as subsequently amended, effective April 1, 2022, in line with the Group's recovery efforts and continuous updating of Customer Flexible Options, all created travel fund starting the said date shall be valid for six (6) months from the date of creation or conversion to travel fund.

Moreover, effective April 6, 2022, selected guests will now be able to use their travel fund to book for anyone, regardless whether the member is part of the new booking's passenger list or not.

In accordance with PFRS 15, *Revenue from Contracts with Customers*, upon receipt of a prepayment from customer, an entity shall recognize a contract liability in the amount of the prepayment for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity shall derecognize that contract liability (and recognize revenue) when it transfers those goods or services and, therefore, satisfies its performance obligation.



A customer's non-refundable prepayment to an entity gives the customer a right to receive a good service in the future (and obliges the entity to stand ready to transfer a good or service). However, customers may not exercise all of their contractual rights. Those unexercised rights are often referred to as breakage.

If an entity expects to be entitled to a breakage amount in a contract liability, the entity shall recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. If an entity does not expect to be entitled to a breakage amount, the entity shall recognize the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

#### 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 or loss on the purchase, sale, issuance or cancellation of the Parent Company's own equity instruments.

#### Retained Earnings

Retained earnings represent accumulated earnings of the Group, less dividends declared.

Appropriated retained earnings are set aside for purposes of the Parent Company's re-fleeting program. Dividends on common 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.

Revenue from estimated breakage (expiration) of unused travel funds

Revenue from estimated breakage (expiration) of unused travel funds are recognized based on the historical expiration experience of the Group on the unused travel funds.

*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, 2022 and 2021, 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 assets 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 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.



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## 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, 2022 and 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 (Note 1). Management believes that with the continuing implementation of the comprehensive business transformation program which will reduce operating cost 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 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 2022 and 2021 qualify as a 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, *Financial Instruments: Recognition and Measurement*, 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, 2022 and 2021, the Group has deferred tax assets amounting to ₱8,097.3 million and ₱6,229.0 million, respectively. Unrecognized deferred tax assets as of December 31, 2022 and 2021 amounted to ₱10,624.3 million and ₱8,266.2 million, respectively.



*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 belongs.

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, 2022 and 2021, 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, 2022 and 2021 (see Note 14). Brand and market opportunities, which are recorded under 'Other noncurrent assets' account amounted to ₱852.7 million as of December 31, 2022 and 2021 (see Notes 14 and 15). Property and equipment and right-of-use assets amounted to ₱64.6 billion and ₱43.4 billion and ₱74.3 billion and ₱30.3 billion as of December 31, 2022 and 2021, 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 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, 2022 and 2021, 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, 2022 and 2021, the Group's ARO (included under 'Other noncurrent liabilities' account in the consolidated statements of financial position) has a carrying value of ₱9,663.6 million and ₱7,084.7 million, respectively (see Note 20).



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 advice. 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, 2022 and 2021, the Group's HMV (included other 'Other noncurrent liabilities' account in the consolidated statements of financial position) has a carrying value of ₱2,721.1 million and ₱1,082.6 million, respectively (see Note 20).

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. *Valuation of assets held for sale*

The Group classifies a noncurrent asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition and its sale must be highly probable. In 2022, management determined that certain aircraft are available for sale in their present condition within the next 12 months. Management reclassified these aircraft from 'Property and equipment' into 'Assets held for sale' in the consolidated statement of financial position as of December 31, 2022 (see Note 12). The Group measures its assets held for sale at the lower of their carrying amount and fair value less costs to sell. Management has determined the fair value less costs to sell of the Group's held for sale based on quoted prices from prospective buyers. The carrying value of assets held for sale as of December 31, 2022 amounted to ₱819.9 million (nil in 2021) (see Note 12).

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 and engines at sale and operating leaseback transaction*

The Group determines the fair values of its aircraft and engines by relying on a third party's valuation which has a global view of all areas 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 engines 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 has entered into sale and operating leaseback transactions in 2022 and 2021 (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 ₱759.3 million and ₱424.8 million as of December 31, 2022 and 2021, 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, 2022 and 2021, the carrying values of the Group's Property and equipment amounted to ₱64.6 billion and ₱74.3 billion, 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, 2022 and 2021 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 (see Note 23).

*m. Recognition and measurement of revenue from expected breakage (expiration) of unused travel funds*

Travel funds that are unused are recognized as revenue based on expected breakage (expiration) using the Group's historical expiration experience. The balances of travel fund payable as of December 31, 2022 and 2021 amounted to ₱1,287.4 million and ₱4,653.8 million (see Notes 16 and 21). Estimated breakage revenue from travel fund amounting to ₱362.7 million for the year ended December 31, 2022 (nil in 2021) is recognized also as part of 'Ancillary revenues' in the consolidated statement of comprehensive income (see Note 24).

*n. 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 continuing impact of COVID-19 pandemic on its business.

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## 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 segment 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:

|  | 2022                    | 2021             | 2020             |
|--|-------------------------|------------------|------------------|
| Revenue  | <b>₱58,857,938,286</b>  | ₱17,303,963,629  | ₱25,421,074,392  |
| Earnings (loss) before interest, taxes, depreciation, amortization, and rent (EBITDAR) | <b>8,524,497,886</b>    | (3,942,868,601)  | (931,935,000)    |
| Depreciation and amortization (Notes 12 and 33)  | <b>12,092,864,031</b>   | 14,355,454,086   | 16,074,455,051   |
| Financing costs and other charges (Notes 8, 18, 19, 20 and 33)                         | <b>3,381,926,823</b>    | 2,511,760,313    | 2,203,355,297    |
| Interest income (Note 7)   | <b>308,283,217</b>      | 36,478,759       | 157,917,380      |
| Loss before interest and taxes (LBIT)  | <b>(11,428,849,757)</b> | (23,157,858,620) | (20,769,259,127) |
| Pre-tax core net loss  | <b>(14,615,781,834)</b> | (25,807,571,186) | (23,130,812,125) |
| Net loss   | <b>(13,979,387,118)</b> | (24,898,602,887) | (22,236,441,976) |
| Capital expenditures (Note 12)   | <b>9,782,769,849</b>    | 5,506,681,706    | 4,044,960,019    |
| Market valuation gains (losses) on derivative financial instruments - net (Note 8)     | <b>977,907,505</b>      | (1,318,117,077)  | (2,149,932,480)  |
| Equity in net loss of joint ventures and associates (Note 13)                          | <b>(113,288,471)</b>    | (174,431,012)    | (316,115,081)    |
| Income tax benefit (Note 28)   | <b>(2,248,975,771)</b>  | (2,027,958,421)  | (659,089,849)    |

Pre-tax core net income (loss), LBIT and EBITDAR are considered as non-PFRS 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 venture and associates.

LBIT is the operating 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:

|   | 2022                     | 2021              | 2020              |
|---|--------------------------|-------------------|-------------------|
| Revenue (excluding nontransport revenue and other income) | <b>₱56,751,365,859</b>   | ₱15,740,756,856   | ₱22,617,967,165   |
| Expenses  | <b>(68,180,215,616)</b>  | (38,898,615,476)  | (43,387,226,292)  |
| Operating loss  | <b>(11,428,849,757)</b>  | (23,157,858,620)  | (20,769,259,127)  |
| Interest expense - net                                    | <b>(3,073,643,606)</b>   | (2,475,281,554)   | (2,045,437,917)   |
| Equity in net loss of joint ventures and associates       | <b>(113,288,471)</b>     | (174,431,012)     | (316,115,081)     |
| Pre-tax core net loss                                     | <b>(₱14,615,781,834)</b> | (₱25,807,571,186) | (₱23,130,812,125) |
| Operating loss  | <b>(₱11,428,849,757)</b> | (₱23,157,858,620) | (₱20,769,259,127) |
| Depreciation and amortization                             | <b>12,092,864,031</b>    | 14,355,454,086    | 16,074,455,051    |
| Provision for ARO   | <b>5,285,474,877</b>     | 3,566,104,161     | 3,132,239,751     |
| Provision for HMV   | <b>1,481,580,686</b>     | 849,950,290       | 345,964,168       |
| Aircraft and engine lease expense                         | <b>1,093,428,049</b>     | 443,481,482       | 284,665,157       |
| EBITDAR   | <b>₱8,524,497,886</b>    | (₱3,942,868,601)  | (₱931,935,000)    |



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:

|   | 2022                   | 2021            | 2020            |
|---|------------------------|-----------------|-----------------|
| Total segment revenue of reportable operating segment | <b>₱56,751,365,859</b> | ₱15,740,756,856 | ₱22,617,967,165 |
| Nontransport revenue and other income                 | <b>2,106,572,427</b>   | 1,563,206,773   | 2,803,107,227   |
| <b>Total revenue</b>                                  | <b>₱58,857,938,286</b> | ₱17,303,963,629 | ₱25,421,074,392 |

Total segment revenue of reportable operating segments includes A-Plus' revenue from rendering light and light maintenance services to third party customers amounting to ₱120.1 million and ₱66.1 million for the years ended December 31, 2022 and 2021, respectively.

Nontransport revenue and other income include interest income, gain from insurance claims, market valuation gains on derivative financial instruments and gain on disposals.

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

|  | 2022                     | 2021              | 2020              |
|--|--------------------------|-------------------|-------------------|
| Total segment loss of reportable segment | <b>(₱11,428,849,757)</b> | (₱23,157,858,620) | (₱20,769,259,127) |
| Add (deduct) unallocated items:          |                          |                   |                   |
| Nontransport revenue and other income    | <b>2,106,572,427</b>     | 1,563,206,773     | 2,803,107,227     |
| Nontransport expenses and other charges  | <b>(6,906,085,559)</b>   | (5,331,909,461)   | (4,929,379,925)   |
| Benefit from income tax                  | <b>2,248,975,771</b>     | 2,027,958,421     | 659,089,849       |
| Net loss                                 | <b>(13,979,387,118)</b>  | (24,898,602,887)  | (22,236,441,976)  |
| Other comprehensive gain, net of tax     | <b>394,932,473</b>       | 175,113,882       | 71,103,594        |
| <b>Total comprehensive loss</b>          | <b>(₱13,584,454,645)</b> | (₱24,723,489,005) | (₱22,165,338,382) |

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

There are no significant customers who contribute 10.0% or more to the revenue of the Group.

## 7. Cash and Cash Equivalents

This account consists of:

|                       | 2022                   | 2021            |
|-----------------------|------------------------|-----------------|
| Cash on hand          | <b>₱43,837,094</b>     | ₱50,045,641     |
| Cash in banks         | <b>3,932,556,795</b>   | 2,698,619,090   |
| Short-term placements | <b>15,199,077,296</b>  | 16,055,901,076  |
|                       | <b>₱19,175,471,185</b> | ₱18,804,565,807 |

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 2.56% and 0.25% in 2022 and 2021, respectively. Moreover, short-term placements in US Dollar (USD) earn interest on an average annual interest rate of 1.56% and 0.13% in 2022 and 2021, respectively. In 2022 and 2021, the Group also has outstanding short-term placements in Korean Won (KRW) with an average annual interest rate of 0.97% and 0.15%, respectively.

Interest income earned on cash in banks and short-term placements, presented in the consolidated statements of comprehensive income, amounted to ₱308.3 million, ₱36.5 million and ₱157.9 million for the years ended 2022, 2021 and 2020, respectively.

#### Restricted Cash

As of December 31, 2022 and 2021, the Group has restricted cash amounting to ₱832.1 million and ₱778.0 million, respectively. Restricted cash represents deposits with certain banks to secure standby letters of credit issued in favor of lessors (see Note 33).

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## 8. Derivative Financial Assets and Liabilities

This account consists of derivative financial assets and liabilities as of December 31, 2022 and 2021. Details follow:

|  | 2022                | 2021           |
|--|---------------------|----------------|
| <i>Derivative financial assets at FVOCI:</i>                   |                     |                |
| Interest rate derivatives                                      | <b>₱60,911,157</b>  | ₱-             |
| <i>Derivative financial liabilities at FVPL:</i>               |                     |                |
| Conversion options arising from convertible bonds<br>(Note 19) | <b>₱846,835,509</b> | ₱1,730,960,768 |

As of December 31, 2022, the derivative financial assets at FVOCI consist of interest rate derivatives while derivative financial liabilities at FVPL consist of conversion options arising from convertible bonds.

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

#### Interest Rate Derivatives

##### *Designated hedges*

The Group entered into interest rate derivative contracts to manage exposure to the volatility of interest rates on the lease rates of the expected aircraft deliveries. These derivative contracts have various maturity dates where hedge accounting under PFRS 9 were also applied.

As of December 31, 2022 and 2021, the Group has designated for hedge accounting derivatives with net asset position, which is shown as 'Derivative financial assets at FVOCI' in the consolidated statements of financial position, amounting to ₱60.9 million and nil, respectively.

For the year ended December 31, 2022, the Group has recycled the effective portion of its cash flow hedge reserves to 'Financing costs and other charges' in the consolidated statement of comprehensive income amounting to ₱42.2 million.



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, 2022 and 2021, the fair value of embedded derivatives, which is shown as ‘Derivative financial liabilities at FVPL’ in the consolidated statements of financial position amounted to ₱846.8 million and ₱1,731.0 million, respectively (Note 19).

‘Market valuation gains (losses) on derivative financial instruments - net’ for the years ended December 31, 2022, 2021 and 2020 follows:

|  | 2022                | 2021             | 2020             |
|--|---------------------|------------------|------------------|
| <b>Embedded derivatives arising from convertible bonds (Note 19)</b> |                     |                  |                  |
| Net changes in fair value  | <b>₱884,125,259</b> | (₱1,318,117,077) | ₱-               |
| <b>Attributable to accounting hedges:</b>                            |                     |                  |                  |
| Reclassification adjustment  | -                   | -                | (2,305,802,659)  |
| Hedge ineffectiveness  | <b>93,782,246</b>   | -                | 106,030,481      |
| <b>Attributable to economic hedges:</b>                              |                     |                  |                  |
| Net changes in fair value  | -                   | -                | 49,839,698       |
|  | <b>₱977,907,505</b> | (₱1,318,117,077) | (₱2,149,932,480) |

Fair Value Changes on Derivatives

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

|   | 2022                 | 2021         |
|---|----------------------|--------------|
| Balance at January 1:                     |                      |              |
| Derivative assets                         | ₱-                   | ₱-           |
| Derivative liabilities                    | -                    | (32,214,937) |
|   | -                    | (32,214,937) |
| Net changes in fair value of derivatives: |                      |              |
| Designated                                | <b>863,402,821</b>   | 52,450,201   |
| Not-designated                            | -                    | -            |
|   | <b>863,402,821</b>   | 52,450,201   |
|   | <b>863,402,821</b>   | 20,235,264   |
| Fair value of settled instruments:        |                      |              |
| Designated                                | <b>(802,491,664)</b> | (20,235,264) |
| Not-designated                            | -                    | -            |
|   | <b>(802,491,664)</b> | (20,235,264) |
| Balance at December 31:                   |                      |              |
| Current                                   | <b>60,911,157</b>    | -            |
| Non-current                               | -                    | -            |
|   | <b>₱60,911,157</b>   | ₱-           |



|                        | 2022               | 2021 |
|------------------------|--------------------|------|
| Attributable to:       |                    |      |
| Derivative assets      | <b>₱60,911,157</b> | ₱-   |
| Derivative liabilities | -                  | -    |
|                        | <b>₱60,911,157</b> | ₱-   |

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:

|  | 2022                  | 2021           |
|--|-----------------------|----------------|
| Trade receivables                                | <b>₱1,818,408,282</b> | ₱1,377,305,176 |
| Due from related parties (Note 30)               | <b>780,713,926</b>    | 672,062,255    |
| Interest receivable                              | <b>24,033,166</b>     | 2,497,418      |
| Others   | <b>202,289,251</b>    | 203,591,924    |
|  | <b>2,825,444,625</b>  | 2,255,456,773  |
| Less: Allowance for expected credit losses (ECL) | <b>(234,298,349)</b>  | (276,540,368)  |
|  | <b>₱2,591,146,276</b> | ₱1,978,916,405 |

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 and employees.

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

|                                  | 2022                 |                    |                     |
|----------------------------------|----------------------|--------------------|---------------------|
|                                  | Trade<br>Receivables | Others             | Total               |
| Balances at January 1            | <b>₱199,330,293</b>  | <b>₱77,210,075</b> | <b>₱276,540,368</b> |
| Provisions                       | <b>3,181,233</b>     | -                  | <b>3,181,233</b>    |
| Recovery                         | <b>(52,155,674)</b>  | -                  | <b>(52,155,674)</b> |
| Unrealized foreign exchange loss | <b>129,873</b>       | <b>6,602,549</b>   | <b>6,732,422</b>    |
| Balances at December 31          | <b>₱150,485,725</b>  | <b>₱83,812,624</b> | <b>₱234,298,349</b> |

|                                  | 2021                 |             |              |
|----------------------------------|----------------------|-------------|--------------|
|                                  | Trade<br>Receivables | Others      | Total        |
| Balances at January 1            | ₱108,508,610         | ₱73,876,676 | ₱182,385,286 |
| 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          | ₱199,330,293         | ₱77,210,075 | ₱276,540,368 |



## 10. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

|                        | 2022                  | 2021                  |
|------------------------|-----------------------|-----------------------|
| At cost:               |                       |                       |
| Expendable parts       | P2,032,835,562        | P1,448,516,314        |
| Fuel                   | 427,233,972           | 270,946,245           |
| Materials and supplies | 72,464,020            | 57,112,510            |
|                        | <b>P2,532,533,554</b> | <b>P1,776,575,069</b> |

As of December 31, 2022 and 2021, the Group recognized full allowance for inventory write-down on expendable parts with cost of P90.2 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 2022, 2021 and 2020 amounted to P612.5 million, P454.9 million and P549.0 million, respectively (see Note 25). The cost of fuel reported as expense under 'Flying operations' account amounted to P24,506.8 million, P5,074.9 million and P6,203.3 million for the years ended 2022, 2021 and 2020, respectively (see Note 25).

## 11. Other Current Assets

This account consists of:

|  | 2022                  | 2021                  |
|--|-----------------------|-----------------------|
| Current portion of advances to suppliers | P3,170,581,766        | P2,188,943,164        |
| Prepaid rent                             | 194,112,614           | 59,183,328            |
| Prepaid insurance                        | 26,881,074            | 57,384,877            |
| Input Value Added Tax (VAT)              | -                     | 302,523,550           |
| Others                                   | 391,429,153           | 380,794,525           |
|  | <b>P3,783,004,607</b> | <b>P2,988,829,444</b> |

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.

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.

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

Others include housing allowance and prepayments to other suppliers.





|   | 2021                                    |                       |                       |                          |  |                        |                          |                        |
|---|---|-----------------------|-----------------------|--------------------------|--|------------------------|--------------------------|------------------------|
|   | Passenger Aircraft<br>(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)       |
| <b>Balance at December 31, 2021</b>       | <b>70,571,395,818</b>                   | <b>7,704,900,810</b>  | <b>5,606,092,282</b>  | <b>1,446,394,339</b>     | <b>1,347,535,177</b>                     | <b>1,998,887,919</b>   | <b>481,118,128</b>       | <b>89,156,324,473</b>  |
| 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          |
| 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)        |
| <b>Balance at December 31, 2021</b>       | <b>18,607,403,432</b>                   | <b>5,073,951,895</b>  | <b>2,156,610,037</b>  | <b>1,066,840,425</b>     | <b>1,270,266,088</b>                     | <b>1,203,804,678</b>   | <b>382,881,130</b>       | <b>29,761,757,685</b>  |
| <b>Net Book Values</b>                    | <b>₱51,963,992,386</b>                  | <b>₱2,630,948,915</b> | <b>₱3,449,482,245</b> | <b>₱379,553,914</b>      | <b>₱77,269,089</b>                       | <b>₱795,083,241</b>    | <b>₱98,236,998</b>       | <b>₱59,394,566,788</b> |

|   | 2021                                     |                         |                    |                                |                    |                          |                        |  |
|---|--|-------------------------|--------------------|--------------------------------|--------------------|--------------------------|------------------------|--|
|   | Furniture, Fixtures and Office Equipment | Communication Equipment | Special Tools      | Maintenance and Test Equipment | Other Equipment    | Construction in-Progress | Total                  |  |
| 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)       |  |
| <b>Balance at December 31, 2021</b>       | <b>367,587,881</b>                       | <b>50,706,060</b>       | <b>140,414,509</b> | <b>373,840,344</b>             | <b>263,898,277</b> | <b>14,708,259,949</b>    | <b>105,061,031,493</b> |  |
| 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          |  |
| Disposals/others                          | (21,241)                                 | –                       | –                  | –                              | (75,265)           | –                        | (9,511,955,924)        |  |
| <b>Balance at December 31, 2021</b>       | <b>319,749,606</b>                       | <b>48,565,263</b>       | <b>126,412,133</b> | <b>325,452,836</b>             | <b>186,791,277</b> | <b>–</b>                 | <b>30,768,728,800</b>  |  |
| <b>Net Book Values</b>                    | <b>₱47,838,275</b>                       | <b>₱2,140,797</b>       | <b>₱14,002,376</b> | <b>₱48,387,508</b>             | <b>₱77,107,000</b> | <b>₱14,708,259,949</b>   | <b>₱74,292,302,693</b> |  |



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, 2022 and 2021, the Group's passenger aircraft held as securing assets under various commercial loans are as follows:

|                 | 2022      | 2021      |
|-----------------|-----------|-----------|
| Airbus A320 CEO | 5         | 5         |
| ATR 72-600      | 12        | 12        |
| Airbus A321 CEO | 7         | 7         |
| Airbus A321 NEO | 6         | 6         |
| Airbus A330 CEO | 1         | 2         |
|                 | <b>31</b> | <b>32</b> |

Under the terms of the commercial loan facilities (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, 2022 and 2021, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱28.2 billion and ₱49.8 billion, respectively.

Forward Sale Agreement

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).

In 2022, the Group entered into sale and leaseback agreement for eight (8) engines. The sale portion resulted to a gain of ₱1,523.9 million (see Note 33).

In October 2022, the Group has entered into an agreement for sale of one (1) A330 CEO aircraft (RPC 3347). The transaction resulted into the recognition of loss amounting to ₱381.6 million recorded under 'Gain (loss) on disposal of property and equipment - net' in the consolidated statement of comprehensive income.

Proceeds from sale of property and equipment for the years ended 2022, 2021 and 2020 amounted to ₱10,493.2 million, ₱10,705.9 million and ₱7,336.3 million, respectively.

Gain from Insurance Claims

In 2022, the Group received ₱6.2 million pertaining to insurance proceeds claimed for damages sustained by various aircraft from incidents and loss events.



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 consolidated statements of comprehensive income.

#### Operating Fleet

As of December 31, 2022 and 2021, the Group's operating fleet follows:

|                  | 2022      | 2021      |
|------------------|-----------|-----------|
| Leased aircraft: |           |           |
| Airbus A320 CEO  | 16        | 18        |
| Airbus A320 NEO  | 9         | 6         |
| Airbus A330 CEO  | 4         | 4         |
| Airbus A330 NEO  | 4         | 2         |
| Airbus A321 NEO  | 4         | 9         |
| ATR 72-600       | 2         | 2         |
| Owned aircraft:  |           |           |
| Airbus A320 CEO  | 5         | 4         |
| Airbus A330 CEO  | 1         | 2         |
| Airbus A321 CEO  | 7         | 7         |
| Airbus A321 NEO  | 6         | -         |
| ATR 72-600       | 12        | 12        |
| ATR 72-500       | 6         | 8         |
|                  | <b>76</b> | <b>74</b> |

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, 2022 and 2021, the Group's pre-delivery payments capitalized as construction in-progress amounted to ₱14,222.6 million and ₱14,692.4 million, respectively (see Note 33). For the years ended December 31, 2022, 2021 and 2020, the Group received pre-delivery payment refunds for delivered aircraft from Airbus which amounted to ₱5,807.8 million, ₱5,911.3 million and ₱1,231.6 million, respectively. Amount of remaining capital commitments for acquisition of property and equipment amounted to ₱5,724.4 million and ₱4,859.1 million as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, the Group has entered into remarketing of its four (4) ATR 72-500 aircrafts namely: RPCs 7251, 7256, 7257 and 7258. The aircraft are expected to be sold in 2023. Accordingly, these aircraft were reclassified as 'Assets held for sale' in the 2022 consolidated statement of financial position and is carried at lower of their carrying amount and fair value less cost to sell of ₱819.9 million resulting to recognition of impairment loss of ₱86.7 million.

In 2022, the Group recognized loss from asset write-down amounting to ₱427.7 million.

As of December 31, 2022 and 2021, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱1,414.6 million and ₱2,972.2 million, respectively.



As of December 31, 2021, the Group has six (6) 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. As of December 31, 2022, the Group has no aircraft parked for storage.

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### 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 are to be performed at the Ninoy Aquino International Airport and other airports in the Philippines as may be agreed by the co-venturers.

#### 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. In 2020, the Group recognized ₱71.3 million gain from re-measurement of its investment in A-Plus at fair value immediately prior to acquisition.

The fair value of A-Plus' identifiable assets and liabilities as at the date of the acquisition amounted to ₱385.1 million. The acquisition resulted to goodwill amounting to ₱154.9 million.

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          |
| <u>Net cash outflow</u>                   | <u>₱200,877,673</u> |

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

#### Sale of Shares held by the Parent Company in SIAEP

On October 26, 2020, the Parent Company also 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 (₱373.4 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 recognized under 'Gain on sale of investment in joint venture' in the 2020 consolidated statement of comprehensive income.

#### 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.



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 using the equity method.

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, 2022 and 2021, the net carrying amount of the Group's investment with VATS amounted to nil.



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

|  | 2022                         |              |                     |                          |                     |                     |                     |
|--|------------------------------|--------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
|  | Investment in joint ventures |              |                     | Investment in associates |                     |                     | Total               |
|  | PAAT                         | IAviation    | Subtotal            | VATS                     | DAVI                | Subtotal            |                     |
| <b>Cost</b>                                    |                              |              |                     |                          |                     |                     |                     |
| Balances at January 1 and December 31, 2022    | ₱134,873,645                 | ₱46,000,000  | ₱180,873,645        | ₱43,713,923              | ₱432,000,000        | ₱475,713,923        | ₱656,587,568        |
| <b>Accumulated Equity in Net Income (Loss)</b> |                              |              |                     |                          |                     |                     |                     |
| Balance at January 1, 2022                     | 52,571,751                   | (46,000,000) | 6,571,751           | (6,798,108)              | (284,276,156)       | (291,074,264)       | (284,502,513)       |
| Equity in net income (loss) during the period  | 27,625,413                   | –            | 27,625,413          | –                        | (140,913,884)       | (140,913,884)       | (113,288,471)       |
| Balance at December 31, 2022                   | 80,197,164                   | (46,000,000) | 34,197,164          | (6,798,108)              | (425,190,040)       | (431,988,148)       | (397,790,984)       |
| Allowance for impairment loss                  | –                            | –            | –                   | (36,915,815)             | –                   | (36,915,815)        | (36,915,815)        |
| <b>Net Carrying Value</b>                      | <b>₱215,070,809</b>          | <b>₱–</b>    | <b>₱215,070,809</b> | <b>₱–</b>                | <b>₱6,809,960</b>   | <b>₱6,809,960</b>   | <b>₱221,880,769</b> |
|  |                              |              |                     |                          |                     |                     |                     |
|  | 2021                         |              |                     |                          |                     |                     |                     |
|  | Investment in joint ventures |              |                     | Investment in associates |                     |                     | Total               |
|  | PAAT                         | IAviation    | Subtotal            | VATS                     | DAVI                | Subtotal            |                     |
| <b>Cost</b>                                    |                              |              |                     |                          |                     |                     |                     |
| 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        |
| <b>Accumulated Equity in Net Income (Loss)</b> |                              |              |                     |                          |                     |                     |                     |
| 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)       |
|  | 187,445,396                  | –            | 187,445,396         | 36,915,815               | 147,723,844         | 184,639,659         | 372,085,055         |
| Allowance for impairment loss                  | –                            | –            | –                   | (36,915,815)             | –                   | (36,915,815)        | (36,915,815)        |
| <b>Net Carrying Value</b>                      | <b>₱187,445,396</b>          | <b>₱–</b>    | <b>₱187,445,396</b> | <b>₱–</b>                | <b>₱147,723,844</b> | <b>₱147,723,844</b> | <b>₱335,169,240</b> |



Selected financial information of PAAT, 1Aviation and DAVI as of December 31, 2022 follow:

|  | PAAT            | 1Aviation     | DAVI            |
|--|-----------------|---------------|-----------------|
| Current assets   | ₱244,517,706    | ₱229,092,380  | ₱892,732,479    |
| Noncurrent assets  | 1,677,828,651   | 177,661,756   | 234,468,035     |
| Current liabilities  | (301,577,200)   | (797,506,503) | (1,096,255,575) |
| Noncurrent liabilities   | (1,190,627,539) | (2,265,557)   | (13,920,036)    |
| Equity (Capital Deficiency)  | 430,141,618     | (393,017,924) | 17,024,903      |
| Proportion of the Group's ownership  | 50%             | 40%           | 40%             |
| Carrying amount of the investments   | ₱215,070,809    | ₱-            | ₱6,809,960      |
| Cash and cash equivalents  | ₱92,285,121     | ₱33,111,811   | ₱349,295,965    |
| Current financial liabilities<br>(excluding trade and other<br>payables and provisions)    | 225,975,531     | 647,940,468   | 984,613,466     |
| Noncurrent financial liabilities<br>(excluding trade and<br>other payables and provisions) | 1,122,070,512   | 2,265,557     | 48,958,781      |

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

|  | PAAT            | 1Aviation     | DAVI          |
|--|-----------------|---------------|---------------|
| 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<br>(excluding trade and other<br>payables and provisions)    | 172,992,779     | 582,199,863   | 62,051        |
| Noncurrent financial liabilities<br>(excluding trade and<br>other payables and provisions) | 1,199,672,174   | 11,333,621    | 33,341,798    |

Summarized statements of comprehensive income (loss) of PAAT, 1Aviation and DAVI:

|  | 2022          |                 |                |
|--|---------------|-----------------|----------------|
|  | PAAT          | 1Aviation       | DAVI           |
| Revenue  | ₱321,092,308  | ₱1,551,241,956  | ₱240,309,358   |
| Expenses   | (269,375,962) | (1,575,659,354) | (596,691,848)  |
| Other income (charges)                             | 7,123,804     | (405,463)       | 5,325,186      |
| Income (loss) before tax                           | 58,840,150    | (24,822,861)    | (351,057,304)  |
| Income tax (benefit) expense                       | 3,589,323     | (1,144,521)     | 1,227,406      |
| Net income (loss)                                  | ₱55,250,827   | (₱23,678,340)   | (₱352,284,710) |
| Group's share in net income (loss)<br>for the year | ₱27,625,413   | ₱-              | (₱140,913,884) |
| Depreciation and amortization                      | ₱118,822,707  | ₱38,967,274     | ₱156,228,043   |
| Interest income                                    | -             | 209,702         | 6,139,364      |
| Interest expense                                   | 59,137,555    | 669,139         | -              |



|   | 2021                 |                      |                       |
|---|----------------------|----------------------|-----------------------|
|   | PAAT                 | lAviation            | 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             |
| Income (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)        |
| <b>Group's share in net loss for the year</b> | <b>(₱31,397,712)</b> | <b>(₱51,371,053)</b> | <b>(₱136,235,192)</b> |
| Depreciation and amortization                 | ₱99,539,336          | ₱28,963,841          | ₱152,179,014          |
| Interest income                               | (35,684,066)         | –                    | (2,835,229)           |
| Interest expense                              | 2,718                | 5,128                | 1,985,056             |

The fiscal year-end of PAAT, lAviation, VATS/ABB and DAVI is every December 31.

The share of the Parent Company in the net income of PAAT included in the consolidated retained earnings amounted to ₱80.2 million and ₱52.6 million as of December 31, 2022 and 2021, respectively, which is not currently available for dividend distribution unless declared by PAAT.

As of December 31, 2022 and 2021, the share of the Group in lAviation's accumulated losses amounted to ₱46.0 million.

As of December 31, 2022 and 2021, the share of the Group in VATS' accumulated losses amounted to ₱6.8 million.

As of December 31, 2022 and 2021, the share of the Group in DAVI's accumulated losses amounted to ₱425.2 million and ₱284.3 million, respectively.

#### 14. Goodwill

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

|        | 2022                | 2021         |
|--------|---------------------|--------------|
| CEBGO  | <b>₱566,781,533</b> | ₱566,781,533 |
| A-Plus | <b>154,867,437</b>  | 154,867,437  |
|        | <b>₱721,648,970</b> | ₱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 (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. As of December 31, 2022 and 2021, 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, 2022 and 2021, 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:

As of December 31, 2022 and 2021, 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, 2022 and 2021, 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.



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## 15. Other Noncurrent Assets

This account consists of:

|                                      | 2022                  | 2021           |
|--------------------------------------|-----------------------|----------------|
| Refundable deposits                  | <b>₱1,498,852,139</b> | ₱1,191,665,074 |
| Intangible assets                    | <b>852,691,870</b>    | 852,691,870    |
| Receivables – net of current portion | <b>401,335,876</b>    | 418,234,873    |
| Others                               | <b>82,967,848</b>     | 356,298,276    |
|                                      | <b>₱2,835,847,733</b> | ₱2,818,890,093 |

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 of 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.

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

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## 16. Accounts Payable and Other Accrued Liabilities

This account consists of:

|  | 2022                   | 2021            |
|--|------------------------|-----------------|
| Accounts payable                       | <b>₱8,635,765,654</b>  | ₱3,742,796,362  |
| Accrued expenses                       | <b>6,709,826,371</b>   | 5,725,194,589   |
| Airport and other related fees payable | <b>3,677,633,756</b>   | 2,410,022,682   |
| Advances from agents and others        | <b>1,066,552,194</b>   | 508,356,772     |
| Travel fund payable (Note 21)          | <b>1,027,065,525</b>   | 2,802,831,614   |
| Accrued interest payable               | <b>182,618,550</b>     | 317,218,642     |
| Refunds payable                        | <b>70,008,622</b>      | 117,200,174     |
| Other payables                         | <b>445,523,976</b>     | 87,967,155      |
|  | <b>₱21,814,994,648</b> | ₱15,711,587,990 |



### Accrued Expenses

The Group's accrued expenses include accruals for:

|                           | 2022                  | 2021           |
|---------------------------|-----------------------|----------------|
| Maintenance               | <b>₱3,672,847,142</b> | ₱3,160,687,922 |
| Compensation and benefits | <b>675,481,729</b>    | 508,917,061    |
| Repairs and services      | <b>491,612,540</b>    | 426,465,014    |
| Advertising and promotion | <b>417,874,734</b>    | 319,091,123    |
| Navigational charges      | <b>336,392,315</b>    | 454,196,932    |
| Rent                      | <b>264,602,056</b>    | 194,133,287    |
| Training costs            | <b>151,250,942</b>    | 59,319,237     |
| Ground handling charges   | <b>127,081,139</b>    | 144,345,692    |
| Aircraft insurance        | <b>99,093,971</b>     | 91,400,102     |
| Professional fees         | <b>98,035,679</b>     | 92,103,567     |
| Reservation costs         | <b>30,215,755</b>     | 6,619,666      |
| Fuel                      | <b>11,864,295</b>     | 11,864,295     |
| Catering supplies         | <b>3,329,191</b>      | 4,251,397      |
| Landing and take-off fees | <b>3,110,170</b>      | 3,876,725      |
| Others                    | <b>327,034,713</b>    | 247,922,569    |
|                           | <b>₱6,709,826,371</b> | ₱5,725,194,589 |

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

### 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.

### 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:

|                            | 2022                   | 2021                  |
|----------------------------|------------------------|-----------------------|
| Unearned revenue           | ₱9,585,832,039         | ₱4,104,719,094        |
| Deferred ancillary revenue | 1,973,274,206          | 463,921,481           |
|                            | <b>₱11,559,106,245</b> | <b>₱4,568,640,575</b> |

Recognized deferred ancillary revenue as of December 31, 2022 and 2021 follows:

|                          | 2022                  | 2021                |
|--------------------------|-----------------------|---------------------|
| Balance at January 1     | ₱463,921,481          | ₱225,108,836        |
| Deferred during the year | 12,869,575,976        | 2,454,894,641       |
| Recognized to income     | (11,360,223,251)      | (2,216,081,996)     |
| Balance at December 31   | <b>₱1,973,274,206</b> | <b>₱463,921,481</b> |

**18. Long-term and Short-term Debt**

Long-term Debt

This account consists of:

|                                  | Annual Interest Rates Range      | Maturities                 | 2022                   |                          |                            |
|----------------------------------|----------------------------------|----------------------------|------------------------|--------------------------|----------------------------|
|                                  |                                  |                            | US Dollar              | Japanese Yen             | Philippine Peso Equivalent |
| US Dollar commercial loans       | 1.00% to 8.00% (US Dollar LIBOR) | Various dates through 2030 | US\$364,598,568        | JPY-                     | ₱20,328,193,136            |
| Japanese Yen commercial loans    | Less than 1.00% (TONA)           | Various dates through 2029 | -                      | 13,580,420,824           | 5,668,467,652              |
| Philippine Peso commercial loans | 2.00% to 5.00% (PH BVAL)         | Various dates through 2028 | -                      | -                        | 13,796,154,953             |
| Philippine Peso term loan        | 4.8% fixed interest rate         | 2023                       | -                      | -                        | 586,666,667                |
|                                  |                                  |                            | <b>US\$364,598,568</b> | <b>JPY13,580,420,824</b> | <b>₱40,379,482,408</b>     |
| 2021                             |                                  |                            |                        |                          |                            |
|                                  | Annual Interest Rates Range      | 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            |



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

| 2022                  |                        |                          |                               |
|-----------------------|------------------------|--------------------------|-------------------------------|
|                       | US Dollar              | Japanese Yen             | Philippine Peso<br>Equivalent |
| <b>Current</b>        |                        |                          |                               |
| US Dollar loans       | US\$32,524,939         | JPY-                     | ₱1,813,427,996                |
| Japanese Yen loans    | -                      | 1,568,936,150            | 654,873,950                   |
| Philippine Peso loans | -                      | -                        | 1,231,110,764                 |
|                       | <b>32,524,939</b>      | <b>1,568,936,150</b>     | <b>3,699,412,710</b>          |
| <b>Noncurrent</b>     |                        |                          |                               |
| US Dollar loans       | 332,073,629            | -                        | 18,514,765,140                |
| Japanese Yen loans    | -                      | 12,011,484,674           | 5,013,593,702                 |
| Philippine Peso loans | -                      | -                        | 13,151,710,856                |
|                       | <b>332,073,629</b>     | <b>12,011,484,674</b>    | <b>36,680,069,698</b>         |
|                       | <b>US\$364,598,568</b> | <b>JPY13,580,420,824</b> | <b>₱40,379,482,408</b>        |
| 2021                  |                        |                          |                               |
|                       | US Dollar              | Japanese Yen             | Philippine Peso<br>Equivalent |
| <b>Current</b>        |                        |                          |                               |
| 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                 |
|                       | <b>35,948,795</b>      | <b>1,560,736,932</b>     | <b>3,855,439,137</b>          |
| <b>Noncurrent</b>     |                        |                          |                               |
| 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                |
|                       | <b>364,598,567</b>     | <b>13,580,420,824</b>    | <b>42,099,660,479</b>         |
|                       | <b>US\$400,547,362</b> | <b>JPY15,141,157,756</b> | <b>₱45,955,099,616</b>        |

Long-term debt rollforward follows:

| 2022                                |                        |                          |                               |                          |                        |
|-------------------------------------|------------------------|--------------------------|-------------------------------|--------------------------|------------------------|
|                                     | US Dollar Loans        | Japanese Yen Loans       | Philippine Peso<br>Equivalent | Philippine<br>Peso Loans | Total                  |
| Balances at                         |                        |                          |                               |                          |                        |
| January 1, 2022                     | US\$400,547,362        | JPY15,141,157,756        | ₱27,109,307,857               | ₱18,845,791,759          | ₱45,955,099,616        |
| Payments                            | (35,948,794)           | (1,560,736,932)          | (2,583,583,322)               | (4,462,970,139)          | (7,046,553,461)        |
|                                     | <b>364,598,568</b>     | <b>13,580,420,824</b>    | <b>24,525,724,535</b>         | <b>14,382,821,620</b>    | <b>38,908,546,155</b>  |
| Unrealized foreign<br>exchange loss | -                      | -                        | 1,470,936,253                 | -                        | 1,470,936,253          |
| Balances at<br>December 31, 2022    | <b>US\$364,598,568</b> | <b>JPY13,580,420,824</b> | <b>₱25,996,660,788</b>        | <b>₱14,382,821,620</b>   | <b>₱40,379,482,408</b> |
| 2021                                |                        |                          |                               |                          |                        |
|                                     | US Dollar Loans        | Japanese Yen Loans       | Philippine Peso<br>Equivalent | Philippine<br>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)        |
|                                     | <b>400,547,362</b>     | <b>15,141,157,756</b>    | <b>26,025,870,330</b>         | <b>18,845,791,759</b>    | <b>44,871,662,089</b>  |
| Unrealized foreign<br>exchange loss | -                      | -                        | 1,083,437,527                 | -                        | 1,083,437,527          |
| Balances at<br>December 31, 2021    | <b>US\$400,547,362</b> | <b>JPY15,141,157,756</b> | <b>₱27,109,307,857</b>        | <b>₱18,845,791,759</b>   | <b>₱45,955,099,616</b> |



#### 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 (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, 2022 and 2021, the terms of the remaining commercial loan facilities follow:

- Term of six 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 8.00% 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, 2022 and 2021, the total outstanding balance of the US Dollar commercial loans amounted to ₱20,328.2 million (US\$364.6 million) and ₱20,427.5 million (US\$400.5 million), respectively. Interest expense amounted to ₱668.3 million, ₱579.8 million and ₱846.1 million in 2022, 2021 and 2020, 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 and quarterly installments with a maturity not longer than 14 years at a variable interest rate based on JPY LIBOR and TONA plus margin.

As of December 31, 2022 and 2021, the total outstanding balance of the Japanese yen commercial loans amounted to ₱5,668.5 million (¥13.6 billion) and ₱6,681.8 million (¥15.1 billion), respectively. Interest expense amounted to ₱15.5 million, ₱18.4 million and ₱22.1 million in 2022, 2021 and 2020, 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.

As of December 31, 2022 and 2021, the terms of the commercial loan facilities follow:

- Term of seven 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, 2022 and 2021, the total outstanding Philippine Peso commercial loans amounted to ₱13,796.2 million and ₱16,290.2 million, respectively. Interest expense incurred from these loans amounted to ₱569.5 million, ₱559.9 million and ₱627.7 million in 2022, 2021 and 2020, 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, 2022 and 2021, 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, 2022 and 2021, the total outstanding Philippine Peso term loan amounted to ₱586.7 million and ₱2,555.6 million, respectively. Interest expense incurred from this loan amounted to ₱80.3 million, ₱156.3 million and ₱179.8 million in 2022, 2021 and 2020, respectively. The Group is required to maintain certain financial ratio until termination of loans. As of December 31, 2022 and 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. The outstanding balance as at December 31, 2022 is due for repayment in 2023 and thus classified as current in the 2022 consolidated statement of financial position.

#### 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.



The proceeds from these promissory notes were used for the Group’s working capital requirements. Interest expense incurred from these notes amounted to ₱190.6 million, ₱287.8 million and ₱41.4 million in 2022, 2021 and 2020, respectively.

The short-term debt rollforward follows:

|                                  | 2022           |                            | 2021            |                            |
|----------------------------------|----------------|----------------------------|-----------------|----------------------------|
|                                  | US Dollar      | Philippine Peso Equivalent | US Dollar       | Philippine Peso Equivalent |
| Balances at January 1            | US\$87,500,000 | ₱4,462,412,500             | US\$100,000,000 | ₱4,802,300,000             |
| Availments                       | –              | –                          | 87,500,000      | 4,234,107,500              |
| Payments                         | (87,500,000)   | (5,161,625,000)            | (100,000,000)   | (4,791,800,000)            |
|                                  | –              | (699,212,500)              | 87,500,000      | 4,244,607,500              |
| Unrealized foreign exchange loss | –              | 699,212,500                | –               | 217,805,000                |
| Balances at December 31          | US\$–          | ₱–                         | US\$87,500,000  | ₱4,462,412,500             |

#### 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, 2022 and 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 (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 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, 2022 and 2021. The CBs also have an optional redemption feature 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 period, 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 statements of comprehensive income in 2022 and 2021, amounted to ₱613.0 million and ₱415.7 million, respectively.

The carrying amount as at December 31, 2022 and 2021 of the host financial liability component of the CBs are presented below:

|                                  | 2022            |                    | 2021            |                    |
|----------------------------------|-----------------|--------------------|-----------------|--------------------|
|                                  | In US Dollar    | In Philippine Peso | In US Dollar    | In Philippine Peso |
| Beginning balance                | US\$238,923,040 | ₱12,184,836,126    | US\$237,795,834 | ₱11,369,629,644    |
| Unrealized foreign exchange loss | –               | 1,138,579,757      | –               | 759,069,399        |
| Bond amortization                | 1,832,454       | 99,906,711         | 1,127,206       | 56,137,083         |
| Ending balance                   | US\$240,755,494 | ₱13,423,322,594    | 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 consolidated statements 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 (see Note 8).

The changes in fair value in 2022 and 2021 of the derivative liabilities at FVPL follows:

|  | 2022           |                    | 2021           |                    |
|--|----------------|--------------------|----------------|--------------------|
|  | In US Dollar   | In Philippine Peso | In US Dollar   | In Philippine Peso |
| Beginning balance                        | US\$33,941,073 | ₱1,730,960,768     | US\$8,632,924  | ₱412,843,691       |
| Market valuation losses (gains) (Note 8) | (18,752,560)   | (884,125,259)      | 25,308,149     | 1,318,117,077      |
| Ending balance                           | US\$15,188,513 | ₱846,835,509       | 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:

|                  | 2022      | 2021      |
|------------------|-----------|-----------|
| Stock price      | ₱38.30    | ₱42.15    |
| Risk free rate   | 3.93%     | 1.29%     |
| Conversion price | ₱38.00    | ₱38.00    |
| Term             | 5.9 years | 5.9 years |
| Volatility       | 51.83%    | 47.27%    |

## 20. Other Noncurrent Liabilities

This account consists of:

|                                   | 2022            | 2021           |
|-----------------------------------|-----------------|----------------|
| Asset retirement obligation (ARO) | ₱9,663,604,328  | ₱7,084,719,291 |
| Heavy maintenance visits          | 2,721,092,312   | 1,082,628,412  |
| Other noncurrent liabilities      | 126,646,720     | 87,810,283     |
|                                   | ₱12,511,343,360 | ₱8,255,157,986 |



### 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:

|                                  | <b>2022</b>            | 2021            |
|----------------------------------|------------------------|-----------------|
| Balance at beginning of year     | <b>₱7,084,719,291</b>  | ₱6,538,951,651  |
| Provision for ARO                | <b>5,285,474,877</b>   | 3,566,104,161   |
| Applications and other movements | <b>(2,706,589,840)</b> | (3,020,336,521) |
| Balance at end of year           | <b>₱9,663,604,328</b>  | ₱7,084,719,291  |

In 2022, 2021 and 2020, ARO expenses included as part of repairs and maintenance amounted to ₱5,285.5 million, ₱3,566.1 million and ₱3,132.2 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 advice. 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:

|  | <b>2022</b>           | 2021           |
|--|-----------------------|----------------|
| Balance at beginning of year               | <b>₱1,082,628,412</b> | ₱345,964,168   |
| Provision for HMV                          | <b>1,481,580,686</b>  | 849,950,290    |
| Applications and foreign exchange movement | <b>156,883,214</b>    | (113,286,046)  |
| Balance at end of year                     | <b>₱2,721,092,312</b> | ₱1,082,628,412 |

In 2022, 2021 and 2020, HMV expenses included as part of repairs and maintenance amounted to ₱1,481.6 million, ₱850.0 million and ₱346.0 million, respectively.

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## 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.

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'.

Prior to March 15, 2020 (pre-COVID-19), the validity of travel fund was only 90 days from the travel fund creation date. However, due to the COVID-19, the Group extended the validity of travel fund from 90 days to two (2) years to give guests enough time to plan on their next trip.



The Group further provided an option for guest to refund their travel fund if unused after one (1) year but this is specific only for flights affected by COVID-19 between March 15, 2020 to July 31, 2020.

As of December 31, 2021, refund of travel fund is no longer an option for flights starting August 1, 2020 yet the validity of travel fund remains to be two (2) years.

However, as subsequently amended, effective April 1, 2022, in line with the Group's recovery efforts and continuous updating of Customer Flexible Options, all created travel fund starting the said date shall be valid for six (6) months from the date of creation or conversion to travel fund.

The current portion of travel fund payable amounted to ₱1,027.1 million and ₱2,802.8 million as of December 31, 2022 and 2021, 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 ₱260.3 million and ₱1,851.0 million as of December 31, 2022 and 2021, respectively.

Expired portion of the travel fund payable amounting to ₱759.1 million for the year ended December 31, 2022 (nil in 2021) is recognized as part of 'Ancillary revenues' in the consolidated statement of comprehensive income (see Note 24). Estimated breakage revenue from travel fund amounting to ₱362.7 million for the year ended December 31, 2022 (nil in 2021) is recognized also as part of 'Ancillary revenues' in the consolidated statement of comprehensive income.

## 22. Equity

The Group's authorized capital stock as of December 31, 2022 and 2021 consists of the following (in number of shares):

|   | 2022                 | 2021                 |
|---|----------------------|----------------------|
| Common stock – at ₱1 par value                | 1,340,000,000        | 1,340,000,000        |
| Convertible preferred stock – at ₱1 par value | 400,000,000          | 400,000,000          |
| Authorized capital stock                      | <b>1,740,000,000</b> | <b>1,740,000,000</b> |

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

|   | 2022               |                    | Total              |
|---|--------------------|--------------------|--------------------|
|   | Common             | Preferred          |                    |
| Subscribed and issued                   | 626,069,577        | 317,208,341        | 943,277,918        |
| Conversion of shares                    | 3,163,984          | (3,163,984)        | –                  |
| Subscribed and issued, after conversion | 629,233,561        | 314,044,357        | 943,277,918        |
| Treasury shares                         | (12,919,850)       | –                  | (12,919,850)       |
|   | <b>616,313,711</b> | <b>314,044,357</b> | <b>930,358,068</b> |



|   | 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  |

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 has 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;



- 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. 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.

The Parent Company's total number of common stockholders is 106 and 109 as of December 31, 2022 and 2021, 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 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 PSE last March 29, 2021. As of December 31, 2022 and 2021, 3,163,984 and 11,739,027 CPS have been converted to common shares with ₱1.00 par value at the conversion price of ₱38.00 per share, respectively.

The Parent Company's total number of preferred stockholders is 11 and 12 as of December 31, 2022 and 2021, respectively.

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

|                                      | 2022          |              |              |                                     |                 |                 |  |
|--------------------------------------|---------------|--------------|--------------|-------------------------------------|-----------------|-----------------|--|
|                                      | Capital Stock |              |              | Capital Paid in Excess of Par Value |                 |                 |  |
|                                      | Common        | Preferred    | Total        | Common                              | Preferred       | Total           |  |
| Balances at January 1                | ₱624,975,577  | ₱317,208,341 | ₱942,183,918 | ₱8,839,912,119                      | ₱11,704,241,874 | ₱20,544,153,993 |  |
| Issuance of vested RSUs<br>(Note 23) | 1,094,000     | -            | 1,094,000    | 51,855,600                          | -               | 51,855,600      |  |
| Conversion of shares                 | 3,163,984     | (3,163,984)  | -            | 117,067,408                         | (117,067,408)   | -               |  |
| Balances at December 31              | ₱629,233,561  | ₱314,044,357 | ₱943,277,918 | ₱9,008,835,127                      | ₱11,587,174,466 | ₱20,596,009,593 |  |

|                         | December 31, 2021 (Audited) |              |              |                                     |                 |                 |  |
|-------------------------|-----------------------------|--------------|--------------|-------------------------------------|-----------------|-----------------|--|
|                         | 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 |  |



#### 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, the Parent Company recorded additional treasury shares with cost of ₱44.8 million from SBP. The Parent Company has 12,919,850 shares held in treasury with cost of ₱950.9 million as of December 31, 2022 and December 31, 2021, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.

#### Appropriation of Retained Earnings

On September 7, 2020 and December 4, 2019, the Parent Company's BOD appropriated ₱12.0 billion and ₱26.0 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 was used for the settlement of aircraft and engine lease commitments in 2021.

As of December 31, 2020, the Group has appropriated retained earnings totaling to ₱12.0 billion (nil in 2022 and 2021).

#### 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 (Note 13). As of December 31, 2022 and 2021, the Group's subsidiaries has 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 as December 31, 2022, 2021 and 2020 respectively.

The Parent Company did not declare dividends in 2022, 2021 and 2020.

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, 2022 and 2021.

#### 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 capital deficiency of ₱2,885.1 million and equity of ₱10,609.7 million as of December 31, 2022 and 2021, 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.

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## 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 SEC 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 one (1) to three (3) years vesting period. These will vest in three (3) tranches; 20%, 30% and 50% at the end of 2021, 2022 and 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 of "Meets Expectations". The fair value of each share is ₱48.40 which is the stock price at grant date.

Additionally, six (6) eligible persons were granted RSUs with three (3) years vesting period, commencing 2022. These will vest in three (3) tranches: 20%, 30% and 50% at the end of 2022, 2023 and 2024, respectively. The fair value of each share varies considering the grant date. Details are as follow:

| Date granted     | Fair value |
|------------------|------------|
| January 5, 2022  | ₱40.75     |
| January 7, 2022  | 40.00      |
| January 13, 2022 | 43.30      |
| January 31, 2022 | 45.00      |
| March 9, 2022    | 43.05      |

The Group does not pay cash as a form of settlement.

On December 31, 2022, 1,327,000 RSUs have vested. The shares were subsequently listed with the Philippine Stock Exchange on January 13, 2023 (see Note 37). On December 31, 2021, 1,094,000 RSUs have vested. The shares were listed with the Philippine Stock Exchange on January 21, 2022.

### 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 individual performance rating of "Meets Expectations". These options will expire on December 31, 2027. The Group does not pay cash as a form of settlement.



On December 31, 2022 and 2021, 1,387,500 and 1,265,000 stock options have vested. No options were exercised, forfeited or expired during both years. Thus, a total of 2,652,500 and 1,265,000, vested stock options remain to be outstanding and exercisable as of December 31, 2022 and 2021, respectively.

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 2022 and 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 ₱61.7 million and ₱27.9 million and ₱116.5 million and ₱58.3 million, respectively. Outstanding ‘Share-based payments’ in 2022 and 2021 presented in the consolidated statements of financial position amounted to ₱211.4 million and ₱174.8 million, respectively. Correspondingly, a credit was made to equity which is presented under ‘Share-based payments’ in the consolidated statements of financial position amounting to ₱89.6 million and ₱174.8 million, in 2022 and 2021, respectively.

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## 24. Ancillary Revenues

Ancillary revenues consist of:

|  | 2022                   | 2021           | 2020           |
|--|------------------------|----------------|----------------|
| Rebooking, refunds, cancellation fees, etc.                          | <b>₱4,859,130,269</b>  | ₱878,703,012   | ₱1,729,209,710 |
| Baggage fees   | <b>3,764,753,308</b>   | 1,052,549,979  | 1,795,385,199  |
| Revenue from expired and estimated breakage of travel fund (Note 21) | <b>1,121,830,228</b>   | —              | —              |
| Others   | <b>4,747,593,334</b>   | 1,049,333,691  | 1,062,285,174  |
|  | <b>₱14,493,307,139</b> | ₱2,980,586,682 | ₱4,586,880,083 |

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



## 25. Operating Expenses

### Flying Operations

This account consists of:

|                                 | 2022                   | 2021           | 2020           |
|---------------------------------|------------------------|----------------|----------------|
| Aviation fuel expense (Note 10) | <b>₱24,506,760,493</b> | ₱5,074,851,774 | ₱6,203,299,065 |
| Flight deck                     | <b>2,578,522,532</b>   | 1,272,460,967  | 2,339,567,554  |
| Aviation insurance              | <b>255,660,192</b>     | 332,878,292    | 341,328,993    |
| Others                          | <b>678,982,608</b>     | 417,223,899    | 483,782,325    |
|                                 | <b>₱28,019,925,825</b> | ₱7,097,414,932 | ₱9,367,977,937 |

For year ended December 31, 2022, the Group charged as an addition to aviation fuel expense the effective portion of its cash flow hedges amounting to nil. 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 when the purchase of fuel affected profit or loss.

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.

### 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 ₱5,285.5 million, ₱3,566.1 million and ₱3,132.2 million in 2022, 2021 and 2020, respectively (see Note 20). This also includes provision for heavy maintenance visits amounting to ₱1,481.6 million, ₱850.0 million and ₱346.0 million in 2022, 2021 and 2020, respectively (see Note 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 years ended December 31, 2022 and 2021.

### Aircraft and Traffic Servicing

This account consists of:

|                 | 2022                  | 2021           | 2020           |
|-----------------|-----------------------|----------------|----------------|
| Airport charges | <b>₱2,552,647,762</b> | ₱1,198,504,958 | ₱1,558,420,756 |
| Ground handling | <b>2,462,714,242</b>  | 1,166,429,990  | 1,310,453,583  |
| Others          | <b>245,849,370</b>    | 304,661,968    | 505,385,695    |
|                 | <b>₱5,261,211,374</b> | ₱2,669,596,916 | ₱3,374,260,034 |



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 ₱2,391.7 million, ₱899.3 million and ₱1,499.2 million in 2022, 2021 and 2020, respectively.

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## 26. General and Administrative Expenses

This account consists of:

|                                | 2022                  | 2021           | 2020           |
|--------------------------------|-----------------------|----------------|----------------|
| IT and other professional fees | <b>₱1,166,535,036</b> | ₱1,369,831,417 | ₱1,251,125,136 |
| Staff costs                    | <b>936,092,666</b>    | 710,193,599    | 769,651,272    |
| Security                       | <b>391,765,671</b>    | 294,209,382    | 270,712,137    |
| Utilities                      | <b>157,567,483</b>    | 125,928,772    | 145,916,831    |
| Travel and transportation      | <b>26,518,837</b>     | 12,125,546     | 15,975,190     |
| Rent expense (Note 33)         | <b>10,732,074</b>     | 33,705,315     | 38,980,162     |
| Others                         | <b>452,862,824</b>    | 574,094,997    | 727,527,102    |
|                                | <b>₱3,142,074,591</b> | ₱3,120,089,028 | ₱3,219,887,830 |

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

For the year ended December 31, 2020, the Group charged and addition to IT and other professional fees the effective portion of some FX hedging relationships classified as cash flow hedges amounting to ₱21.3 million (see Note 31). The 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, 2022 and 2021.

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## 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 2022, 2021 and 2020 are as follows:

|                                | <u>2022</u>         | 2021          | 2020          |
|--------------------------------|---------------------|---------------|---------------|
| Average remaining working life | <b>23— 27 years</b> | 24— 27 years  | 24— 29 years  |
| Discount rate                  | <b>7.16%-7.34%</b>  | 4.94% - 5.18% | 3.67% - 3.99% |
| Salary increase rate           | <b>5.00%</b>        | 4.00% - 5.00% | 5.00— 5.70%   |

As of December 31, 2022 and 2021, 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:

|   | <u>2022</u>           | 2021           |
|---|-----------------------|----------------|
| Present value of defined benefit obligation | <b>₱1,309,399,971</b> | ₱1,012,255,510 |
| Fair value of plan assets                   | <b>(550,056,254)</b>  | (587,435,074)  |
|   | <b>₱759,343,717</b>   | ₱424,820,436   |

Remeasurement gains (losses) recognized in OCI follow:

|   | <u>2022</u>           | 2021         | 2020         |
|---|-----------------------|--------------|--------------|
| Actuarial gains (losses) from benefit obligation                      | <b>(₱179,804,034)</b> | ₱286,173,372 | ₱296,000,500 |
| Return on plan assets, excluding amount included in net interest cost | <b>(38,441,905)</b>   | (75,729,564) | 90,098,393   |
| Amount to be recognized in OCI  | <b>(₱218,245,939)</b> | ₱210,443,808 | ₱386,098,893 |



Movements in the fair value of plan assets follow:

|   | 2022                | 2021         |
|---|---------------------|--------------|
| Balance at January 1  | <b>₱587,435,074</b> | ₱658,294,560 |
| Interest income included in net interest cost                         | <b>28,359,466</b>   | 23,836,939   |
| Return on plan assets, excluding amount included in net interest cost | <b>(38,441,905)</b> | (75,729,564) |
| Benefits paid   | <b>(27,296,381)</b> | (18,966,861) |
| <b>Balance at December 31</b>   | <b>₱550,056,254</b> | ₱587,435,074 |

The plan assets consist of:

|                                 | 2022                | %             | 2021         | %      |
|---------------------------------|---------------------|---------------|--------------|--------|
| Cash                            | <b>₱23,946,625</b>  | <b>4.4%</b>   | ₱9,337,347   | 1.6%   |
| Investment in debt securities   | <b>96,093,439</b>   | <b>17.5%</b>  | 108,632,377  | 18.5%  |
| Investment in equity securities | <b>32,375,403</b>   | <b>5.9%</b>   | 31,597,634   | 5.4%   |
| Unit investment trust funds     | <b>325,929,684</b>  | <b>59.3%</b>  | 371,175,099  | 63.2%  |
| Receivables                     | <b>71,711,103</b>   | <b>12.9%</b>  | 66,692,617   | 11.3%  |
|                                 | <b>₱550,056,254</b> | <b>100.0%</b> | ₱587,435,074 | 100.0% |

The Group expects to contribute about ₱165.0 million into the retirement fund for the year ending 2023.

The actual returns on plan assets amounted to ₱10.1 million losses and ₱51.9 million losses in 2022 and 2021, respectively.

Changes in present value of the defined benefit obligation follow:

|                                     | 2022                  | 2021           |
|-------------------------------------|-----------------------|----------------|
| Balance at January 1                | <b>₱1,012,255,510</b> | ₱1,248,382,737 |
| Current service cost                | <b>95,202,296</b>     | 111,312,231    |
| Interest cost                       | <b>50,209,133</b>     | 44,779,722     |
| Benefits paid                       | <b>(28,071,002)</b>   | (130,162,910)  |
| Settlement loss                     | -                     | 24,117,102     |
| Actuarial loss (gain) due to:       |                       |                |
| Experience adjustments              | <b>298,200,653</b>    | (253,378,726)  |
| Changes in financial assumption     | <b>(133,843,516)</b>  | 29,898,912     |
| Changes in demographical assumption | <b>15,446,897</b>     | (62,693,558)   |
| <b>Balance at December 31</b>       | <b>₱1,309,399,971</b> | ₱1,012,255,510 |

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 ₱275.9 million benefits paid in 2020, ₱254.0 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:

|                        | 2022                | 2021                |
|------------------------|---------------------|---------------------|
| Balance at January 1   | ₱424,820,436        | ₱590,088,177        |
| Retirement expense     | 117,051,963         | 156,372,116         |
| Recognized in OCI      | 218,245,939         | (210,443,808)       |
| Benefits paid          | (774,621)           | (111,196,049)       |
| Balance at December 31 | <b>₱759,343,717</b> | <b>₱424,820,436</b> |

The benefits paid during 2022 and 2021 were paid out of the Group's operating funds.

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

|                          | 2022                | 2021                | 2020               |
|--------------------------|---------------------|---------------------|--------------------|
| Current service cost     | ₱95,202,296         | ₱111,312,231        | ₱104,217,958       |
| Net interest cost        | 21,849,667          | 20,942,783          | 54,173,670         |
| Settlement loss (gain)   | -                   | 24,117,102          | (130,016,141)      |
| Total retirement expense | <b>₱117,051,963</b> | <b>₱156,372,116</b> | <b>₱28,375,487</b> |

Shown below are the sensitivity analyses that have 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:

|                       | 2022              |               |
|-----------------------|-------------------|---------------|
|                       |                   | PVO           |
| Discount rates        | +100 basis points | (₱79,547,067) |
|                       | -100 basis points | 90,457,732    |
| Salary increase rates | +100 basis points | 79,106,183    |
|                       | -100 basis points | (70,210,121)  |
|                       | 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)  |

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, 2022 and 2021, the Group's investment consists of 83% of debt and equity instruments and 17% of cash and receivables and 87% of debt and equity instruments and 13% 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, 2022 and 2021:

|                             | 2022                 | 2021         |
|-----------------------------|----------------------|--------------|
| Less than one year          | <b>₱187,470,478</b>  | ₱126,363,061 |
| One to less than five years | <b>679,172,493</b>   | 519,333,984  |
| Five to less than 10 years  | <b>810,926,003</b>   | 588,835,025  |
| 10 to less than 15 years    | <b>961,331,691</b>   | 618,670,609  |
| 15 to less than 20 years    | <b>940,842,243</b>   | 617,060,144  |
| 20 years and above          | <b>1,830,323,672</b> | 953,162,949  |

The average duration of the expected benefit payments as of December 31, 2022 and 2021 is 8.9 years and 9.8 years, respectively.

## 28. Income Taxes

Benefit from income tax consists of:

|          | 2022                    | 2021             | 2020           |
|----------|-------------------------|------------------|----------------|
| Current  | <b>₱11,318,830</b>      | ₱1,270,183       | ₱268,373       |
| Deferred | <b>(2,260,294,601)</b>  | (2,029,228,604)  | (659,358,222)  |
|          | <b>(₱2,248,975,771)</b> | (₱2,027,958,421) | (₱659,089,849) |

The Group's current income tax mainly consists of MCIT due amounting to ₱11.3 million, ₱1.3 million and ₱0.3 million in 2022, 2021 and 2020, respectively.

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 the Republic Act No. 11534 or CREATE Act, which became effective last April 11, 2021, the MCIT rate was lowered from 2% to 1% of gross income for three years beginning July 1, 2020. In 2022, MCIT due is higher than the RCIT due (taxable loss position), thus, the Parent Company and A-Plus is liable for 1% MCIT of ₱11.3 million.

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:

- a. To depreciate its assets to the extent of not more than twice as fast the normal rate of depreciation; and
- b. 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.



For the year ended December 31, 2022, below are the details of additional NOLCO of the Group:

Parent Company NOLCO

| Year Incurred | Amount         | Applied | Expired | Balance        | Expiry Year |
|---------------|----------------|---------|---------|----------------|-------------|
| 2022          | ₱5,892,099,712 | ₱-      | ₱-      | ₱5,892,099,712 | 2027        |

CEBGO NOLCO

| Year Incurred | Amount       | Applied | Expired | Balance      | Expiry Year |
|---------------|--------------|---------|---------|--------------|-------------|
| 2022          | ₱526,518,435 | ₱-      | ₱-      | ₱526,518,435 | 2027        |

APLUS NOLCO

| Year Incurred | Amount      | Applied | Expired | Balance     | Expiry Year |
|---------------|-------------|---------|---------|-------------|-------------|
| 2022          | ₱49,790,993 | ₱-      | ₱-      | ₱49,790,993 | 2025        |

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 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:

CEB MCIT

| Year Incurred | Amount     | Applied | Expired | Balance    | Expiry Year |
|---------------|------------|---------|---------|------------|-------------|
| 2022          | ₱8,646,570 | ₱-      | ₱-      | ₱8,646,570 | 2025        |



CEBGO MCIT

As of December 31, 2022 and 2021, CEBGO has no MCIT due to gross taxable loss position.

| 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 |
|---------------|------------|---------|---------|------------|-------------|
| 2022          | ₱2,672,260 | ₱-      | ₱-      | ₱2,672,260 | 2025        |
| 2021          | 1,244,782  | -       | -       | 1,244,782  | 2024        |
|               | ₱3,917,042 | ₱-      | ₱-      | ₱3,917,042 |             |

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

|  | 2022                  | 2021           |
|--|-----------------------|----------------|
| <b>Items recognized in profit or loss</b>                                  |                       |                |
| Deferred tax assets:   |                       |                |
| Lease liability, net of ROU asset  | <b>₱2,475,328,743</b> | ₱990,900,769   |
| Provision for ARO  | <b>2,415,901,082</b>  | 1,771,179,823  |
| NOLCO  | <b>1,461,285,332</b>  | 2,244,170,055  |
| Provision for HMV  | <b>680,273,078</b>    | 270,657,103    |
| Unrealized foreign exchange losses-- net                                   | <b>389,226,964</b>    | 269,656,206    |
| Unrealized loss on net derivative liabilities                              | <b>382,686,730</b>    | 432,740,192    |
| Retirement liability   | <b>181,204,151</b>    | 148,830,366    |
| Allowance for credit losses  | <b>58,764,320</b>     | 69,135,092     |
| Share-based payment transactions   | <b>37,410,265</b>     | 30,468,691     |
| Excess MCIT  | <b>3,381,164</b>      | 1,270,183      |
|  | <b>8,085,461,829</b>  | 6,229,008,480  |
| Deferred tax liability:  |                       |                |
| Double depreciation  | <b>2,185,612,382</b>  | 2,564,476,957  |
| Unamortized bond issue costs   | <b>4,245,718</b>      | 29,222,395     |
| Excess of fair value of assets acquired<br>over cost                       | <b>154,704,634</b>    | 154,704,634    |
|  | <b>2,344,562,734</b>  | 2,748,403,986  |
|  | <b>5,740,899,095</b>  | 3,480,604,494  |
| <b>Items recognized directly in other<br/>comprehensive income or loss</b> |                       |                |
| Deferred tax asset:  |                       |                |
| Reserve for retirement plan  | <b>11,820,658</b>     | -              |
| Deferred tax liability:  |                       |                |
| Reserve for retirement plan  | -                     | (42,740,826)   |
| Hedge reserve  | <b>(186,205,641)</b>  | -              |
|  | <b>(174,384,983)</b>  | (42,740,826)   |
|  | <b>₱5,566,514,112</b> | ₱3,437,863,668 |

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



Movement in accrued retirement cost and hedge reserves amounted to ₱131.6 million, ₱63.0 million, and ₱30.5 million in 2022, 2021 and 2020, respectively, is presented under OCI.

As of December 31, 2022 and 2021, the Parent Company has not recognized deferred tax assets on NOLCO of ₱42,497.4 million and ₱33,064.9 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, 2022 and 2021 amounted to ₱10,624.3 million and ₱8,266.2 million, respectively. Unrecognized deferred tax assets on excess MCIT amounted to ₱8.6 million as of December 31, 2022 (nil in 2021).

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, 2022 and 2021, 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).

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

|  | 2022            | 2021     | 2020     |
|--|-----------------|----------|----------|
| Statutory income tax rates                     | <b>(25.00%)</b> | (25.00%) | (30.00%) |
| Adjustments resulting from:                    |                 |          |          |
| Unrecognized deferred tax on<br>NOLCO and MCIT | <b>14.44</b>    | 15.41    | 26.84    |
| Nontaxable items                               | <b>(1.22)</b>   | (0.03)   | (0.43)   |
| Nondeductible items                            | <b>0.24</b>     | 0.05     | 0.17     |
| Change in tax rate                             | -               | 1.00     | -        |
| Income subject to ITH                          | <b>(2.03)</b>   | -        | -        |
| Others   | <b>(0.29)</b>   | 1.04     | 0.54     |
| Effective income tax rates                     | <b>(13.86%)</b> | (7.53%)  | (2.88%)  |

#### 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 ₱2.5 million, ₱1.1 million, and ₱6.4 million in 2022, 2021, and 2020, respectively.



## 29. Loss Per Share

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

|   | 2022              | 2021              | 2020              |
|---|-------------------|-------------------|-------------------|
| Net loss  | (₱13,979,387,118) | (₱24,898,602,887) | (₱22,236,441,976) |
| Less: Cumulative preferred dividends                                  | (716,021,134)     | (550,847,493)     | –                 |
| Net loss attributable to common shareholders for basic loss per share | (14,695,408,252)  | (25,449,450,380)  | (22,236,441,976)  |
| Divided by: Weighted average number of common shares                  | 615,212,672       | 604,095,978       | 598,728,537       |
| Basic loss per share  | (₱23.89)          | (₱42.13)          | (₱37.14)          |

The EPS effect of the Group's potential common shares (stock options, convertible preference shares and convertible bonds) are anti-dilutive, thus, the basic and diluted loss per share is stated at the same amount.

## 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. The transactions with related parties for the period were carried out in the normal course of business.

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                        | 2022              |                        | Terms                 | Conditions               |
|--------------------------------------|-------------------|------------------------|-----------------------|--------------------------|
|                                      | Amount/<br>Volume | Outstanding<br>Balance |                       |                          |
| <b>Ultimate Parent</b>               |                   |                        |                       |                          |
| (1) JG Summit Holdings, Inc.         |                   |                        |                       |                          |
| Due to related parties               | (₱11,574,960)     | (₱6,418,179)           | Non-interest bearing  | Unsecured                |
| Trade payables                       | (47,669,369)      | (3,042,159)            | Non-interest bearing  | Unsecured                |
| <b>Joint ventures and associates</b> |                   |                        |                       |                          |
| (2) PAAT, Inc.                       |                   |                        |                       |                          |
| Due from related parties             |                   |                        |                       |                          |
| Loans                                | –                 | 90,977,300             | 2% interest per annum | Unsecured; No impairment |
| Sublease agreement                   | 41,504,655        | 80,572,331             | Payable monthly       | Unsecured; No impairment |
| Trade payables                       | (187,454,206)     | (8,611,416)            | Non-interest bearing  | Unsecured                |



| 2022  |                   |                        |  |                       |                          |
|---|-------------------|------------------------|--|-----------------------|--------------------------|
| Related Party                                     | Amount/<br>Volume | Outstanding<br>Balance |  | Terms                 | Conditions               |
| <b>(3) Aviation</b>                               |                   |                        |  |                       |                          |
| Due from related parties                          | ₱104,009,435      | ₱609,061,301           |  | Non-interest bearing  | Unsecured; No impairment |
| Trade payables                                    | (1,199,700,620)   | (59,274,419)           |  | Non-interest bearing  | Unsecured                |
| Sublease agreement                                | 9,773,183         | –                      |  | Non-interest bearing  | Unsecured; No impairment |
| Others  | 102,986           | 102,986                |  | On-demand             | Unsecured                |
| <b>(4) Value Alliance Travel System Pte. Ltd.</b> |                   |                        |  |                       |                          |
| Trade payables                                    | –                 | (14,251,698)           |  | Non-interest bearing  | Unsecured                |
| <b>(5) Data Analytics Ventures, Inc.</b>          |                   |                        |  |                       |                          |
| Due to related parties                            | (8,097,666)       | (1,618,104)            |  | Non-interest bearing  | Unsecured                |
| Trade payables                                    | 9,729,932         | 1,712,756              |  | Non-interest bearing  | Unsecured                |
| Trade receivables                                 | (807,480)         | (278,204)              |  | Non-interest bearing  | Unsecured; No impairment |
| <b>Entities under common control</b>              |                   |                        |  |                       |                          |
| <b>(6) Robinsons Bank Corporation (RBank)</b>     |                   |                        |  |                       |                          |
| Non-trade receivables                             | 10,944            | –                      |  | Non-interest bearing  | Unsecured; No impairment |
| Trade receivables                                 | 29,704,095,215    | 329,506,628            |  | Non-interest bearing  | Unsecured; No impairment |
| Long-term debt                                    | –                 | 2,447,667,500          |  | Interest bearing      | Secured                  |
| Sub-lease agreement                               | 1,076,318         | –                      |  | Non-interest bearing  | Unsecured; No impairment |
| Cash in bank                                      | –                 | 1,094,362,334          |  | Interest bearing      | Unsecured; No impairment |
| Short-term placements                             | –                 | 5,248,060,438          |  | Interest bearing      | Unsecured; No impairment |
| <b>(7) Universal Robina Corporation (URC)</b>     |                   |                        |  |                       |                          |
| Trade receivables                                 | 18,611,595        | 3,746,886              |  | Non-interest bearing  | Unsecured; No impairment |
| Trade payables                                    | –                 | –                      |  | Non-interest bearing  | Unsecured                |
| Due to related parties                            | (11,623,139)      | (29,693,459)           |  | Non-interest bearing  | Unsecured                |
| <b>(8) Robinsons Land Corporation (RLC)</b>       |                   |                        |  |                       |                          |
| Trade receivables                                 | 10,954            | 130,011                |  | Interest bearing      | Unsecured; No impairment |
| Trade payables                                    | (117,035)         | (95,765)               |  | Non-interest bearing  | Unsecured                |
| <b>(9) Robinsons Handyman, Inc</b>                |                   |                        |  |                       |                          |
| Trade receivables                                 | 12,259,728        | 117,778                |  | Interest bearing      | Unsecured; No impairment |
| Trade payables                                    | (7,058,230)       | (1,049,185)            |  | Non-interest bearing  | Unsecured                |
| <b>(10) Robinsons Appliances</b>                  |                   |                        |  |                       |                          |
| Trade payables                                    | –                 | –                      |  | Non-interest bearing  | Unsecured                |
| <b>(11) Robinsons Supermarket Corporation</b>     |                   |                        |  |                       |                          |
| Trade receivables                                 | 202,055,278       | 4,483,396              |  | Non-interest bearing  | Unsecured; No impairment |
| <b>(12) Robinsons Convenience Store</b>           |                   |                        |  |                       |                          |
| Sublease agreement                                | 739,261           | –                      |  | Non-interest bearing  | Unsecured; No impairment |
| <b>(13) ASPEN Business Solutions, Inc.</b>        |                   |                        |  |                       |                          |
| Trade payables                                    | (3,636,793)       | –                      |  | Non-interest bearing  | Unsecured                |
| <b>(14) JG Summit Philippines Limited</b>         |                   |                        |  |                       |                          |
| Short-term debt (Note 18)                         | (4,462,412,500)   | –                      |  | 5% interest per annum | Unsecured                |

| 2021                                 |                   |                        |  |                       |                          |
|--------------------------------------|-------------------|------------------------|--|-----------------------|--------------------------|
| Related Party                        | Amount/<br>Volume | Outstanding<br>Balance |  | Terms                 | Conditions               |
| <b>Ultimate Parent</b>               |                   |                        |  |                       |                          |
| <b>(1) JG Summit Holdings, Inc.</b>  |                   |                        |  |                       |                          |
| 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                |
| <b>Joint ventures and associates</b> |                   |                        |  |                       |                          |
| <b>(2) PAAT, Inc.</b>                |                   |                        |  |                       |                          |
| 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                |



| 2021                                       |                   |                        |    |                      |                          |
|--|-------------------|------------------------|----|----------------------|--------------------------|
| Related Party                              | Amount/<br>Volume | Outstanding<br>Balance |    | Terms                | Conditions               |
| (3) lAviation                              |                   |                        |    |                      |                          |
| 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                |
| (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                         | 209,684           | 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                |

| Consolidated Statements of Comprehensive Income     |      |                                       |                    |                       |                     |  |
|---|------|---------------------------------------|--------------------|-----------------------|---------------------|--|
|   | Year | Sale of Air<br>Transportation Service | Ground<br>handling | Ancillary<br>Revenues | Interest<br>Expense |  |
| <b>JV in which the Parent Company is a venturer</b> |      |                                       |                    |                       |                     |  |
| PAAT  | 2022 | ₱-                                    | ₱-                 | ₱41,504,655           | ₱-                  |  |
|   | 2021 | ₱-                                    | ₱-                 | ₱25,257,847           | ₱-                  |  |
|   | 2020 | ₱90,858                               | ₱-                 | ₱19,704,923           | ₱-                  |  |
| lAviation   | 2022 | -                                     | 1,199,700,620      | -                     | -                   |  |
|   | 2021 | -                                     | 628,288,496        | -                     | -                   |  |
|   | 2020 | -                                     | 506,727,397        | -                     | -                   |  |

(Forward)



| <b>Consolidated Statements of Comprehensive Income</b> |             |   |                            |                               |                             |
|--|-------------|---|----------------------------|-------------------------------|-----------------------------|
|  | <b>Year</b> | <b>Sale of Air<br/>Transportation Service</b> | <b>Ground<br/>handling</b> | <b>Ancillary<br/>Revenues</b> | <b>Interest<br/>Expense</b> |
| <b>Entities under common control</b>                   |             |   |                            |                               |                             |
| rBank  | <b>2022</b> | <b>₱10,944</b>                                | -                          | -                             | -                           |
|  | 2021        | ₱-  | -                          | -                             | -                           |
|  | 2020        | ₱33,161                                       | -                          | -                             | -                           |
| URC  | <b>2022</b> | <b>7,226,199</b>                              | -                          | -                             | -                           |
|  | 2021        | -   | -                          | -                             | -                           |
|  | 2020        | 11,385,396                                    | -                          | -                             | -                           |
| RLC  | <b>2022</b> | <b>106,081</b>                                | -                          | -                             | -                           |
|  | 2021        | -   | -                          | -                             | -                           |
|  | 2020        | 109,472                                       | -                          | -                             | -                           |
| RHI  | <b>2022</b> | <b>5,201,498</b>                              | -                          | -                             | -                           |
|  | 2021        | -   | -                          | -                             | -                           |
|  | 2020        | 3,595,899                                     | -                          | -                             | -                           |
| SPI  | <b>2022</b> | -   | -                          | -                             | -                           |
|  | 2021        | -   | -                          | -                             | -                           |
|  | 2020        | 1,442   | -                          | -                             | -                           |
| JGPC   | <b>2022</b> | -   | -                          | -                             | -                           |
|  | 2021        | -   | -                          | -                             | -                           |
|  | 2020        | -   | -                          | -                             | -                           |
| RSC  | <b>2022</b> | <b>202,055,278</b>                            | -                          | -                             | -                           |
|  | 2021        | -   | -                          | -                             | -                           |
|  | 2020        | 1,302,960                                     | -                          | -                             | -                           |
| Aspen  | <b>2022</b> | <b>3,636,793</b>                              | -                          | -                             | -                           |
|  | 2021        | -   | -                          | -                             | -                           |
|  | 2020        | 28,403  | -                          | -                             | -                           |
| JG Summit Philippines Limited                          | <b>2022</b> | -   | -                          | -                             | <b>190,569,655</b>          |
|  | 2021        | -   | -                          | -                             | 287,759,404                 |
|  | 2020        | -   | -                          | -                             | 41,360,000                  |
| <b>Total</b>   | <b>2022</b> | <b>₱218,236,793</b>                           | <b>₱1,199,700,620</b>      | <b>₱41,504,655</b>            | <b>₱190,569,655</b>         |
|  | 2021        | ₱-  | ₱628,288,496               | ₱25,257,847                   | ₱287,759,404                |
|  | 2020        | ₱16,547,591                                   | ₱506,727,397               | ₱19,704,923                   | ₱41,360,000                 |

*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, 2022, 2021 and 2020. 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 2022, 2021 and 2020.

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.

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.



2. The Group maintains deposit accounts and short-term investments with Robinsons Bank which is reported under 'Cash and cash equivalents' account.
3. 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.

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 2022, 2021 and 2020 amounted to ₱34.0 million, ₱3.7 million and ₱7.9 million, respectively.

4. 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.
5. 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, 2022 and 2021, loan to PAAT amounted to ₱91.0 million (US\$2.3 million).
6. 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.
7. In 2017, the Parent Company entered into a loan agreement with Robinsons Bank to finance the acquisition of four (4) ATR 72-600 aircraft.
8. 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.

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.

9. 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.
10. 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.
11. 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.
12. 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:

|                              | 2022                | 2021         | 2020         |
|------------------------------|---------------------|--------------|--------------|
| Short-term employee benefits | <b>₱479,815,755</b> | ₱324,863,258 | ₱280,148,222 |
| Post-employment benefits     | <b>131,757,619</b>  | 6,688,069    | 57,542,832   |
|                              | <b>₱611,573,374</b> | ₱331,551,327 | ₱337,691,054 |

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.

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### 31. Financial Risk Management Objectives and Policies

The Group's principal financial instruments 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'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, 2022 and 2021, without considering the effects of collaterals and other credit risk mitigation techniques.

|                                      | 2022                   | 2021            |
|--------------------------------------|------------------------|-----------------|
| Cash and cash equivalents*           | <b>₱19,131,634,091</b> | ₱18,754,520,166 |
| Restricted cash                      | <b>832,055,494</b>     | 778,038,403     |
| Derivative financial assets at FVOCI | <b>60,911,157</b>      | –               |
| Receivables                          |                        |                 |
| Trade receivables                    | <b>1,818,408,282</b>   | 1,377,305,176   |
| Due from related parties             | <b>780,713,926</b>     | 672,062,255     |
| Interest receivable                  | <b>24,033,166</b>      | 2,497,418       |
| Others**                             | <b>202,289,251</b>     | 203,591,924     |
| Refundable deposits***               | <b>1,498,852,139</b>   | 1,191,665,074   |
|                                      | <b>₱24,348,897,506</b> | ₱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 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:

|                                      | 2022                   |                                    |                    |                     | Total                  |
|--------------------------------------|------------------------|------------------------------------|--------------------|---------------------|------------------------|
|                                      | Philippines            | Asia<br>(excluding<br>Philippines) | Europe             | Others              |                        |
| Cash and cash equivalents*           | ₱7,861,612,333         | ₱11,162,058,036                    | ₱–                 | ₱107,963,722        | ₱19,131,634,091        |
| Restricted cash                      | 832,055,494            | –                                  | –                  | –                   | 832,055,494            |
| Derivative financial assets at FVOCI | –                      | –                                  | 60,911,157         | –                   | 60,911,157             |
| Receivables                          |                        |                                    |                    |                     |                        |
| Trade receivables                    | 1,144,765,704          | 637,153,015                        | 11,142,448         | 25,347,115          | 1,818,408,282          |
| Due from related parties             | 780,713,926            | –                                  | –                  | –                   | 780,713,926            |
| Interest receivable                  | 24,033,166             | –                                  | –                  | –                   | 24,033,166             |
| Others**                             | 194,240,993            | 3,108,063                          | 4,940,195          | –                   | 202,289,251            |
| Refundable deposits***               | –                      | 1,498,852,139                      | –                  | –                   | 1,498,852,139          |
|                                      | <b>₱10,837,421,616</b> | <b>₱13,301,171,253</b>             | <b>₱76,993,800</b> | <b>₱133,310,837</b> | <b>₱24,348,897,506</b> |

\*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



|                            | 2021           |                                    |             |             |                 |
|----------------------------|----------------|------------------------------------|-------------|-------------|-----------------|
|                            | Philippines    | Asia<br>(excluding<br>Philippines) | Europe      | Others      | Total           |
| Cash and cash equivalents* | ₱6,059,243,241 | ₱12,671,445,349                    | ₱-          | ₱23,831,576 | ₱18,754,520,166 |
| Restricted cash            | 778,038,403    | -                                  | -           | -           | 778,038,403     |
| 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

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, 2022 and 2021:

|                                      | 2022   |                |                   |                                   | Total           |
|--------------------------------------|--|----------------|-------------------|-----------------------------------|-----------------|
|                                      | Neither Past Due Nor Specifically Impaired<br>High Grade | Standard Grade | Substandard Grade | Past Due or Individually Impaired |                 |
| Cash and cash equivalents*           | ₱19,131,634,091  | ₱-             | ₱-                | ₱-                                | ₱19,131,634,091 |
| Restricted cash                      | 832,055,494  | -              | -                 | -                                 | 832,055,494     |
| Derivative financial assets at FVOCI | 60,911,157   | -              | -                 | -                                 | 60,911,157      |
| Receivables                          |  |                |                   |                                   |                 |
| Trade receivables                    | 1,667,922,557  | -              | -                 | 150,485,725                       | 1,818,408,282   |
| Due from related parties             | 780,713,926  | -              | -                 | -                                 | 780,713,926     |
| Interest receivable                  | 24,033,166   | -              | -                 | -                                 | 24,033,166      |
| Others**                             | 118,476,627  | -              | -                 | 83,812,624                        | 202,289,251     |
| Refundable deposits***               | 1,498,852,139  | -              | -                 | -                                 | 1,498,852,139   |
|                                      | ₱24,114,599,157  | ₱-             | ₱-                | ₱234,298,349                      | ₱24,348,897,506 |

\*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

|                            | 2021   |                |                   |                                   | Total           |
|----------------------------|--|----------------|-------------------|-----------------------------------|-----------------|
|                            | Neither Past Due Nor Specifically Impaired<br>High Grade | Standard Grade | Substandard Grade | Past Due or Individually Impaired |                 |
| Cash and cash equivalents* | ₱18,754,520,166  | ₱-             | ₱-                | ₱-                                | ₱18,754,520,166 |
| Restricted cash            | 778,038,403  | -              | -                 | -                                 | 778,038,403     |
| 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



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:

|                          | 2022                                |                           |            |            |             |                  |                             | Total                 |
|--------------------------|-------------------------------------|---------------------------|------------|------------|-------------|------------------|-----------------------------|-----------------------|
|                          | Neither Past<br>Due Nor<br>Impaired | Past Due But Not Impaired |            |            |             | Over<br>180 Days | Past<br>Due and<br>Impaired |                       |
|                          |                                     | 1-30 Days                 | 31-60 Days | 61-90 Days | 91-180 Days |                  |                             |                       |
| Trade receivables        | ₱1,667,922,557                      | ₱-                        | ₱-         | ₱-         | ₱-          | ₱-               | ₱150,485,725                | ₱1,818,408,282        |
| Due from related parties | 780,713,926                         | -                         | -          | -          | -           | -                | -                           | 780,713,926           |
| Interest receivable      | 24,033,166                          | -                         | -          | -          | -           | -                | -                           | 24,033,166            |
| Others                   | 118,476,627                         | -                         | -          | -          | -           | -                | 83,812,624                  | 202,289,251           |
|                          | <b>₱2,591,146,276</b>               | <b>₱-</b>                 | <b>₱-</b>  | <b>₱-</b>  | <b>₱-</b>   | <b>₱-</b>        | <b>₱234,298,349</b>         | <b>₱2,825,444,625</b> |

*Include nontrade receivables from insurance, employees and counterparties.*

|                          | 2021                                |                           |            |            |             |                  |                             | Total                 |
|--------------------------|-------------------------------------|---------------------------|------------|------------|-------------|------------------|-----------------------------|-----------------------|
|                          | Neither Past<br>Due Nor<br>Impaired | Past Due But Not Impaired |            |            |             | Over<br>180 Days | Past<br>Due and<br>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           |
|                          | <b>₱1,978,916,405</b>               | <b>₱-</b>                 | <b>₱-</b>  | <b>₱-</b>  | <b>₱-</b>   | <b>₱-</b>        | <b>₱276,540,368</b>         | <b>₱2,255,456,773</b> |

*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 ₱234.3 million and ₱276.5 million as of December 31, 2022 and 2021, 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, 2022 and 2021, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities' account in the consolidated statements of financial position) amounted to ₱80.4 million and ₱89.0 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, 2022 and 2021:

|   | 2022                           |                       |                        |                        |                        | Total                   |
|---|--------------------------------|-----------------------|------------------------|------------------------|------------------------|-------------------------|
|   | Less than one month to 1 month | >1 to 3 months        | >3 to 12 months        | >1 to 5 years          | >5 years               |                         |
| <b>Financial Assets</b>                           |                                |                       |                        |                        |                        |                         |
| Cash and cash equivalents                         | ₱19,175,471,185                | ₱-                    | ₱-                     | ₱-                     | ₱-                     | ₱19,175,471,185         |
| Restricted cash                                   | 832,055,494                    | -                     | -                      | -                      | -                      | 832,055,494             |
| Derivative financial assets at FVOCI              | -                              | -                     | 60,911,157             | -                      | -                      | 60,911,157              |
| Receivables:                                      |                                |                       |                        |                        |                        |                         |
| Trade receivables                                 | 1,818,408,282                  | -                     | -                      | -                      | -                      | 1,818,408,282           |
| Due from related parties*                         | 780,713,926                    | -                     | -                      | -                      | -                      | 780,713,926             |
| Interest receivable                               | 24,033,166                     | -                     | -                      | -                      | -                      | 24,033,166              |
| Others**  | 202,289,251                    | -                     | -                      | -                      | -                      | 202,289,251             |
| Refundable deposits                               | -                              | -                     | -                      | -                      | 1,498,852,139          | 1,498,852,139           |
|   | <b>₱22,832,971,304</b>         | <b>₱-</b>             | <b>₱60,911,157</b>     | <b>₱-</b>              | <b>₱1,498,852,139</b>  | <b>₱24,392,734,600</b>  |
| <b>Financial Liabilities</b>                      |                                |                       |                        |                        |                        |                         |
| Accounts payable and other accrued liabilities*** | ₱19,397,073,911                | ₱57,650,536           | ₱14,904,759            | ₱99,811,466            | ₱-                     | ₱19,569,440,672         |
| Due to related parties*                           | 37,729,742                     | -                     | -                      | -                      | -                      | 37,729,742              |
| Derivative financial liabilities at FVPL          | 846,835,509                    | -                     | -                      | -                      | -                      | 846,835,509             |
| Lease liability****                               | 625,101,965                    | 1,250,203,929         | 5,625,917,682          | 32,160,242,558         | 17,433,103,405         | 57,094,569,539          |
| Long-term debt*****                               | 234,081,430                    | 827,221,448           | 3,994,971,765          | 31,030,465,952         | 9,363,694,434          | 45,450,435,029          |
| Bonds payable*****                                | 54,012,656                     | 102,798,281           | 470,432,813            | 16,045,243,594         | -                      | 16,672,487,344          |
|   | <b>₱21,194,835,213</b>         | <b>₱2,237,874,194</b> | <b>₱10,106,227,019</b> | <b>₱79,335,763,570</b> | <b>₱26,796,797,839</b> | <b>₱139,671,497,835</b> |

\*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



|   | 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                         | ₱18,804,565,807                | ₱-             | ₱-              | ₱-              | ₱-              | ₱18,804,565,807  |
| 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    |
|   | ₱21,060,022,580                | ₱-             | ₱-              | ₱-              | ₱1,191,665,074  | ₱22,251,687,654  |
| 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

Refer to Note 1 on the measures taken by the Group to address liquidity gap as at December 31, 2022 and 2021.

#### 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 exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of December 31, 2022 and 2021 follow:

|                  | December 31, 2022          | December 31, 2021   |
|------------------|----------------------------|---------------------|
| US Dollar        | <b>₱55.755 to US\$1.00</b> | ₱50.999 to US\$1.00 |
| Singapore Dollar | <b>₱41.580 to SGD1.00</b>  | ₱37.555 to SGD1.00  |
| Hong Kong Dollar | <b>₱7.1996 to HKD1.00</b>  | ₱6.5101 to HKD1.00  |
| Japanese Yen     | <b>₱0.4174 to JPY1.00</b>  | ₱0.4413 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, 2022 and 2021 (in thousands):

|                                   | 2022         |            | 2021         |            | 2020         |            |
|-----------------------------------|--------------|------------|--------------|------------|--------------|------------|
|                                   | ₱2           | (₱2)       | ₱2           | (₱2)       | ₱2           | (₱2)       |
| Changes in foreign exchange value |              |            |              |            |              |            |
| Change in pre-tax income          | (₱1,794,625) | ₱1,794,625 | (₱2,150,031) | ₱2,150,031 | (₱1,729,036) | ₱1,729,036 |



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*

In 2020, 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 ₱1,681.7 million and ₱576.2 million for years December 31, 2022 and 2021, 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.

*Outstanding derivative contracts*

The tables below summarize the maturity profile of outstanding derivative contracts as of December 31, 2022 (nil in 2021):

|                                      | 2022          |                         |                          |                           |                     | Total        |
|--------------------------------------|---------------|-------------------------|--------------------------|---------------------------|---------------------|--------------|
|                                      | 1 to 3 months | More than 3 to 6 months | More than 6 to 12 months | More than 12 to 15 months | More than 15 months |              |
| <b>Interest rate swap contracts:</b> |               |                         |                          |                           |                     |              |
| Notional amount (in US\$)            | -             | \$86,400,000            | -                        | -                         | -                   | \$86,400,000 |



The impact of the hedge accounting on the consolidated statements of financial position as of December 31, 2022 and 2021 follows:

*December 31, 2022*

|                           | Change in fair value used in<br>measuring ineffectiveness for<br>the period | Cash flow hedge<br>reserve |
|---------------------------|---|----------------------------|
| Interest rate derivatives | <b>(₱838,604,814)</b>   | <b>(₱744,822,569)</b>      |

*December 31, 2021*

|                       | Change in fair value used in<br>measuring ineffectiveness for<br>the period | Cash flow hedge<br>reserve |
|-----------------------|---|----------------------------|
| Commodity derivatives | (₱406,498)  | (₱406,498)                 |

Roll forward of each component of equity and the analysis of the other comprehensive income (loss) follows:

|   | 2022                 | 2021          |
|---|----------------------|---------------|
| Balances at January 1   | <b>₱108,822,123</b>  | (₱66,291,759) |
| Effective portion of cash flow hedges:                                  |                      |               |
| Fuel hedges   | –                    | 3,177,320     |
| Interest rate hedge   | <b>787,014,615</b>   | –             |
| Amounts reclassified to profit or loss under the following<br>accounts: |                      |               |
| Aviation fuel expense (Note 25)   | –                    | 24,528,015    |
| Interest expense (Note 8)   | <b>(42,192,046)</b>  | –             |
| Actuarial gain (loss) on retirement liability                           | <b>(218,245,939)</b> | 210,443,808   |
| Tax effect  | <b>(131,644,157)</b> | (63,035,261)  |
| Balances at December 31   | <b>₱503,754,596</b>  | ₱108,822,123  |

*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).

Furthermore, the Group enters into interest rate derivative contracts to manage exposure to the volatility of interest rates on the leases of the expected aircraft deliveries (see Note 8).



The following tables show information about the Group's long-term debt that are exposed to interest rate risk as of December 31, 2022 and 2021 and are presented by maturity profile (see Note 18):

|   | 2022             |                  |                  |                  |                  |                  | Total             | Fair Value        |
|---|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
|   | <1-1 year        | >1-2 years       | >2-3 years       | >3-4 years       | >4-5 years       | >5 years         |                   |                   |
| <b>Commercial loans from banks</b><br>(in US Dollar; Note 18) | US\$32,524,939   | US\$33,513,360   | US\$34,542,373   | US\$95,175,604   | US\$57,593,749   | US\$111,248,543  | US\$364,598,568   | US\$321,695,462   |
| <b>US \$ loans</b> (in Philippine Peso)                       | ₱1,813,427,996   | ₱1,868,537,383   | ₱1,925,910,022   | ₱5,306,515,775   | ₱3,211,139,454   | ₱6,202,662,506   | ₱20,328,193,136   | ₱17,936,130,496   |
| <b>Commercial loans from banks</b><br>(in JPY; Note 18)       | JPY1,568,936,150 | JPY1,577,004,749 | JPY1,585,465,365 | JPY1,593,796,773 | JPY1,602,172,729 | JPY5,653,045,058 | JPY13,580,420,824 | JPY11,641,263,443 |
| <b>JPY loans</b> (in Philippine Peso)                         | ₱654,873,950     | ₱658,241,782     | ₱661,773,243     | ₱665,250,773     | ₱668,746,897     | ₱2,359,581,007   | ₱5,668,467,652    | ₱4,859,063,361    |
| <b>Commercial loans from banks</b><br>(Note 18)               | 1,231,110,764    | 3,559,918,166    | 2,593,956,240    | 1,523,162,940    | 867,999,778      | 4,606,673,732    | 14,382,821,620    | 16,832,972,553    |
|   | ₱3,699,412,710   | ₱6,086,697,331   | ₱5,181,639,505   | ₱7,494,929,488   | ₱4,747,886,129   | ₱13,168,917,245  | ₱40,379,482,408   | ₱39,628,166,410   |

|   | 2021             |                  |                  |                  |                  |                  | Total             | Fair Value        |
|---|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
|   | <1-1 year        | >1-2 years       | >2-3 years       | >3-4 years       | >4-5 years       | >5 years         |                   |                   |
| <b>Commercial loans from banks</b><br>(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   |
| <b>US \$ loans</b> (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   |
| <b>Commercial loans from banks</b><br>(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 |
| <b>JPY loans</b> (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    |
| <b>Commercial loans from banks</b><br>(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   |



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, 2022 and 2021.

|                           | 2022             |                | 2021           |              |
|---------------------------|------------------|----------------|----------------|--------------|
|                           | 1.50%            | (1.50%)        | 1.50%          | (1.50%)      |
| Changes in interest rates |                  |                |                |              |
| Changes in pre-tax income | (₱1,070,194,468) | ₱1,070,194,468 | (₱970,105,457) | ₱970,105,457 |

*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, 2022 and 2021:

|             | Change in Basis Points | Effect on Profit Before Tax |
|-------------|------------------------|-----------------------------|
| <b>2022</b> | <b>+200%</b>           | <b>(₱117,272,589)</b>       |
|             | <b>-200%</b>           | <b>270,781,896</b>          |
| 2021        | +200%                  | (₱48,358,442)               |
|             | -200%                  | 49,595,495                  |

### 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, 2022 and 2021:

|                                | 2022            |                 | 2021            |                 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                | Carrying Value  | Fair Value      | Carrying Value  | Fair Value      |
| <b>Financial Asset</b>         |                 |                 |                 |                 |
| Refundable deposits* (Note 15) | ₱1,498,852,139  | ₱1,010,955,047  | ₱1,191,665,074  | ₱1,190,442,968  |
| <b>Financial Liability:</b>    |                 |                 |                 |                 |
| Other financial liability:     |                 |                 |                 |                 |
| Long-term debt**(Note 18)      | ₱40,379,482,411 | ₱39,628,166,410 | ₱45,955,099,616 | ₱47,958,579,195 |

\*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 7% as of December 31 2022 and 2021.

*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 7% as of December 31, 2022 and 2021.



The tables below show the Group's financial instruments carried at fair value hierarchy classification:

|   | 2022    |                 |                | Total          |
|---|---------|-----------------|----------------|----------------|
|   | Level 1 | Level 2         | Level 3        |                |
| <b>Assets and liabilities measured at fair value:</b>                 |         |                 |                |                |
| Derivative financial assets at FVOCI                                  | ₱-      | ₱60,911,157     | ₱-             | ₱60,911,157    |
| Derivative financial liabilities at FVPL                              | ₱-      | ₱846,835,509    | ₱-             | ₱846,835,509   |
| <b>Assets and liabilities for which fair values are disclosed:</b>    |         |                 |                |                |
| Refundable deposits   | ₱-      | ₱-              | ₱1,010,955,047 | ₱1,010,955,047 |
| Long-term debt  | -       | 41,059,976,174  | -              | 41,059,976,174 |
| <hr/>   |         |                 |                |                |
|   | 2021    |                 |                | Total          |
|   | Level 1 | Level 2         | Level 3        |                |
| Liabilities measured at fair value:                                   |         |                 |                |                |
| Derivative financial liabilities at fair value through profit or loss | ₱-      | ₱1,730,960,768  | ₱-             | ₱1,730,960,768 |
| <hr/>   |         |                 |                |                |
| Assets and liabilities for which fair values are disclosed:           |         |                 |                |                |
| Refundable deposits   | ₱-      | ₱-              | ₱1,190,442,968 | ₱1,190,442,968 |
| Long-term debt  | -       | ₱47,958,579,196 | -              | 47,958,579,196 |

There were no transfers within any hierarchy level of fair value measurements for the years ended December 31, 2022 and 2021, 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 assets follow:

|                                     | 2022            | 2021            |
|-------------------------------------|-----------------|-----------------|
| Balance at January 1                | ₱44,296,825,552 | ₱29,427,181,754 |
| Additions                           | 22,483,271,639  | 19,890,217,462  |
| Deferred gain on sale and leaseback | (2,529,297,116) | (572,447,299)   |
| Retirement                          | (1,052,387,660) | (4,448,126,365) |
| Balance at December 31              | 63,198,412,415  | 44,296,825,552  |
| <b>Accumulated depreciation</b>     |                 |                 |
| Balance at January 1                | 13,975,864,019  | 11,757,413,134  |
| Depreciation expense                | 6,639,771,097   | 6,666,577,250   |
| Retirement                          | (808,182,128)   | (4,448,126,365) |
| Balance at December 31              | 19,807,452,988  | 13,975,864,019  |
|                                     | ₱43,390,959,427 | ₱30,320,961,533 |



The movement in lease liability follows:

|                       | 2022                   | 2021            |
|-----------------------|------------------------|-----------------|
| Balance at January 1  | <b>₱32,470,382,013</b> | ₱18,353,651,000 |
| Additions             | <b>22,483,271,639</b>  | 19,890,217,462  |
| Accretion of interest | <b>1,151,655,726</b>   | 493,863,414     |
| Payment               | <b>(7,313,010,731)</b> | (6,267,349,863) |
| Retirement            | <b>(343,734,954)</b>   | –               |
| Ending balance        | <b>48,448,563,693</b>  | 32,470,382,013  |
| Less: current portion | <b>5,851,121,778</b>   | 5,048,003,499   |
| Noncurrent portion    | <b>₱42,597,441,915</b> | ₱27,422,378,514 |

The following are the amounts recognized in the consolidated statement of comprehensive income for the years ended December 31, 2022, 2021 and 2020:

|   | 2022                  | 2021           | 2020           |
|---|-----------------------|----------------|----------------|
| Depreciation expense on right-of-use assets | <b>₱6,639,771,097</b> | ₱6,666,577,250 | ₱6,748,780,243 |
| Interest expense on lease liabilities       | <b>1,151,655,726</b>  | 493,863,414    | 486,414,472    |
| Rent expense on short-term leases           | <b>1,649,519,624</b>  | 796,340,708    | 696,833,566    |
|   | <b>₱9,440,946,447</b> | ₱7,956,781,372 | ₱7,932,028,281 |

The Group had total cash outflows for leases of ₱7,313.0 million, ₱6,267.3 million and ₱6,362.2 million in 2022, 2021 and 2020, respectively. The Group also had non-cash additions to right-of-use assets and lease liabilities of ₱22,483.3 million, ₱19,890.2 million and ₱6,729.6 million as of December 31, 2022, 2021, and 2020, 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                     | 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                   | October 2024                 |
| August 2018                    | JPA No. 119 Co. Ltd                              | 1                   | December 2024                |
| 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     |
| June 2022                      | Sky High 135 Leasing Company Limited             | 2                   | July 2032 - December 2032    |



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 one (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 (3) 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 (1) aircraft and three (3) 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 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 (2) 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.



In March 2022, the Group entered into a 10-year lease agreement with Jackson Square Aviation Ireland Limited for one (1) A320NEO aircraft which was delivered on April 22, 2022.

In June 2022 and December 2022, the Group entered into a 10-year lease agreement with Sky High 135 Leasing Company Limited for two (2) A320NEO aircraft which were delivered on July 14, 2022 and December 30, 2022, respectively.

*A321 aircraft*

In 2017, the Group acquired seven (7) A321 aircraft which were all delivered in 2018 under a finance lease arrangement.

As of December 31, 2022, all seven A321 aircraft have been converted into leases with terms ranging from 48 to 72 months.

*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 June 30, 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.

In November 2021, the Group entered into a 10-year lease agreement with Connolly Aviation Capital 6 Limited for one (1) A321NEO aircraft which was delivered on March 31, 2022.

*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.

In 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:

| <b>Date of Lease Agreement</b> | <b>Lessors</b>                                     | <b>No. of Units</b> | <b>Lease Term</b>                    |
|--------------------------------|--|---------------------|--------------------------------------|
| February 2012                  | CIT Aerospace International                        | 1                   |                                      |
| February 2012                  | Avolon Aerospace AOE 165 Limited                   | 1                   |                                      |
| July 2013                      | A330 MSN 1552 Limited and<br>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, 2022 and 2021, the Group has four (4) Airbus A330 aircraft under operating lease (see Note 12).

*A330NEO aircraft*

The Group entered into a 12-year lease with Avolon Leasing Ireland 3 Limited for four (4) A330NEO aircraft with different delivery dates.

The first two (2) A330NEO aircraft were delivered in November and December 2021. The third aircraft was delivered in May 2022 while the fourth aircraft was delivered in November 2022.

Engine Lease Commitments

The following table summarizes the specific lease agreements on the Group's engines:

| <b>Date of Lease Agreement</b> | <b>Lessors</b>              | <b>No. of Units</b> | <b>Lease Term</b>                      |
|--------------------------------|-----------------------------|---------------------|--|
| May 2019                       | RRPF Engine Leasing Limited | 10                  | 6-12 years with pre-termination option |
| September 2020                 | SMBC Aero Engine Lease B.V. | 8                   | 18 months – 9 years                    |
| December 2021                  | Crestone Air Partners, Inc. | 2                   | 4-7 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 and April 2022, two (2) CFM56 engine were amended to effect the novation of lease rights to current lessor, SUNRISE NON-US PO 1 LTD.

In 2022, the Group provided a notice to early terminate its operating lease agreement with RRPF Engine Leasing Limited for the lease of one (1) Trent 700 engine until February 2023.

In May and June 2022, the Group has entered into swap transactions to replace its two old (2) engines (ESN 729600 and ESN 697582) with new engines (ESN 849340 and ESN 849288) with its lessors. As a result of the exchange transactions, the Group recognized a gain of ₱99.5 million under 'Gain (loss) on disposal - net' in the consolidated statement of comprehensive income.

In August 2022, the Group entered into operating lease agreements as part of a sale and leaseback transaction with RRPF Engine Leasing Limited for the lease of two (2) PW1133G-JM engines and one (1) Trent 7000 engine.

In September 2022, the Group entered into operating lease agreements as part of a sale and leaseback transaction with SMBC Aero Engine Lease B.V. for four (4) PW1133GA-JM engines with lease term arrangements between seven (7) to nine (9) years.



In November 2022, the Group again entered into operating lease agreement as part of a sale and leaseback transaction with RRP Engine Leasing Limited for the lease of one (1) PW1133G-JM engines.

In 2022, the Group recognized gain on the sale portion of the above transactions amounting to ₱1,523.9 million recorded under 'Gain (loss) on disposal - net' in the consolidated statement of comprehensive income.

As of December 31, 2022 and 2021, 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 ₱1,093.4 million, ₱443.5 million, and ₱284.7 million in 2022, 2021, and 2020, respectively.

Future minimum lease payments under the above-indicated operating aircraft leases follow:

|   | 2022                     |                            | 2021                   |                            | 2020                   |                            |
|---|--------------------------|----------------------------|------------------------|----------------------------|------------------------|----------------------------|
|   | US Dollar                | Philippine Peso Equivalent | US Dollar              | Philippine Peso Equivalent | US Dollar              | Philippine Peso Equivalent |
| Within one year                             | US\$182,214,559          | ₱10,159,372,756            | US\$116,348,826        | ₱5,933,673,803             | US\$133,699,675        | ₱6,420,659,489             |
| After one year but not more than five years | 731,976,291              | 40,811,338,097             | 353,191,108            | 18,012,393,320             | 184,604,128            | 8,865,244,056              |
| Over five years                             | 474,231,261              | 26,440,763,968             | 237,732,932            | 12,124,141,820             | 54,027,209             | 2,594,548,640              |
|   | <b>US\$1,388,422,111</b> | <b>₱77,411,474,821</b>     | <b>US\$707,272,866</b> | <b>₱36,070,208,943</b>     | <b>US\$372,331,012</b> | <b>₱17,880,452,185</b>     |

#### 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:

|   | 2022                  | 2021                  | 2020                  |
|---|-----------------------|-----------------------|-----------------------|
| Within one year                             | <b>₱221,968,510</b>   | ₱217,233,256          | ₱224,965,425          |
| After one year but not more than five years | <b>943,617,379</b>    | 920,545,458           | 948,093,648           |
| Over five years                             | <b>4,351,363,919</b>  | 4,596,404,352         | 4,644,065,119         |
|   | <b>₱5,516,949,808</b> | <b>₱5,734,183,066</b> | <b>₱5,817,124,192</b> |

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 ₱556.1 million, ₱352.9 million and ₱412.2 million in 2022, 2021, and 2020, respectively.

#### Service Maintenance Commitments

On June 21, 2012, the Parent Company has 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 has entered into 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 (8) 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 (10) additional option orders. These aircraft are scheduled to be delivered from 2019 to 2026.

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 (10) 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, 2022.

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 (4) of which were delivered on various dates within 2019 and one (1) in January 2020.

On October 31, 2019 the Parent Company placed an order with Airbus S.A.S to purchase 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 16 A330NEO aircraft.

On December 19, 2019, the Parent Company placed an additional order with Airbus S.A.S for 15 A320NEO family aircraft which includes up to ten (10) A321XLR.

As of December 31, 2022, the Group is set to take delivery of twelve (12) A330 NEO aircraft, eleven (11) A321 NEO aircraft, twelve (12) 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 remained in effect as of December 31, 2022.



### Capital Expenditure Commitments

The Group's capital expenditure commitments for the next five (5) years relate principally to the acquisition of aircraft fleet, aggregating to ₱216,976.6 million and ₱183,849.0 million as of December 31, 2022 and 2021, respectively.

|   | 2022                     |                            |
|---|--------------------------|----------------------------|
|   | US Dollar                | Philippine Peso Equivalent |
| Within one year                             | US\$998,715,602          | ₱55,683,388,406            |
| After one year but not more than five years | 2,892,892,307            | 161,293,210,604            |
|   | <b>US\$3,891,607,909</b> | <b>₱216,976,599,010</b>    |

|   | 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            |
|   | <b>US\$3,604,952,858</b> | <b>₱183,848,990,783</b>    |

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.

## 34. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The changes in liabilities arising from financing activities in 2022 and 2021 follow:

|   | January 1, 2022        | Cash Flows               | Foreign Exchange Movement | Others*                | December 31, 2022       |
|---|------------------------|--------------------------|---------------------------|------------------------|-------------------------|
| Short-term debt                             | ₱4,462,412,500         | (₱5,161,625,000)         | ₱699,212,500              | ₱-                     | ₱-                      |
| Current portion of long-term debt           | 3,855,439,137          | (7,046,553,461)          | 121,617,332               | 6,768,909,702          | 3,699,412,710           |
| Long-term debt - net of current portion     | 42,099,660,479         | -                        | 1,349,318,921             | (6,768,909,702)        | 36,680,069,698          |
| Bonds payable                               | 12,184,836,126         | -                        | 1,138,579,757             | 99,906,711             | 13,423,322,594          |
| Lease liability                             | 32,470,382,013         | (7,313,010,731)          | -                         | 23,291,192,411         | 48,448,563,693          |
| Total liabilities from financing activities | <b>₱95,072,730,255</b> | <b>(₱19,521,189,192)</b> | <b>₱3,308,728,510</b>     | <b>₱23,391,099,122</b> | <b>₱102,251,368,695</b> |

\*Others consist of reclassification of loans and borrowings from noncurrent to current, additional lease liability, accretion of interest and amortization of bond issue costs

|   | January 1, 2021        | Cash Flows              | Foreign Exchange Movement | Others*                | December 31, 2021      |
|---|------------------------|-------------------------|---------------------------|------------------------|------------------------|
| Short-term debt                             | ₱4,802,300,000         | (₱57,692,500)           | ₱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 | <b>₱76,395,885,436</b> | <b>(₱3,410,841,375)</b> | <b>₱2,060,311,926</b>     | <b>₱20,027,374,268</b> | <b>₱95,072,730,255</b> |

\*Others consist of reclassification of loans and borrowings from noncurrent to current, additional lease liability, accretion of interest and amortization of bond issue costs

There are no principal noncash operating, investing and financing activities in 2022 and 2021.



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### 35. Registration with the BOI

As of December 31, 2022, the Parent Company is registered with the BOI as an operator of air transport on a non-pioneer status for 19 Airbus A320 NEO, seven (7) Airbus A321 CEO, 21 Airbus A321 NEO, one (1) Airbus A330 and 15 Airbus A330 NEO aircraft.

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):

- a. An ITH for a period of two to six years.
- b. 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, 2022 and 2021, the Parent Company has complied with capital requirements set by the BOI in order to avail the ITH incentives for aircraft of registered activity.



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### 36. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorized for issue by the BOD on March 27, 2023.

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### 37. Events After the Statement of Financial Position Date

#### Subsequent Delivery of ATR 72-500 Aircraft (RPC 7258)

On March 1, 2023, one of the ATR 72-500 aircraft which were classified as ‘Assets held for sale’ with manufacturer’s serial number 944 was sold to a buyer at ₱227.0 million, resulting to a gain of ₱0.6 million. Accordingly, as evidenced by a Bill of Sale and Acceptance Certificate, the Group conveyed to the buyer the good legal and beneficial title to the aircraft.

#### Listing of Vested RSUs

On January 23, 2023, the Parent Company advised the Philippine Stock Exchange that 1,327,000 common shares have been availed under Restricted Stock Units of its Long-Term Incentive Plan. These shares were listed on January 13, 2023. The RSUs vested on December 31, 2022 (see Note 23).

#### Continuing Impact of COVID-19 Outbreak

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. Since July 16, 2022, the National Capital Region (NCR) is under Alert Level 1 until further notice, according to the Philippine Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF). In the Situation Report regarding the epidemiological situation of the Philippines published by the World Health Organization (WHO), the trend of reported COVID 19 cases in the country is decreasing. However, in an extremely urgent memo, Memorandum No. 2022-0578 of the Department of Health (DOH), the country expressed its intention to intensify the monitoring and implementation of border control protocols for incoming individuals especially from China, at all ports of entry, in light of the rising cases of infections there. Despite of this, the National Government does not expect a need to close or tighten its national borders from all inbound travelers regardless of country of origin.

The COVID-19 pandemic has continued to cause significant disruption to the operations of the Group as its scale and duration remain uncertain as at the report date. The Group, however, is encouraged by the strong demand for airline services which started during the second quarter of 2022 and anticipates the same to continue as a result of the easing of COVID-19 restrictions in most parts of the country. The Group anticipates further recovery on the level of its domestic and international operations in 2023. Considering the evolving nature of the pandemic, the Group will continue to monitor the situation.

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### 38. 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, 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 amendments 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 amendments 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.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*  
The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed. The Group is still assessing the impact of the amendments to the consolidated financial statements.

#### 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 have no impact on the Group's consolidated financial statements.

#### Deferred Effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, 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. The amendments are not expected to have a material impact on the Group.



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Cebu Air, Inc.  
Level 4, Unit 4030 - 4031, Robinsons Galleria Cebu  
General Maxilom Avenue cor.  
Sergio Osmeña Boulevard, Cebu City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Cebu Air, Inc. and its Subsidiaries (the Group) as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, included in this Form 17-A and have issued our report thereon dated March 27, 2023. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Wenda Lynn M. Loyola

Partner

CPA Certificate No. 109952

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

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PTR No. 9564644, January 3, 2023, Makati City

March 27, 2023



## **CEBU AIR, INC. AND SUBSIDIARIES**

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### **SUPPLEMENTARY SCHEDULES**

**AS OF DECEMBER 31, 2022**

- I. Supplementary schedules required by Annex 68-J
  - A. Financial Assets (Current Marketable Equity and Debt Securities and Other Short-Term Cash Investments)
  - B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
  - C. Amounts Receivable from and Payable to Related Parties which are Eliminated during Consolidation of Financial Statements
  - D. Long-Term Debt
  - E. Indebtedness to Related Parties (Noncurrent)\*
  - F. Guarantees of Securities of Other Issuers\*
  - G. Capital Stock
  - H. Property, Plant and Equipment
  - I. Accumulated Depreciation
  - J. Intangible Assets and Other Assets\*

\*These schedules, which are required by Revised SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included/shown in the related consolidated financial statements or in the notes thereto.

- II. Map of the relationships of the companies within the group (Part 1, 4H)
- III. Schedule of Financial Soundness Indicators
- IV. Reconciliation of Retained Earnings Available for Dividend Declaration (Annex 68-D)

**CEBU AIR, INC. AND SUBSIDIARIES**  
**SCHEDULE A - FINANCIAL ASSETS**  
**(CURRENT MARKETABLE EQUITY AND DEBT SECURITIES AND OTHER SHORT-TERM CASH INVESTMENTS)**  
**DECEMBER 31, 2022**

| Name of Issuing Entity and<br>Description of Each Issue   | Amount Shown in<br>the Balance Sheet/<br>Notes | Value Based on<br>Market Quotations<br>at Balance Sheet Date | Income Received and<br>Accrued |
|---|--|--|--------------------------------|
| Various / USD Short-term cash investments                 | ₱9,862,816,859                                 | ₱9,862,816,859   | ₱-                             |
| Various / PHP Short-term cash investments                 | 5,248,060,437                                  | 5,248,060,437  | -                              |
| Various / KRW Short-term cash investments                 | 88,200,000                                     | 88,200,000   | -                              |
|   | <u>₱15,199,077,296</u>                         | <u>₱15,199,077,296</u>                                       | <u>₱-</u>                      |
| Derivative financial asset (interest rate<br>derivatives) | <u>₱60,911,157</u>                             | <u>₱60,911,157</u>   | <u>₱-</u>                      |

*See Notes 7 and 8 of the Consolidated Financial Statements.*

**CEBU AIR, INC. AND SUBSIDIARIES**  
**SCHEDULE B**  
**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS**  
**(OTHER THAN RELATED PARTIES)**  
**DECEMBER 31, 2022**

| Name and Designation<br>of Debtor | Balance<br>at Beginning<br>of Period | Additions  | Collections | Write Offs | Balance at End of Period |              |              |
|-----------------------------------|--------------------------------------|------------|-------------|------------|--------------------------|--------------|--------------|
|                                   |                                      |            |             |            | Current                  | Noncurrent   | Total        |
| Various employees                 | P418,512,853                         | P7,188,431 | P21,530,632 | P-         | P2,834,776               | P401,335,876 | P404,170,652 |

**CEBU AIR, INC. AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM AND PAYABLE TO RELATED PARTIES**  
**WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**I. Receivables**

| Name and Designation of Debtor                                | Balance at Beginning of Period | Additions      | Amounts Collected | Amounts Written Off | Balance at End of Period |            |              |
|---|--------------------------------|----------------|-------------------|---------------------|--------------------------|------------|--------------|
|   |                                |                |                   |                     | Current                  | Noncurrent | Total        |
| CEBGO, Inc.   | ₱221,781,815                   | ₱3,589,920,688 | ₱3,494,523,971    | ₱-                  | ₱317,178,532             | ₱-         | ₱317,178,532 |
| Aviation Partnership<br>(Philippines) Corporation<br>(A-plus) | 130,134,454                    | 92,959,451     | 54,363,725        | -                   | 168,730,180              | -          | 168,730,180  |

**II. Payables**

| Name and Designation of Creditor                              | Balance at Beginning of Period | Additions      | Amounts Paid   | Amounts Written Off | Balance at End of Period |            |              |
|---|--------------------------------|----------------|----------------|---------------------|--------------------------|------------|--------------|
|   |                                |                |                |                     | Current                  | Noncurrent | Total        |
| CEBGO, Inc.   | ₱178,208,332                   | ₱5,449,576,968 | ₱5,101,467,221 | ₱-                  | ₱526,318,079             | ₱-         | ₱526,318,079 |
| Aviation Partnership<br>(Philippines) Corporation<br>(A-plus) | 296,626,045                    | 514,638,746    | 597,546,441    | -                   | 213,718,350              | -          | 213,718,350  |

**CEBU AIR, INC. AND SUBSIDIARIES**  
**SCHEDULE D - LONG-TERM DEBT**  
**DECEMBER 31, 2022**

| Title of Issue and<br>Type of Obligation | Interest Rates                      | Maturity Dates                | Amount Shown under Caption<br>"Current Portion of Long-<br>term Debt" in Related Balance<br>Sheet | Amount Shown under Caption "Long-term<br>Debt – Net of Current Portion" in Related<br>Balance Sheet |
|--|-------------------------------------|-------------------------------|---|---|
| Commercial loans from banks              | 1.00% to 8.00%<br>(US Dollar LIBOR) | Various dates<br>through 2030 | ₱1,813,427,996  | ₱18,514,765,140   |
| Commercial loans from banks              | Less than 1.00%<br>(JPY TONA)       | Various dates<br>through 2029 | 654,873,950   | 5,013,593,702   |
| Commercial loans from banks              | 2.00% to 5.00%<br>(PHP BVAL)        | Various dates<br>Through 2028 | 644,444,097   | 13,151,710,856  |
| Term loan from bank                      | 4.8% fixed interest rate            | 2023                          | 586,666,667   | –   |
| Total                                    |                                     |                               | ₱3,699,412,710  | ₱36,680,069,698   |

| Title of Issue and<br>Type of Obligation | Interest Rates | Maturity Dates | Amount Shown under Caption<br>"Bonds Payable" in Related<br>Balance Sheet |
|--|----------------|----------------|---|
| Convertible bonds                        | 4.5%           | May 10, 2027   | ₱13,423,322,594   |

*See Notes 18 and 19 of the Consolidated Financial Statements*

**CEBU AIR, INC. AND SUBSIDIARIES**  
**SCHEDULE G**  
**CAPITAL STOCK**  
**DECEMBER 31, 2022**

| Title of Issue  | Number of Shares Authorized | Number of Shares Issued and Outstanding as Shown under Related Balance Sheet Caption | Number of Shares Reserved for Options, Warrants, Conversion and Other Rights | Number of Shares Held by |                                   |             |
|-----------------|-----------------------------|--|--|--------------------------|-----------------------------------|-------------|
|                 |                             |  |  | Affiliates               | Directors, Officers and Employees | Others      |
| Common Stock    | 1,340,000,000               | 616,313,711  | 328,826,846  | 407,412,031              | 2,619,131                         | 206,282,549 |
| Preferred Stock | 400,000,000                 | 314,044,357  | 314,044,357  | 245,181,064              | –                                 | 68,863,293  |

*See Notes 22 and 23 of the Consolidated Financial Statements.*

**CEBU AIR, INC. AND SUBSIDIARIES**  
**SCHEDULE H – PROPERTY AND EQUIPMENT**  
**DECEMBER 31, 2022**

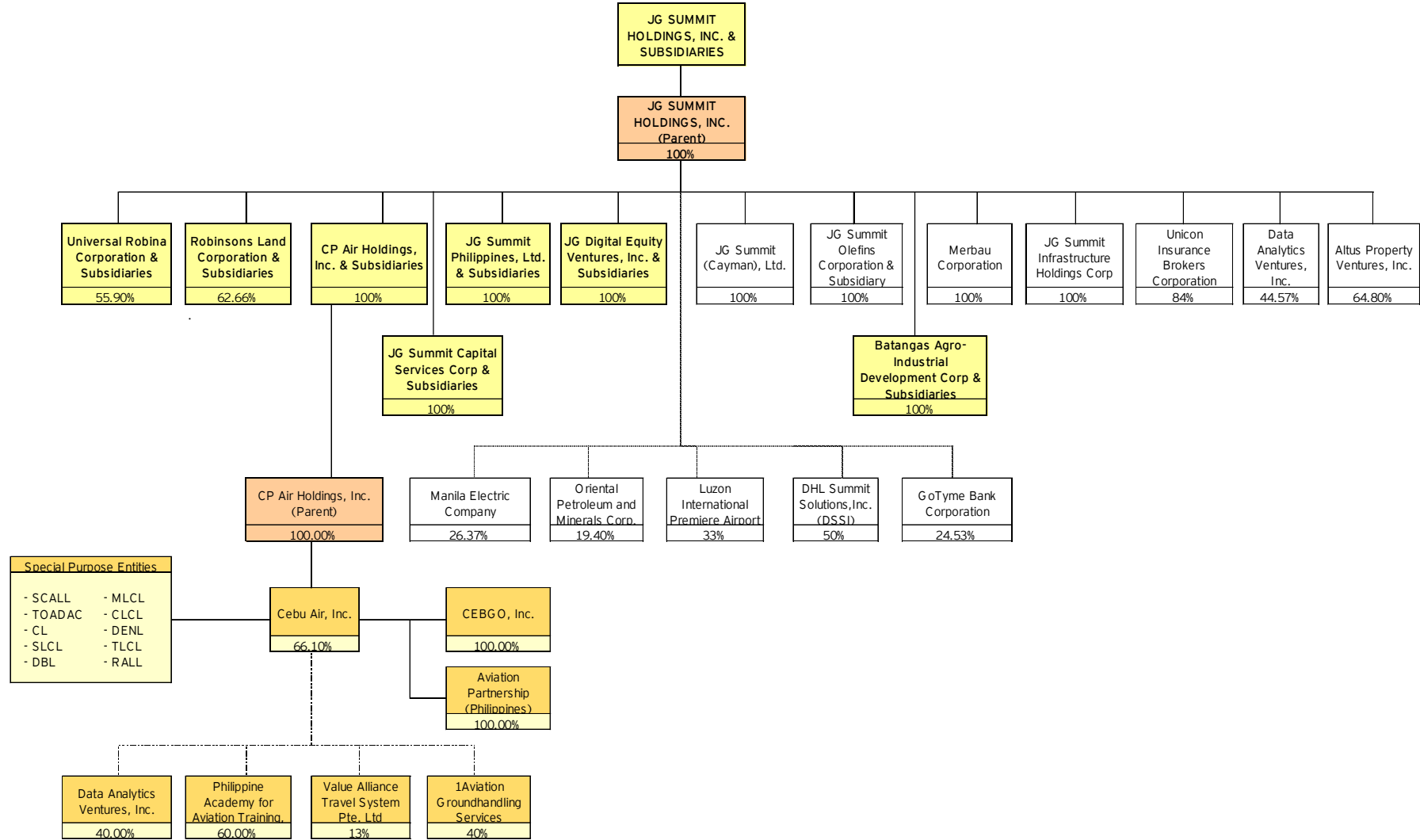
| Classification                           | Balance<br>at Beginning<br>of Period | Additions<br>at Cost  | Reclassification        | Disposals and<br>Others  | Balance<br>at End<br>of Period |
|--|--------------------------------------|-----------------------|-------------------------|--------------------------|--------------------------------|
| Passenger Aircraft                       | ₱70,571,395,818                      | ₱451,609,840          | (₱3,604,036,707)        | (₱5,396,863,612)         | ₱62,022,105,339                |
| Engines                                  | 7,704,900,810                        | 3,060,050,951         | 126,832,500             | (5,034,256,499)          | 5,857,527,762                  |
| Rotables                                 | 5,606,092,282                        | 631,244,897           | –                       | (1,325,196,127)          | 4,912,141,052                  |
| Ground Support Equipment                 | 1,446,394,339                        | 53,444,806            | –                       | (377,142,801)            | 1,122,696,344                  |
| EDP Equipment, Mainframe and Peripherals | 1,347,535,177                        | 53,563,622            | –                       | (608,548,054)            | 792,550,745                    |
| Building and Leasehold Improvements      | 1,998,887,919                        | 132,145               | 57,861,540              | (39,339)                 | 2,056,842,265                  |
| Transportation Equipment                 | 481,118,128                          | 1,587,321             | –                       | (136,952,309)            | 345,753,140                    |
| Furniture, Fixtures and Office Equipment | 367,587,881                          | 3,969,116             | –                       | (205,232,352)            | 166,324,645                    |
| Communication Equipment                  | 50,706,060                           | 2,834,750             | –                       | (32,557,685)             | 20,983,125                     |
| Special Tools                            | 140,414,509                          | 1,904,587             | –                       | (16,625,925)             | 125,693,171                    |
| Maintenance and Test Equipment           | 373,840,344                          | 7,025,030             | –                       | (178,861,583)            | 202,003,791                    |
| Other Equipment                          | 263,898,277                          | 323,661               | –                       | (112,597,786)            | 151,624,152                    |
| Construction In-progress                 | 14,708,259,949                       | 5,515,079,123         | (184,694,040)           | (5,807,816,618)          | 14,230,828,414                 |
|  | <u>₱105,061,031,493</u>              | <u>₱9,782,769,849</u> | <u>(₱3,604,036,707)</u> | <u>(₱19,232,690,690)</u> | <u>₱92,007,073,945</u>         |

**CEBU AIR, INC. AND SUBSIDIARIES**  
**SCHEDULE I - ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2022**

| Classification                           | Balance<br>at Beginning<br>of Period | Depreciation          | Reclassification        | Disposals and<br>Others | Balance<br>at End<br>of Period |
|--|--------------------------------------|-----------------------|-------------------------|-------------------------|--------------------------------|
| Passenger Aircraft                       | ₱18,607,403,432                      | ₱4,188,056,537        | (₱2,697,420,580)        | (₱2,505,512,673)        | ₱17,592,526,716                |
| Engines                                  | 5,073,951,895                        | 387,749,875           | -                       | (1,086,799,694)         | 4,374,902,076                  |
| Rotables                                 | 2,156,610,037                        | 376,984,883           | -                       | (929,688,883)           | 1,603,906,037                  |
| Ground Support Equipment                 | 1,066,840,425                        | 168,123,522           | -                       | (350,286,142)           | 884,677,805                    |
| EDP Equipment, Mainframe and Peripherals | 1,270,266,088                        | 61,657,370            | -                       | (607,733,963)           | 724,189,495                    |
| Building and Leasehold Improvements      | 1,203,804,678                        | 138,936,691           | -                       | (39,339)                | 1,342,702,030                  |
| Transportation Equipment                 | 382,881,130                          | 48,108,689            | -                       | (136,198,029)           | 294,791,790                    |
| Furniture, Fixtures and Office Equipment | 319,749,606                          | 27,357,888            | -                       | (200,571,229)           | 146,536,265                    |
| Communication Equipment                  | 48,565,263                           | 1,351,265             | -                       | (31,973,314)            | 17,943,214                     |
| Special Tools                            | 126,412,133                          | 7,167,822             | -                       | (16,256,137)            | 117,323,818                    |
| Maintenance and Test Equipment           | 325,452,836                          | 16,394,926            | -                       | (166,297,121)           | 175,550,641                    |
| Other Equipment                          | 186,791,277                          | 31,203,466            | -                       | (109,990,641)           | 108,004,102                    |
|  | <u>₱30,768,728,800</u>               | <u>₱5,453,092,934</u> | <u>(₱2,697,420,580)</u> | <u>(₱6,141,347,165)</u> | <u>₱27,383,053,989</u>         |

# CEBU AIR, INC. AND SUBSIDIARIES

## MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP AS OF DECEMBER 31, 2022



## **INDEPENDENT AUDITOR'S REPORT COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Stockholders and the Board of Directors  
Cebu Air, Inc.  
Level 4, Unit 4030 - 4031, Robinsons Galleria Cebu  
General Maxilom Avenue cor.  
Sergio Osmeña Boulevard, Cebu City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Cebu Air, Inc. and its Subsidiaries (the Group) as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated March 27, 2023. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

*Wenda Lynn M. Loyola*

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. 9564644, January 3, 2023, Makati City

March 27, 2023



**CEBU AIR, INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**

The following are the financial ratios that the Group monitors in measuring and analyzing its financial soundness:

|                                 | <b>Formula</b>  | <b>2022</b>     | <b>2021</b> |
|---------------------------------|---|-----------------|-------------|
| <b>Liquidity Ratios</b>         |   |                 |             |
| Current Ratio                   | $\frac{\text{Current assets}}{\text{Current liabilities}}$  | <b>68%</b>      | 74%         |
| Quick Ratio                     | $\frac{\text{Current assets} - \text{Inventories and other current assets}}{\text{Current liabilities}}$  | <b>52%</b>      | 61%         |
| <b>Capital Structure Ratios</b> |   |                 |             |
| Asset to Equity Ratio (x)       | $\frac{\text{Total assets}}{\text{Total equity}}$   | <b>(51.00)</b>  | 13.03       |
| Interest Coverage Ratio (x)     | $\frac{\text{Total revenues} - \text{Operating expenses}}{\text{Interest expense}}$   | <b>3.72</b>     | 9.36        |
| <b>Profitability Ratios</b>     |   |                 |             |
| EBITDAR Margin                  | $\frac{\text{Total revenues} - \text{Operating expenses} + \text{Depreciation and amortization} + \text{Provision for asset retirement obligation and heavy maintenance visits} + \text{Aircraft and engine lease expense}}{\text{Total revenues}}$ | <b>15.0%</b>    | (25.0%)     |
| EBIT Margin                     | $\frac{\text{Total revenues} - \text{Operating expenses}}{\text{Total revenues}}$   | <b>(20.1%)</b>  | (147.1%)    |
| Pre-tax core net income margin  | $\frac{\text{Total revenues} - \text{Operating expenses} + \text{Interest Income} - \text{Interest expense} + (-) \text{Equity in net income (loss) of joint ventures and associates}}{\text{Total revenues}}$                                      | <b>(25.8%)</b>  | (163.7%)    |
| Return on asset                 | $\frac{\text{Net income (loss)}}{\text{Average total assets}}$  | <b>(9.8%)</b>   | (18.7%)     |
| Return on equity                | $\frac{\text{Net income (loss)}}{\text{Average total equity}}$  | <b>(361.9%)</b> | (149.5%)    |

**INDEPENDENT AUDITOR'S REPORT  
ON THE SCHEDULE OF RECONCILIATION  
OF RETAINED EARNINGS AVAILABLE  
FOR DIVIDEND DECLARATION**

The Stockholders and the Board of Directors  
Cebu Air, Inc.  
Level 4, Unit 4030 - 4031, Robinsons Galleria Cebu  
General Maxilom Avenue cor.  
Sergio Osmeña Boulevard, Cebu City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Cebu Air, Inc. and its Subsidiaries (the Group) as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated March 27, 2023. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Supplementary Schedule of Retained Earnings Available for Dividend Declaration as of December 31, 2022 is the responsibility of the Group's management. This schedule is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and is not part of the basic consolidated financial statements. This has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

*Wenda Lynn M. Loyola*

Wenda Lynn M. Loyola

Partner

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PTR No. 9564644, January 3, 2023, Makati City

March 27, 2023



**CEBU AIR, INC. AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

The table below presents the retained earnings available for dividend declaration as of December 31, 2022:

|   |                  |                   |
|---|------------------|-------------------|
| Unappropriated Retained Earnings, beginning   |                  | (₱10,678,526,712) |
| Adjustments:  |                  |                   |
| Fair value adjustment arising from derivative financial instruments                             | 2,005,836,197    |                   |
| Unrealized foreign exchange gain  | (2,268,014,842)  |                   |
| Unrealized gain on remeasurement  | (182,458,444)    |                   |
| Recognized deferred tax assets  | (5,515,717,143)  |                   |
| Impairment loss   | 43,713,922       |                   |
| Treasury stock  | (950,881,502)    | (6,867,521,812)   |
| Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning |                  | (17,546,048,524)  |
| Add (less): Net income actually earned/realized during the year:                                |                  |                   |
| Net loss during the period closed to Retained Earnings  | (13,928,904,813) |                   |
| Recognized deferred tax asset   | (1,857,914,918)  |                   |
| Market valuation gains on derivative financial instruments                                      | (977,907,505)    |                   |
| Impairment loss   | 86,746,894       |                   |
| Unrealized foreign exchange losses  | 3,801,345,716    | (12,876,634,626)  |
|   |                  | (30,422,683,150)  |
| Add (less):   |                  |                   |
| Reversal of appropriations  |                  | —                 |
| Total Retained Earnings available for dividend declaration as of December 31, 2022              |                  | (₱30,422,683,150) |

**Cebu Air, Inc.**  
**2022 Sustainability Report**  
**In compliance with SEC Sustainability Reporting Guidelines**  
**for Publicly Listed Companies**

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|    | Environmental, Social & Governance Questionnaire               | 37          |

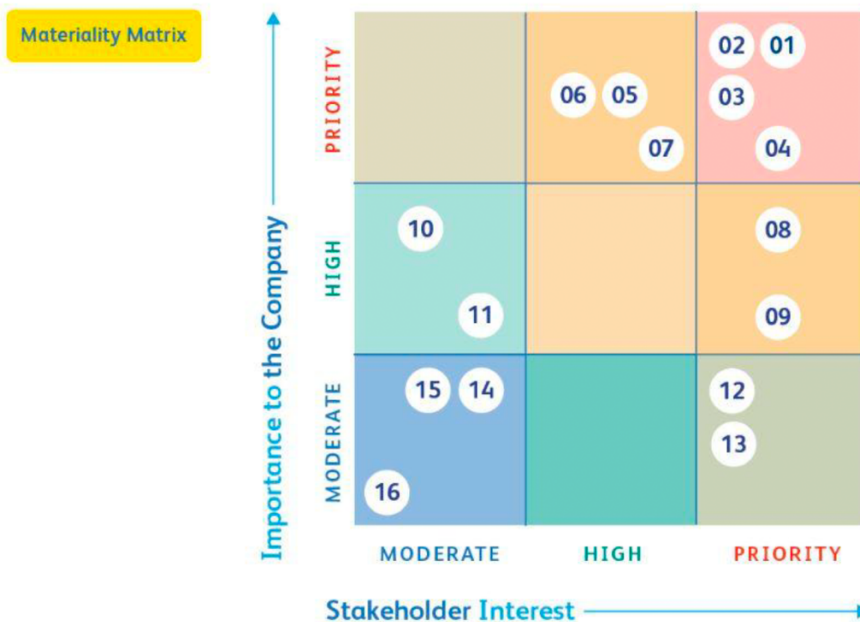
## CONTEXTUAL INFORMATION

|   |  |
|---|--|
| <b>Name of Organization</b>   | Cebu Air, Inc.<br>(Operates under the trade names “Cebu Pacific” and “Cebu Pacific Air”)   |
| <b>Location of Headquarters</b>   | Cebu Pacific Building<br>Domestic Airport Road<br>Pasay City, 1301 Philippines   |
| <b>Location of Operations</b>   | Cebu Pacific’s network spans operations in Southeast Asia, North Asia, the Middle East, and Australia. As of March 2023, the Company operates 35 domestic stations and 70 domestic routes, as well as 25 international stations and 38 international routes.   |
| <b>Report Boundary</b>  | This report covers operations, commercial, and support activities of Cebu Air, Inc. and its subsidiaries, Cebgo, Inc., and Aviation Partnership Philippines Corporation, for the calendar year 2022.   |
| <b>Business model, including primary activities, brands, products, services</b> | <p>Cebu Air, Inc. is the leading low-cost carrier in the Philippines. It pioneered the “low fare, great value” strategy in the local aviation industry by providing reliable scheduled air travel services to passengers at fares that are lower than those offered by traditional full-service airlines.</p> <p>Cebu Pacific is also the preferred air cargo carrier in the Philippines, providing competitive, fast, and straightforward air cargo services through an extensive network of individual shippers and cargo agents.</p> <p>In addition to passenger service and airport-to-airport cargo services, the Company also offers ancillary services such as travel insurance, in-flight merchandise, baggage, and travel-related products and services.</p> <p>Aviation Partnership Philippines Corporation, also known as Aplus, is a maintenance, repair and overhaul (MRO) provider. It is engaged in the business of line maintenance and aircraft servicing, including the provision of equipment for pushback and aircraft ground support.</p> |
| <b>Reporting Period</b>   | 01 January 2022 – 31 December 2022   |
| <b>Highest Ranking Person responsible for this report</b>                       | Jose Alejandro B. Reyes<br>Chief Strategy Officer<br><a href="mailto:CEBsustainability@cebupacificair.com">CEBsustainability@cebupacificair.com</a>  |

## MATERIALITY PROCESS

Cebu Pacific’s materiality assessment focuses its efforts on ESG topics and provides an avenue for the Company to strengthen its sustainability strategy. Reinforcing Cebu Pacific’s sustainability pillars and strategy are the material topics below ranked in order of importance to the Company and its stakeholders.

Topics essential to Cebu Pacific stakeholders that shape its sustainability strategy were identified in a survey and supplemented with research and guidance materials. Sustainability topics identified by the SEC and the International Air Transport Association (IATA) and those tackled in Cebu Pacific’s previous sustainability reports have been consolidated in the materiality assessment survey.



| Sustainability Pillar            | Our Identified Topics  |
|----------------------------------|--|
| <b>S</b> Growing as Juan Family  | 2 Occupational Health and Safety   |
|                                  | 3 Training / People and Development  |
|                                  | 6 Employment and Workforce Management / Labor Practices                                    |
|                                  | 7 Product and Service Innovation   |
|                                  | 16 Customer Support & Complaints Management  |
| <b>E</b> Caring for Juan Planet  | 8 Environmental Impact and Management  |
|                                  | 9 Waste and Effluents  |
|                                  | 10 Procurement Practices, Supplier and Contractor Management / Supply Chain Sustainability |
| <b>G</b> Building Juan Community | 1 Financial / Economic Performance   |
|                                  | 4 Product Quality  |
|                                  | 5 Corporate Governance and Socio-Economic Compliance                                       |
|                                  | 11 Partnership for Development   |
|                                  | 12 Customer Privacy  |
|                                  | 13 Gender Equality & Discrimination  |
|                                  | 14 Governance Structure & Delegating Authority   |
| 15 Marketing and Labeling        |  |

## ECONOMIC

### Economic Performance

#### Direct Economic Value Generated and Distributed

| Disclosure   | 2021 Amount             | 2022 Amount             | Units      |
|--|-------------------------|-------------------------|------------|
| Direct economic value generated (revenue)                                  | 15,602,804,603          | 56,946,360,605          | Php        |
| Direct economic value distributed:   | 41,318,045,222          | 71,570,280,038          | Php        |
| a. Operating costs   | 15,174,202,068          | 14,686,338,601          | Php        |
| b. Employee wages and benefits   | 3,244,741,375           | 5,482,907,997           | Php        |
| c. Payments to suppliers, other operating costs                            | 20,354,393,063          | 47,996,640,130          | Php        |
| d. Dividends given to stockholders and interest payments to loan providers | 2,511,760,313           | 3,381,926,823           | Php        |
| e. Taxes given to the government   | 28,724,503              | 21,876,769              | Php        |
| f. Investments to the community (donations, CSR)                           | 4,223,900               | 589,718                 | Php        |
| <b>Economic Value Retained</b>   | <b>(25,715,240,619)</b> | <b>(14,623,919,433)</b> | <b>Php</b> |

|                            |   |
|----------------------------|---|
| <b>IMPACT</b>              | Cebu Pacific remained resilient in its commitment to providing safe and affordable air transport to its customers, amidst the significant challenges COVID-19 posed in 2022 to the travel and tourism industry. Likewise, it continued to fulfill its financial obligations and commitments to its stakeholders.  |
| <b>STAKEHOLDERS</b>        | Customers, Employees, Suppliers, Government, Community, Investors   |
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific is constantly reviewing and updating its fleet. In 2022, its total passenger fleet was 70 aircraft with an average age of 6.1 years. The Company flew over 14.8 million passengers for the year on 108,329 domestic and international flights. It also transported 129,460 tonnes of cargo. As a result, it strengthened its position as the Philippines' leading carrier with a 57% domestic market share for the year. Easing in various travel regulations and strong recovery in passenger demand, drove the Company's recovery in 2022.   |
| <b>RISKS</b>               | <p>Following are the major business risks that Cebu Pacific faces.</p> <ol style="list-style-type: none"> <li>1. Cost and availability of fuel</li> <li>2. Competition</li> <li>3. Economic downturn</li> <li>4. Availability of debt financing</li> <li>5. Finance lease of aircraft</li> <li>6. Foreign exchange and interest rate fluctuations</li> <li>7. Airport and air traffic control infrastructure constraints</li> <li>8. Reliance on third-party facilities, service providers, and sales outlets</li> <li>9. Maintenance cost and performance of maintenance repair organizations</li> <li>10. Reliance on information technology, automated systems, and the internet</li> <li>11. Retaining and attracting qualified personnel</li> <li>12. Availability of experienced pilots</li> <li>13. Availability of insurance</li> <li>14. Unionization, work stoppages, slowdowns, and increased labor costs</li> </ol> |

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15. Event of an accident or incident involving its aircraft
  16. Any real or perceived problems with Original Equipment Manufacturers (OEM), such as Airbus and ATR, including aircraft delivery delays
  17. Dependency on JG Summit Holdings, Inc. for various support services
  18. Restrictions under the Philippine Constitution and other laws
  19. The State may take over Cebu Pacific's business in the event of war, insurrection, domestic crisis, public calamity, or national emergency
  20. Domestic concentration
  21. Geo-political events
  22. Aviation related regulations
  23. Mobility restrictions brought about by pandemic and regional outbreak
- 

- OPPORTUNITIES**
- Large and growing opportunity in the domestic market for a low-cost carrier
  - Growing cargo demand in the region
  - Reopening of international markets
- 

### **Climate-Related Risks and Opportunities**

Cebu Pacific is aligned with the aviation industry's global goals to address the impacts of climate change. Specifically:

- The airline industry's fly Net Zero commitment to achieve net zero emissions by 2050, made by the International Air Transport Association in 2021. Cebu Pacific has been an active member of IATA since 2019.
- The International Civil Aviation Organization's (ICAO) adopted the long-term global aspirational goal (LTAG) for international aviation of net-zero carbon emissions by 2050.

To manage emissions from international aviation, the ICAO launched CORSIA or the Carbon Offsetting and Reduction Scheme for International Aviation. The program aims to cap carbon emissions from international aviation at 85% of 2019 levels.

By 2027, international carbon emissions offsetting will be mandatory. Emissions above the set baseline will have to be compensated through the purchase of carbon credits.

Furthermore, extreme weather events brought about by climate change may lead to flight cancellations, disrupted operations, and damage to facilities.

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**GOVERNANCE** Enterprise-wide risk assessment and reporting in Cebu Pacific is delegated to three Management level committees: the Data Privacy, Business Continuity, and Sustainability Board (DBSB), the Airline Safety Review Committee (ASRC), and the Treasury Risk Management Committee (TRM).

Specifically, environmental risks and climate-related risks are monitored, addressed, and reported by Cebu Pacific's Corporate Strategy Office, which is headed by the Chief Strategy Officer and the Director for Corporate Strategy and Sustainability. Environmental performance in areas such as GHG emissions, carbon intensity, energy and water consumption, and waste generation, among others, are monitored and reported during the monthly DBSB meeting. The Sustainability Manager is responsible for the monitoring and reporting of said metrics.

|                            |   |
|----------------------------|---|
| <b>STRATEGY</b>            | <p>Anchored on its Caring for Juan Planet environmental pillar, Cebu Pacific’s sustainability goal aligns with global aviation’s commitment to achieve net-zero carbon emissions by 2050. Hence, the Company has put in place a robust decarbonization strategy based on five pillars – Fundamentals, Fleet, Fuel, Footprint, and Finance, as explained in the illustration below.</p> <p>To further strengthen its sustainability commitment to environmental stewardship, in 2023, Cebu Pacific is partnering with a third-party climate advisory group to conduct a detailed inventory of its greenhouse gas emissions generated from its operations. The Company also aims to set near-term and long-term emission reduction pathways aligned with climate science and with global temperature targets. It will also work on identifying short-, medium-, and long-term physical and transition risks for effective integration of climate-related risks into its management processes.</p>   |
| <b>RISK MANAGEMENT</b>     | <p>Aircraft operations emit significant volume of CO<sub>2</sub> into the atmosphere. Hence, Cebu Pacific is working continuously to reduce CO<sub>2</sub> emissions and minimize the environmental impact of its operations.</p> <p>The Company has put in place measures to keep fuel utilization efficient via investments in management systems, implementation of fuel efficiency best practices, and the use of more fuel-efficient aircraft.</p> <p>Flying fuel-efficient aircraft is integrated into the Company’s long-term strategy, enabling it to carry more passengers and cargo while consuming less fuel and minimizing carbon emissions.</p> <p>Cebu Pacific discloses its carbon emissions to the Civil Aviation Authority of the Philippines (CAAP). The Company is exploring opportunities for voluntary carbon offsetting to compensate for emissions. Pricing of carbon emissions and offsets may result in increased operating or higher compliance costs.</p> <p>To mitigate the risks associated with extreme weather events, Cebu Pacific invested in a state-of-the-art weather forecasting system, which enables the flight crew to access reliable typhoon paths. This allows them to make timely decisions to mitigate operational risks arising from inclement weather.</p> |
| <b>METRICS AND TARGETS</b> | <ul style="list-style-type: none"> <li>• GHG emissions from flights: 1,143,487 tonnes CO<sub>2</sub>e (167% increase vs. 2021)</li> <li>• Fuel Efficiency: 24.6 pax-km/L (8% improvement vs. 2021)</li> <li>• GHG intensity: 103 gCO<sub>2</sub>/RPK (45% improvement vs. 2021)</li> <li>• Average fleet age: 6.1 years (vs. 6.4 years in 2021)</li> <li>• Number of canceled flights due to weather conditions: 702 flights</li> </ul>   |

# DECARBONIZATION STRATEGY



| FUNDAMENTALS   | FLEET   | FUEL   | FOOTPRINT   | FINANCE  |
|--|---|--|---|--|
| <ul style="list-style-type: none"> <li>Instill sustainability mindset in company culture and ethos</li> <li>Embed sustainability mindset within the organization</li> <li>Understanding of greenhouse gas emissions inventory</li> </ul> | <ul style="list-style-type: none"> <li>Fleet modernization through next-gen Airbus NEOs</li> <li>Roll out of electric vehicles and electric ground service equipment</li> <li>Acquisition of low carbon emission, new propulsion technology aircraft</li> </ul> | <ul style="list-style-type: none"> <li>Enhancement of fuel-efficient practices in operations and engineering</li> <li>Transition to sustainable aviation fuel (SAF)</li> <li>Development of SAF supply for the entire CEB network</li> </ul> | <ul style="list-style-type: none"> <li>Shift to renewable energy</li> <li>Reduction of water and waste impacts</li> <li>Digitalization of operations</li> <li>Investment in carbon removals and offsetting</li> </ul> | <ul style="list-style-type: none"> <li>Utilization of sustainable financing</li> <li>Incorporation of climate responsibility in business continuity and investments</li> </ul> |

## Procurement Practices

Proportion of spending on local suppliers (for non-aircraft purchases)

| Disclosure   | Quantity | Units |
|--|----------|-------|
| Percentage of procurement budget used for significant locations of operations spent on local suppliers | 62       | %     |

|                            |   |
|----------------------------|---|
| <b>IMPACT</b>              | Cebu Pacific continues to support Filipino companies by purchasing from local suppliers, contributing to local economic growth and job creation. This results in faster delivery lead time, effective logistics and warehousing, reasonable pricing conditions, and advantageous after sales service.   |
| <b>MANAGEMENT APPROACH</b> | <p>Cebu Pacific deals with both local and foreign suppliers for non-aircraft purchases. The data reported above covers non-aircraft related purchases only.</p> <p>Cebu Pacific's accreditation process is handled internally and is based on the technical evaluation and recommendation of internal end-users on the potential product for purchase.</p> <p>Top non-aircraft purchases include ground service parts and services, catering, IT software and hardware, and safety and security services.</p> <p>Most aircraft-related items and services are not available locally. These include the purchase of aircraft, aircraft parts, fuel, and support services in international stations where Cebu Pacific operates. Procurement involving foreign suppliers follows a specialized process.</p> |
| <b>RISKS</b>               | <ul style="list-style-type: none"> <li>Local suppliers may not be able to deliver goods and services according to standards.</li> <li>Longer lead-time for overseas suppliers</li> <li>Delivery delays due to raw materials shipped from overseas</li> </ul>  |
| <b>OPPORTUNITIES</b>       | For non-aircraft items such as catering, general office supplies, or ground service parts, Cebu Pacific is working with local suppliers to develop capabilities to produce items typically ordered from overseas.   |

## **Anti-Corruption**

### **Training on Anti-Corruption Policies and Procedures**

| <b>Disclosure</b>  | <b>Quantity</b> | <b>Units</b> |
|--|-----------------|--------------|
| Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to         | 100             | %            |
| Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to | 100             | %            |
| Percentage of directors and management that have received anti-corruption training   | 100             | %            |
| Percentage of employees that have received anti-corruption training  | 100             | %            |

### **Incidents of Corruption**

| <b>Disclosure</b>   | <b>Quantity</b> | <b>Units</b> |
|---|-----------------|--------------|
| Number of incidents in which directors were removed or disciplined for corruption         | 0               | #            |
| Number of incidents in which employees were removed or disciplined for corruption         | 0               | #            |
| Number of incidents in which business partners were removed or disciplined for corruption | 0               | #            |

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**IMPACT** Communication and transparent anti-corruption policies across the organization facilitate a culture of trust. Furthermore, awareness of airline policies and sanctions are crucial for preventing incidents from happening.

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**STAKEHOLDERS** Employees, Directors, Management

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**MANAGEMENT APPROACH** Cebu Pacific has a standing Anti-Bribery and Corruption Policy. The policy states that the Company is committed to the highest standards of integrity as set out in the Company's core values. It is the duty of the employees of the Company to avoid acts that might reflect adversely upon the integrity and reputation of the Company and to act with honor in every undertaking with all its stakeholders, upholding the principle of always doing the right thing because it is the right thing to do, even when no one else is watching. To this end, the Company does not and will not tolerate any form of bribery or corruption.

In 2020, Members of the Cebu Pacific Board of Directors and Management Committee received anti-corruption training led by the parent firm, JG Summit Holdings, Inc. (JGSHI). In 2021, Cebu Pacific conducted anti-corruption trainings for 3,023 employees. All new hires are required to complete the anti-corruption training as part of the onboarding process.

Likewise, Cebu Pacific has an existing Whistleblowing Policy which includes but is not limited to complaints, reports, or disclosure of information for acts involving actual or suspected violations of the Company code of conduct (i.e., Offenses Subject to Disciplinary Actions - OSDAs), company policies, criminal or unlawful acts or omissions, and instances when an act or omission endangers the health and safety of the employees. The policy applies to all employees of the Company, employees of third-party service providers, on-the-job trainees, business partners,

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and other stakeholders of the Company, its subsidiaries, and affiliates.

Accredited suppliers and contractors undergo the Newly Accredited Suppliers Orientation Program (NASOP) to ensure they align with Cebu Pacific policies. Cebu Pacific released in January 2023 a Vendor Compliance Addendum document that requires its vendors to comply with all applicable laws and regulations in relation to labor, health, safety, and welfare of its employees and the communities where it operates, and environmental laws, regulations, and standards.

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**RISKS**

- Lack of awareness of the Company’s policies may result in violations that could affect business transactions and operations.
- Incidents of corruption pose reputational risks for the Company.

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**OPPORTUNITIES**

Anti-corruption training informs employees and management on what behavior is acceptable and not acceptable within the normal course of business.

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## ENVIRONMENT

### Resource Management – Energy

#### Energy Consumption within the organization

| Disclosure                                     | Quantity  | Units |
|--|-----------|-------|
| Energy consumption (sustainable aviation fuel) | 27,905    | liter |
| Energy consumption (jet fuel)                  | 363,447   | tonne |
| Energy consumption (gasoline)                  | 96,264    | liter |
| Energy consumption (diesel)                    | 4,339,293 | liter |
| Energy Consumption (electricity)               | 6,592     | MWh   |

#### Reduction of Energy Consumption

| Disclosure                     | Quantity        | Units |
|--------------------------------|-----------------|-------|
| Energy reduction (jet fuel)    | 168% ↑ vs. 2021 | %     |
| Energy reduction (gasoline)    | 33% ↑ vs. 2021  | %     |
| Energy reduction (diesel)      | 405% ↑ vs. 2021 | %     |
| Energy reduction (electricity) | 35% ↑ vs. 2021  | %     |

**IMPACT** Conserving and efficient use of energy help reduce operational costs while reducing the adverse impact on the environment. However, as Company operations ramped up in 2022, overall energy consumption significantly increased vs. 2021.

**STAKEHOLDERS** Employees, Management

**MANAGEMENT APPROACH** As a low-cost carrier, improving operational efficiencies is a priority for Cebu Pacific. This covers efficiency in jet fuel use, modernization of aircraft fleet, and other energy use.

#### 1. Fuel-efficient practices

Cebu Pacific employs fuel efficiency practices that yielded 6.9 million kilograms in jet fuel savings in 2022. These practices include:

- Continuous descent approach
- Single engine taxiing
- Quicker acceleration to cruise altitude
- Idle reverse thrust
- Optimized fuel load

The Company’s SkyBreathe Fuel Efficiency Management System provides information that optimizes flight operations. Data from each flight is analyzed to develop fuel-saving plans that result in lower fuel consumption.

#### 2. Modern fleet

Cebu Pacific ended 2022 with a 70-strong passenger fleet comprised of 56 Airbus aircraft and 14 ATR turboprops – one of the youngest fleets in the world with an average fleet age of 6.1 years. Out of 70 aircraft, 23 are of the New Engine Option (NEO) variant from Airbus, which is the most fuel-efficient in its category. Airbus NEOs are the new generation aircraft estimated to reduce fuel burn by at least 15% compared to their Classic Engine Option (CEO) counterparts. Cebu Pacific’s NEO aircraft are also fitted with more seats, allowing Cebu Pacific to serve more customers and reduce average emissions on a per passenger basis.

Cebu Pacific received four new Airbus NEOs in 2022. The Company targets to complete the transition of its entire fleet to all NEOs by 2028.

### 3. Sustainable aviation fuel

Cebu Pacific integrated sustainable aviation fuel (SAF) into its operations in 2022 and became the first low-cost carrier in Southeast Asia to incorporate SAF.

SAF is a “drop-in” replacement for fossil fuels made from agricultural feedstock, and waste materials, such as used cooking oil and animal fat. Using SAF results in up to 80% reduction in carbon emissions over the fuel's life cycle. The chemical and physical characteristics of SAF are identical to those of conventional jet fuel and can be safely mixed with regular jet fuel. SAF does not require any modification to the aircraft or engines and does not have any negative impact on performance or maintenance.

In September 2022, it operated a Singapore to Manila passenger flight powered by SAF. In addition, all four delivery flights of its new Airbus NEOs in 2022 were also powered by fuel blended with SAF. These are part of the readiness program of Cebu Pacific for long-term integration of SAF in its operations.

|                      |   |
|----------------------|---|
| <b>RISKS</b>         | <ul style="list-style-type: none"> <li>Cebu Pacific is vulnerable to volatility in fuel and energy prices.</li> <li>Cost of SAF is prohibitive and supply is insufficient to meet the industry’s demand.</li> </ul>   |
| <b>OPPORTUNITIES</b> | <ul style="list-style-type: none"> <li>For aircraft, innovations on low carbon emission and new propulsion technology</li> <li>For SAF, investments in additional production capacity are ramping up</li> <li>For diesel and gasoline vehicles, availability of electric vehicle options</li> <li>For grid electricity, availability of onsite or offsite renewable energy options</li> </ul> |

### Water Consumption within the Organization

| Disclosure  | Quantity | Units       |
|---|----------|-------------|
| Water withdrawal  | 22,281   | cubic meter |
| Water recycled and reused (estimated use based on capacity) | 9,320    | cubic meter |
| Water discharge   | 13,060   | cubic meter |
| Water consumption   | 22,281   | cubic meter |

|                            |   |
|----------------------------|---|
| <b>IMPACT</b>              | Conserving and using water more efficiently reduce utility costs. Effectively treating and reusing water also contributes to the efficient use of this resource, which impacts the water supply of communities adjacent to where Cebu Pacific operates.   |
| <b>STAKEHOLDERS</b>        | Employees, Management   |
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific invested in a wastewater treatment system with a capacity to process 80 cubic meters (m <sup>3</sup> ) of wastewater per day. The Company also withdraws water from a rainwater recovery tank. Recovered and recycled water for non-potable uses result in a low volume of water withdrawal from the third-party water concessionaire. |
| <b>RISKS</b>               | Lack of access to water may impact ground support operations, such as maintenance and aircraft servicing  |
| <b>OPPORTUNITIES</b>       | Installation of a water meter in the alternate water tanks will allow Cebu Pacific to better measure and monitor water use.   |

## Environmental Impact Assessment

### Air Emissions

#### GHG

| Disclosure   | Quantity  | Units      |
|--|-----------|------------|
| Direct (Scope 1) GHG Emissions – Flights                                       | 1,148,493 | tonne CO2e |
| Direct (Scope 1) GHG Emissions – Company-owned vehicles                        | 11,831    | tonne CO2e |
| Energy Indirect (Scope 2) GHG Emissions<br>(CEF Luzon: 0.7122 tonnes CO2e/MWh) | 4,695     | tonne CO2e |
| Emissions of Ozone Depleting Substances (ODS)                                  | 0         | kilogram   |

#### Air Pollutants (data from flight only)

| Disclosure | Quantity | Units     |
|------------|----------|-----------|
| NOx        | 968      | tonne NOx |
| SOx        | 72       | tonne SOx |

**IMPACT** Aircraft emissions constitute the bulk of Cebu Pacific’s GHG emissions (Scope 1). As such, reducing its Scope 1 emissions from jet fuel use is the Company’s foremost priority. Nevertheless, in 2022, it has started developing strategies to address other Scope 1 and Scope 2 emissions.

**STAKEHOLDERS** Employees, Management, Customers

**MANAGEMENT APPROACH** As mentioned above, Cebu Pacific’s sustainability goal aligns with global aviation’s commitments to achieving net-zero carbon emissions by 2050. The Company is implementing a decarbonization strategy based on five pillars – Fundamentals, Fleet, Fuel, Footprint, and Finance.

#### Fundamentals

Cebu Pacific has partnered with a third-party climate advisory group to conduct a detailed inventory of its greenhouse gas emissions. The GHG accounting report will be the basis of the Company’s near-term and long-term emission reduction pathways which will be aligned with global temperature targets.

#### Fleet

Cebu Pacific operates a young aircraft fleet with an average age of 6.1 years (as of the end of 2022). Furthermore, it will continue to enhance its fuel-efficient practices in operations and engineering as part of its fuel conservation program. The program exceeded its 2022 targets, and its performance is in the top quartile among airlines that use the same platform.

The Company will reduce emissions from its ground operations through an electrification program that will transition all its diesel ground support equipment and vehicles into an electric, zero-emission fleet.

#### Fuel

Having operated its pioneer flight powered by SAF in 2022, the Company is working towards establishing future supply of SAF by expanding its network of strategic partners. The use of SAF is an important component of the Company’s decarbonization strategy.

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**Footprint**

Cebu Pacific is finding ways to tap renewable energy through onsite or offsite sources to reduce its carbon footprint further. It is investing in solar power for several buildings and sourcing renewable energy supply from the grid.

The Company is participating in the International Finance Corporation's Excellence in Design for Greater Efficiencies (EDGE) certification system. EDGE green building certification means that the Company's facilities meet energy, water, and material efficiency standards.

The Company is also expanding its nature-based initiatives to mitigate its environmental impacts by partnering with the Ramon Aboitiz Foundation Inc.'s (RAFI) One To Tree unit. In 2023, it will work with RAFI to plant and grow 10,000 seedlings over a 10-hectare mangrove area in the municipality of Dumanjug in the province of Cebu.

**Finance**

Cebu Pacific aims to incorporate climate responsibility in business continuity and investments, including consideration of sustainability financing options to fund its long-term decarbonization strategy and overall sustainability vision.

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**RISKS**

Aside from environmental impacts, GHG emissions likewise pose financial risks to Cebu Pacific. Carbon offsetting requirements, as well potential carbon taxation will have financial implications for Cebu Pacific and the airline industry.

For SAF, there are several technology pathways and feedstock that are being developed. The Company will need to evaluate and select the most viable and cost-efficient option.

For alternative propulsion, there are various technologies under consideration that would require significant investments, and potential redesign of the current business model and operations.

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**OPPORTUNITIES**

Cebu Pacific constantly monitors developments in new propulsion technology, regulations, guidance on the voluntary carbon market and carbon offsetting (i.e., CORSIA), and best practices in the industry, among others.

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**Solid and Hazardous Waste****Solid Waste**

| Disclosure                  | Quantity | Units    |
|-----------------------------|----------|----------|
| Total solid waste generated | 108,004  | kilogram |
| Residuals/ Landfilled       | 52,815   | kilogram |
| Recyclable waste            | 55,189   | kilogram |

**Hazardous Waste**

| Disclosure  | Quantity | Units    |
|---|----------|----------|
| Total weight of hazardous waste generated and transported | 124      | kilogram |

|                            |  |
|----------------------------|--|
| <b>IMPACT</b>              | Improper handling of hazardous waste has significant financial, occupational health, and community health risks.   |
| <b>STAKEHOLDERS</b>        | Employees, Management  |
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific has a Materials Recovery Facility (MRF) for the Head Office for managing its solid waste. In addition, the Catering and Sales Department has replaced all single-use plastic spoons, forks, stirrers, and cups with more sustainable alternatives on all domestic and international flights. Other measures to enable effective waste segregation and collection inflight are being studied. Implementation of the inflight waste segregation was postponed due to the pandemic and will be re-evaluated in 2023. |
|                            | The Admin and Facilities Department contracts accredited Treatment, Storage, and Disposal (TSD) Facilities to have hazardous wastes treated before proper disposal. This is monitored by the Pollution Control Officer.  |
| <b>RISKS</b>               | Leakage of hazardous waste poses serious health and safety risks and will impact the reputation and operations of Cebu Pacific. Unlawful discharge by 3 <sup>rd</sup> party contractors may result in environmental penalties.   |
| <b>OPPORTUNITIES</b>       | The disclosure covers only waste from the Head Office. Operations in outstations are covered by third-party contractors. Cebu Pacific will set up the system to effectively track and monitor solid waste and hazardous waste records across the organization.   |

### **Effluents**

| <b>Disclosure</b>                   | <b>Quantity</b> | <b>Units</b> |
|-------------------------------------|-----------------|--------------|
| Total volume of water discharges    | 13,060          | cubic meter  |
| Total volume of wastewater recycled | 0               | cubic meter  |

|                            |   |
|----------------------------|---|
| <b>IMPACT</b>              | Excessive water consumption has cost and resource availability implications.  |
| <b>STAKEHOLDERS</b>        | Employees, Management   |
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific has three sources of water, namely: private concessionaire, rainwater recovery, and recycled water from wastewater treatment system.   |
| <b>RISKS</b>               | <ul style="list-style-type: none"> <li>Water is closely monitored to avoid contamination, as most of the Company's water is sourced from Maynilad.</li> <li>Droughts and water shortages may heavily impact day-to-day operations.</li> </ul>                                 |
| <b>OPPORTUNITIES</b>       | Installation of a water meter for the rainwater recovery and recycled water tanks for Cebu Pacific can precisely record water consumption from such sources. Acquisition of the proper equipment was delayed due to austerity measures implemented during the COVID pandemic. |

### **Environmental Compliance**

#### **Non-compliance with Environmental Laws and Regulations**

| <b>Disclosure</b>   | <b>Quantity</b> | <b>Units</b> |
|---|-----------------|--------------|
| Total amount of monetary fines for non-compliance with environmental laws and regulations   | 0               | #            |
| No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations | 0               | #            |
| No. of cases resolved through dispute resolution mechanism                                  | 0               | #            |

|                            |   |
|----------------------------|---|
| <b>IMPACT</b>              | Non-compliance to environmental standards and regulations may lead to damage to the environment, as well as sanctions and penalties to Cebu Pacific and reputational damage to the Company.   |
| <b>STAKEHOLDERS</b>        | Employees, Management   |
| <b>MANAGEMENT APPROACH</b> | <p>Cebu Pacific’s environmental performance and compliance are monitored monthly through the DBSB. All identified issues are being reported to the Board Risk Oversight Committee (BROC) on a semi-annual basis.</p> <p>Cebu Pacific takes matters of environmental compliances seriously and is committed to complying with government laws and regulations. Any allegation presented is sufficiently investigated and negotiated.</p> |
| <b>RISKS</b>               | Overlooking renewal of environmental permits and non-compliance to environmental regulations may lead to sanctions, penalties, and damage to the environment and to the Company’s reputation.   |
| <b>OPPORTUNITIES</b>       | <ul style="list-style-type: none"> <li>• Conducting regular in-house checks to ensure compliance</li> <li>• Alignment with best practices in environmental management</li> </ul>  |

## SOCIAL

### Employee Management

### Employee Hiring Benefits

#### Employee Data

| Disclosure                 | Quantity | Units |
|----------------------------|----------|-------|
| Total number of employees  | 3,786    | #     |
| Number of Male employees   | 2,057    | #     |
| Number of Female employees | 1,729    | #     |
| Attrition rate             | 13.12    | %     |

#### Employee Benefits

| List of Benefits                        | Y/N | % of female employees who availed for the year      | % of male employees who availed for the year      |
|---|-----|---|---|
| SSS                                     | Yes | 20%   | 11%   |
| PhilHealth                              | Yes | 3%  | 2%  |
| Pag-ibig                                | Yes | 3%  | 3%  |
| Parental Leave                          | Yes | 7%  | 3%  |
| Parental Leave - Solo Parent            | Yes | 0.4%  | None  |
| Vacation leaves                         | Yes | 76%   | 65%   |
| Sick leaves                             | Yes | 61%   | 44%   |
| Medical benefit (HMO)                   | Yes | 100%  | 100%  |
| Retirement (aside from SSS)             | Yes | None  | None  |
| Further education support               | Yes | 0.5%  | 1%  |
| Company stock options                   | Yes | 0.2%  | 0.7%  |
| Telecommuting or Work from Home         | Yes | 100%  | 100%  |
| Flexible working hours                  | Yes | 10%   |   |
| List of Benefits                        | Y/N | Number of female employees who availed for the year | Number of male employees who availed for the year |
| Life Insurance                          | Yes | 2,056   | 1,643   |
| Rice subsidy and medical allowance      | Yes | 1,788   | 1,411   |
| Christmas allowance                     | Yes | 2,370   | 1,853   |
| Free flights (employees and dependents) | Yes | 3,498 Employees<br>7,607 Dependents                 |   |
| Travel insurance                        | Yes | 1,658   | 1,208   |

**IMPACT** Competitive wages and benefits help Cebu Pacific attract good talent, which directly impacts business outputs.

**STAKEHOLDERS** Employees, Management

|                            |  |
|----------------------------|--|
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific adopts policies to ensure market competitive compensation for its employees. The Company's business model requires highly skilled, dedicated, and efficient pilots, engineers, and other personnel. Its growth plans will require the Company to hire, train and retain a significant number of new employees in the future. Furthermore, the Company is dependent on the availability of an adequate supply of experienced pilots.   |
| <b>RISKS</b>               | The inability of the Company to hire, train and retain qualified employees at a reasonable cost could result in an inability to execute its growth strategy, which would have a material adverse effect on its business, prospects, financial condition, and results of operations. Also, the Company's failure to attract and retain experienced pilots and the impact of increasing costs should there be a shortage of such pilots may materially and adversely affect its business, financial condition, and results of operation. |
| <b>OPPORTUNITIES</b>       | Cebu Pacific continues to evaluate its compensation strategy to respond to dynamics in the industry.   |

### Employee Training and Development

| Disclosure                                   | Quantity | Units         |
|--|----------|---------------|
| Total Training Hours provided to employees   | 9,289    | hour          |
| Female Employees                             | 5,440    | hour          |
| Male Employees                               | 3,849    | hour          |
| Average Training hours provided to employees | 2.5      | hour/employee |
| Female Employees                             | 2.6      | hour/employee |
| Male Employees                               | 2.2      | hour/employee |

|                            |  |
|----------------------------|--|
| <b>IMPACT</b>              | Cebu Pacific offers training programs to empower individuals and place them at the driver's seat of their own development. It equips Cebu Pacific employees with the essential skills for their current and future roles and introduces new skills to help the organization thrive and endure. Aside from increased employee engagement and individual performance, well-trained employees also contribute to innovation, operational efficiency, and customer service, which positively impact the Company's profitability.   |
| <b>STAKEHOLDERS</b>        | Employees, Management  |
| <b>MANAGEMENT APPROACH</b> | <p>Cebu Pacific is committed to developing its employees' personal and professional development. The training programs provided to employees are customized and aligned to emerging skills and are anchored to the organization's goals while incorporating the Company's culture and values.</p> <p>The Company's People Department oversees basic courses, people engagement training programs, and management and leadership programs. Learning platforms include:</p> <ul style="list-style-type: none"> <li>• Learning Management System (LMS) – an e-learning platform which hosts various training programs;</li> <li>• Cebu Pacific University (CEB U) – launched in 2018, CEB U is a program to provide continuous learning opportunities for employees across all levels in the organization. CEB U partners with schools, consulting firms, and other industry experts to deliver the learning programs.</li> </ul> |

|                      |   |
|----------------------|---|
| <b>RISKS</b>         | Employees may leave the Company for better opportunities after getting sufficient training.   |
| <b>OPPORTUNITIES</b> | Cebu Pacific offers various learning opportunities through internal and external sources. Internal sources include in-house training via CEB University and on-the-job training. External sources include technical and specialization training through IATA and ICAO programs. |

### **Labor Management Relations**

| <b>Disclosure</b>   | <b>Quantity</b>   | <b>Units</b> |
|---|---|--------------|
| % of employees with Collective Bargaining Agreements                                  | 0<br>(ongoing negotiations with Juan Wing Association of the Philippines) | %            |
| Number of consultations conducted with employees concerning employee related policies | 15  | #            |

|                            |   |
|----------------------------|---|
| <b>IMPACT</b>              | A Collective Bargaining Agreement (CBA) ensures that interests of employees are heard and addressed by the Company. Constant and open communication between management and employees enables the organization to address issues as they arise.  |
| <b>STAKEHOLDERS</b>        | Employees, Management   |
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific has an equitable wages and benefits system and offers additional benefits above the minimum standards fixed by law, such as free travel for employees and family members. The Company also provides avenues for collaborative interaction and communication between management and its employees. Management is also accessible, and employees are encouraged to reach out and bring up any issues to them directly. |
| <b>RISKS</b>               | A failure in negotiations of the CBA may lead to disruption in operations. Issues that are communicated but not addressed effectively may cause employee dissatisfaction.   |
| <b>OPPORTUNITIES</b>       | Cebu Pacific continues to provide various platforms that foster open and constructive dialogue between management and employees.  |

### **Diversity and Equal Opportunity**

| <b>Disclosure</b>  | <b>Quantity</b> | <b>Units</b> |
|--|-----------------|--------------|
| % of Female Employees  | 54              | %            |
| % of Male Employees  | 46              | %            |
| Number of employees from indigenous communities or vulnerable sector | N/A             | #            |

|                            |  |
|----------------------------|--|
| <b>IMPACT</b>              | Workplace diversity brings together people from different backgrounds contributing their strengths and talents to the organization, regardless of race, gender, and ethnicity.   |
| <b>STAKEHOLDERS</b>        | Employees, Management  |
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific has an existing Diversity and Inclusion Policy. As an employer, the Company provides equal opportunity and embraces diversity and uniqueness of each employee. The Company, in general, and all individuals therein respect, protect and uphold human rights and gender equality. |
|                            | The Company does not discriminate based on Sexual Orientation, Gender Identity and Expression (SOGIE); and works for the promotion and fulfillment of gender   |

equality. It ensures decent work standards in conditions of freedom, equity, security, and human dignity, including the following areas.

- a. Employment, Training and Development
- b. Employee Records and Company Database
- c. Health and Support Services
- d. Facilities, Uniform and Employee Identification

**RISKS** Mismanaging diversity can be detrimental to the organization and may lead to misunderstanding and conflict among employees.

**OPPORTUNITIES** Cebu Pacific shall review and, when necessary, amend and/or repeal existing company rules, regulations and policies that may be found to be misaligned with the Company’s Diversity and Inclusion Policy.

**Workplace Conditions, Labor Standards and Human Rights**

**Occupation, Health and Safety**

| Disclosure                     | Quantity  | Units               |
|--------------------------------|-----------|---------------------|
| Safe Man-hours                 | 6,363,360 | hour                |
| No. of work-related injuries   | 22        | # of cases reported |
| No. of work-related fatalities | 0         | # of cases reported |
| No. of work-related ill-health | 0         | # of cases reported |
| No. of safety drills           | 1         | event               |

**IMPACT** Awareness on safety issues and planned response impacts business continuity and emergency preparedness.

**STAKEHOLDERS** Employees, Management

**MANAGEMENT APPROACH** Cebu Pacific has an existing Occupational Safety and Health Policy. The policy aims to protect every employee against the dangers of injury, sickness or death through safe working conditions and health and wellness programs, thereby assuring the conservation of valuable manpower resources and the prevention of loss or damage to lives and properties, consistent with national development goals and with the State’s commitment for the total development of every worker as a complete human being.

Cebu Pacific complies with the Occupational Health and Safety Standards set by the Department of Labor and Employment – Bureau of Working Conditions. It is also mandated to submit a monthly Occupational Health and Safety Performance Report to its parent Company, JGSHI.

Cebu Pacific utilizes Intelix’s Safety Management Software to monitor hazards, incidents, and accidents from employees and some third-party service providers. By encouraging safety reporting and prompt follow through of reports of unsafe conditions, the Company can mitigate risks before it leads to injury or illness.

All employees regularly undergo safety training across various areas of operations. Cebu Pacific issues safety bulletins and publications to raise awareness of safety and health issues, lessons from recent accidents or disease outbreaks, and share industry best practices.

|                      |  |
|----------------------|--|
|                      | There is an annual simulation of potential emergency response to ensure the readiness of the Cebu Pacific Emergency Management Team (CEBEMT) and operations staff during emergency situations. |
| <b>RISKS</b>         | Lack of emergency preparedness and its communication across the Company puts the operations at risk in the event of an emergency.  |
| <b>OPPORTUNITIES</b> | Increase the number of safety drills to ensure employee preparedness.  |

### **Labor Laws and Human Rights**

| <b>Disclosure</b>   | <b>Quantity</b> | <b>Units</b> |
|---|-----------------|--------------|
| No. of legal actions or employee grievances involving forced or child labor | 0               | #            |

### **Policies**

| <b>Topic</b> | <b>Y/N</b> | <b>Reference</b>   |
|--------------|------------|--|
| Forced Labor | N          |  |
| Child Labor  | N          |  |
| Human Rights | Y          | Sexual Harassment Policy<br>Solo Parent Leave (SPL)<br>Magna Carta Special Leave for Women |

|                            |   |
|----------------------------|---|
| <b>IMPACT</b>              | Policies on forced labor, child labor and human rights serve as protection of basic and universal rights.   |
| <b>STAKEHOLDERS</b>        | Employees, Management   |
| <b>MANAGEMENT APPROACH</b> | Although there are no policies specific to forced labor and child labor, Cebu Pacific adheres to standards and regulations set forth by the Department of Labor and Employment. |
| <b>RISKS</b>               | Violations of labor laws and human rights may lead to legal action and have implications on employee retention and the Company's operations and reputation.                     |
| <b>OPPORTUNITIES</b>       | Review of the Company's policies to identify other material areas.  |

## Supply Chain Management

### Supplier Accreditation Policy

Do you consider the following sustainability topics when accrediting suppliers?

| Topic                     | Y/N | Reference                  |
|---------------------------|-----|----------------------------|
| Environmental Performance | Y   | Vendor Compliance Addendum |
| Forced Labor              | Y   | Vendor Compliance Addendum |
| Child Labor               | Y   | Vendor Compliance Addendum |
| Human Rights              | Y   | Vendor Compliance Addendum |
| Bribery and Corruption    | Y   | Vendor Compliance Addendum |

|                            |  |
|----------------------------|--|
| <b>IMPACT</b>              | Inadequate supplier selection criteria may impact quality of goods procured and delivery schedules. Any sustainability issue affecting suppliers will also affect fulfillment of service contracts/ deliverables.  |
| <b>STAKEHOLDERS</b>        | Employees, Management, Suppliers   |
| <b>MANAGEMENT APPROACH</b> | <p>Cebu Pacific accreditation’s process for local suppliers is governed by the Corporate Supplier Accreditation Team (CORPSTAT) of its parent, JGSHI. The accreditation criteria cover quality and reliability, timeliness, rapport, price competitiveness, ability to provide prototypes, samples/ proof before ordering ability to replace rejects, and product inventory. The procurement team is also trained in Purchasing, Ethics, Strategic Purchasing, and Supplier Relationship Management to enable sound purchasing decisions. Accredited suppliers and contractors undergo the Newly Accredited Suppliers Orientation Program (NASOP) to make sure that they align with Cebu Pacific policies. To ensure that suppliers remain compliant to company policies, random on-site visits and performance evaluations are performed periodically.</p> <p>Cebu Pacific released in January 2023 a Vendor Compliance Addendum document that warrants its vendors to comply with all applicable laws and regulations in relation to labor, health, safety and welfare of its employees and the communities where it operates, and environmental laws, regulations, and standards.</p> |
| <b>RISKS</b>               | Lax accreditation processes may lead to unfulfilled contracts or quality issues.   |
| <b>OPPORTUNITIES</b>       | Adoption of green procurement practices to incorporate sustainability framework, strategy, and programs in the supply chain  |

## **Relationship with the Community**

### Significant Impacts on Local Communities

#### **1. Nationwide COVID-19 vaccine transport**

Cebu Pacific transported over 21 million doses of COVID-19 vaccine in 2022. As the leading airline in the Philippines, CEB has airlifted more than 81 million COVID-19 vaccine doses across the country since 2021. By providing special cargo freight rates, the Company supports the Philippine government's continuous fight against COVID-19 and is one with the government in ensuring the safe and timely delivery of vaccine doses across various locations in its wide domestic network. All vaccines were subjected to the most stringent procedures to guarantee potency and efficacy until its arrival at the designated stations.

**Location:** 31 provinces, namely: Bacolod, Basilan, Boracay, Bohol, Butuan, Cagayan de Oro, Cauayan, Cebu, Coron, Cotabato, Davao, Dipolog, Dumaguete, General Santos, Iloilo, Jolo, Kalibo, Legazpi, Masbate, Naga, Ozamiz, Pagadian, Puerto Princesa, Roxas, San Jose, Siargao, Tacloban, Tuguegarao, Tawi-Tawi, Virac, and Zamboanga

**Vulnerable groups:** All vulnerable sectors covered by the Philippine government's National Deployment and Vaccination Plan

**Impact on Indigenous peoples:** Yes

**Community rights and concerns of communities:** Universal health coverage and access to essential health-care services and to safe, effective, quality, and affordable essential vaccines.

**Mitigating Measures:** No negative impact.

#### **2. Discounted airfare and cargo rates**

Cebu Pacific provided discounted airfares to a total of 306,913 passengers, including senior citizens (268,512 passengers), persons with disability (38,296 passengers), and students and athletes (115 passengers).

The Company also transported 13,010 kilograms of food, general, and medical and pharmaceutical cargo at special rates for humanitarian purposes.

**Location:** Across Cebu Pacific domestic destinations

**Vulnerable groups:** Senior citizens and persons with disability

**Impact on Indigenous peoples:** Yes

**Community rights and concerns of communities:** Access to affordable air travel

**Mitigating Measures:** No negative impact.

### 3. Bayanihan Flights

Cebu Pacific assisted and brought home 385 Filipinos from Beirut and Kuwait on March 2022 via a charter flight arranged by the Department of Foreign Affairs (DFA) to repatriate distressed overseas Filipino workers (OFWs).

In coordination with the Philippine Embassies of Beirut and Kuwait, the charter CEB flight flew from Beirut and welcomed 119 passengers. It then flew to Kuwait to accept 266 passengers more.

The Company has repatriated more than 11,300 Filipinos from through Bayanihan and Department of Foreign Affairs-arranged charter flights since July 2021.

**Location** Dubai, Abu Dhabi, Oman, India, Vietnam, Bahrain, Lebanon, and Kuwait

**Vulnerable groups:** Not applicable

**Impact on Indigenous peoples:** No

**Community rights and concerns of communities:** Safe return to the Philippines

**Mitigating Measures:** No negative impact.

| Disclosure                      | Quantity | Units |
|---------------------------------|----------|-------|
| FPIC process still undergoing * | 0        | #     |
| CP Secured                      | 0        | #     |

#### Disclosure on Benefits for Vulnerable Groups

| Disclosure                                       | Quantity | Units |
|--|----------|-------|
| Discounted flights for Senior Citizens           | 268,512  | #     |
| Discounted flights for Persons with Disabilities | 38,296   | #     |
| Student and athlete's discount                   | 115      | #     |

|                            |  |
|----------------------------|--|
| <b>IMPACT</b>              | Cebu Pacific provides sale, affordable, and reliable access to passenger air travel and air cargo transport services.  |
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific supports government initiatives that require air transport services during emergency, disaster, and humanitarian situations. The Company honors entitlements (i.e., discounts) accorded to vulnerable groups as mandated by law and provides special freight rates for cargo shipments for humanitarian purposes. |
| <b>RISKS</b>               | None   |
| <b>OPPORTUNITIES</b>       | Cebu Pacific's continuously evaluates opportunities to partner with stakeholders to contribute to government and civic programs and initiatives that require air transport services.   |

## Customer Management

### Customer Satisfaction

| Disclosure   | Quantity | Units |
|--|----------|-------|
| Customer Satisfaction – Net Promoter Score (Post-Flight)   | +19      | #     |
| <b>CSAT tracked full year (Post-Flight)</b><br><b>Rating scale of 1-5, with 5 as the highest</b> |          | #     |
| Value for Money  | 3.60     | #     |
| Bag Drop and Check In Queuing Time   | 3.78     | #     |
| Boarding Experience  | 3.74     | #     |
| Bag Delivery Speed   | 3.69     | #     |
| Agent Service  | 3.79     | #     |
| Cabin Crew Score   | 4.09     | #     |
| Inflight Announcements   | 4.05     | #     |
| Cabin Interiors  | 3.93     | #     |
| Pre-Ordered Meals  | 3.42     | #     |

|                            |  |
|----------------------------|--|
| <b>IMPACT</b>              | Regular measurement of customer satisfaction allows Cebu Pacific to continuously improve its services to passengers.   |
| <b>STAKEHOLDERS</b>        | Customers, Employees, Management   |
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific uses a combination of digital and traditional channels to communicate with customers. These tools are used to listen to customers' feedback and concerns, resolve their complaints, and identify pain points in the whole customer experience. Cebu Pacific is among the first airline companies to Asia to invest in an integrated facility with technology for social intelligence and customer engagement.<br><br>Cebu Pacific conducts and administers CSAT satisfactions survey regarding all customer touchpoints. Other surveys include Call Center Booking Survey, Customer Care, Ticketing Office Booking Survey, Web Booking Survey, Mobile App Booking Survey, Mobile App Check-in survey. |
| <b>RISKS</b>               | Delayed response time and the inability of to address concerns may lead to customer dissatisfaction.   |
| <b>OPPORTUNITIES</b>       | Feedback from customers and passengers are areas for improvement in product and service delivery and in customer journey   |

### Health and Safety

| Disclosure  | Quantity | Units |
|---|----------|-------|
| No. of substantiated complaints on product or service health and safety | 13       | #     |
| No. of complaints addressed   | 13       | #     |

|                            |   |
|----------------------------|---|
| <b>IMPACT</b>              | All product and service-related health and safety concerns were addressed and closed.   |
| <b>STAKEHOLDERS</b>        | Customers, Employees  |
| <b>MANAGEMENT APPROACH</b> | Passenger safety remains the priority of Cebu Pacific. The Company continues to implement strict safety measures designed to reassure travelers and protect the public from unnecessary dangers related to the pandemic. It has also implemented strict measures to prevent infection risks for COVID-19 for both staff and passengers. Cebu Pacific received a 7-star safety rating, the highest score possible, |

from Airline Ratings for its Covid-19 safety protocols.

Cebu Pacific has maintained air safety certification by IATA through the Operational Safety Audit (IOSA) program. The Company's operations are subject to continuous audits and surveillance programs by civil aviation authorities.

|                      |   |
|----------------------|---|
| <b>RISKS</b>         | Complaints on health and safety may lead to customers not availing Cebu Pacific products and services.            |
| <b>OPPORTUNITIES</b> | Established health and safety protocols will bring comfort and sense of security as passengers resume air travel. |

### Marketing and Labeling

| Disclosure   | Quantity | Units |
|--|----------|-------|
| No. of substantiated complaints on marketing and labelling | 13       | #     |
| No. of complaints addressed                                | 13       | #     |

|                            |   |
|----------------------------|---|
| <b>IMPACT</b>              | All marketing and labeling related concerns were addressed and closed.  |
| <b>STAKEHOLDERS</b>        | Customers, Employees, Management  |
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific continues to proactively address the needs of its customers through appropriate marketing communications.  |
| <b>RISKS</b>               | Complaints on marketing and labeling may lead to customers not availing Cebu Pacific products and services.   |
| <b>OPPORTUNITIES</b>       | Appropriate marketing communications and product labeling may attract new customers and encourage existing customers to purchase more Cebu Pacific products and services. |

### Customer Privacy

| Disclosure   | Quantity | Units |
|--|----------|-------|
| No. of substantiated complaints on customer privacy*   | 1        | #     |
| No. of complaints addressed  | 1        | #     |
| No. of customers, users and account holders whose information is used for secondary purposes | 0        | #     |

|                            |   |
|----------------------------|---|
| <b>IMPACT</b>              | Cebu Pacific handles sensitive information while doing business. Any misuse can lead to regulatory and reputational risks.  |
| <b>STAKEHOLDERS</b>        | Customers, Employees, Management  |
| <b>MANAGEMENT APPROACH</b> | Cebu Pacific's Data Privacy Management Office (DPMO) and Data Protection Officer handle data privacy issues and complaints. The DPMO has established a Data Privacy Manual that translates data privacy principles and regulatory requirements into business practices that Cebu Pacific employees should follow when handling a complaint.<br><br>Customer privacy complaints and inquiries addressed to Cebu Pacific are sent to <a href="mailto:DPO@cebupacificair.com">DPO@cebupacificair.com</a> and is managed by the DPMO. Complaints are resolved in accordance with the Company's policies and procedures. |
| <b>RISKS</b>               | Cebu Pacific protects the data privacy of its data subjects (employees, passengers, and partners). Mishandling of customer data may lead to reputational risks, non-compliance with regulations, and sanctions.   |

**OPPORTUNITIES** Cebu Pacific’s DPMO conducts annual review of its Data Privacy Manual to ensure that the process of handling data subject complaints remain effective and efficient.

**Data Security**

| Disclosure  | Quantity | Units |
|---|----------|-------|
| No. of data breaches, including leaks, thefts, and losses of data | 0        | #     |

**IMPACT** Data breaches compromise the privacy of customers and sensitive business information.

**STAKEHOLDERS** Customers, Employees, Management

**MANAGEMENT APPROACH** Cebu Pacific has in place the following systems:

1. IT Security Policy and IT Security Policy Manual
2. Information Security Awareness Training and Testing Policy
3. Information Security Training Program and Information Security Training Program Policy
4. Incident Response Procedures

Moreover, the Company continuously develops technology solutions against cyber threats, and conduct penetration testing to identify and address critical weaknesses.

Data Privacy risks are monitored and reported monthly to the DBSB to ensure that risk events are identified early on and addressed immediately. Critical identified issues are reported to the Board Risk Oversight Committee (BROC) on a semi-annual basis.

**RISKS** Weak cyber security measures may lead to data hacks or breach of customer data.

**OPPORTUNITIES** Cebu Pacific continuously looks for technology solutions and conducts regular penetration testing to prevent data breaches.

**CORE BUSINESS CONTRIBUTIONS  
TO THE U.N. SUSTAINABLE DEVELOPMENT GOALS**

**Goal 2: ZERO HUNGER - End hunger, achieve food security and improved nutrition, and promote sustainable agriculture**

*Target 2.1: By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round*

**Key Products and Services**

Provider of air cargo services (CEB Cargo)

**Societal Value/Contribution to UN SDGs**

Aviation allows movement of essential supplies over vast distances quickly. Cebu Pacific transports perishable agriculture products and supports transport of humanitarian aid during natural disasters or war.

In 2022, Cebu Pacific cargo transported 47.9 million kilograms of food and agriculture items across its domestic and international network.

**Potential Negative Impact of Contribution**

Transmission of agricultural pests and disease

**Management Approach to Negative Impact**

Cebu Pacific cargo services practices standard safety, segregation, and handling guidelines to ensure that cargo is stored and transported safely.

**Goal 3: GOOD HEALTH AND WELLBEING – Ensure healthy lives and promote well-being for all at all ages**

*Target 2.1: By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round*

**Key Products and Services**

Provider of low-cost air transport

**Societal Value/Contribution to UN SDGs**

Low-cost air-transport increases ability of people to access quality health services when needed. Cebu Pacific provides support for urgent medical shipments (medicines, including organs and blood), including COVID-19 vaccine distribution (refer to section above on Nationwide COVID-19 vaccine transport).

The company carried 13,010 kilograms of humanitarian cargo in 2022, as well as airlifted over 21 million doses of COVID-19 vaccines. The Company also supports the Philippine Red Cross by transporting blood donations for free. 2,707 kilograms of blood donations were transported in 2022.

**Potential Negative Impact of Contribution**

Risks in handling and contamination of special cargo

**Management Approach to Negative Impact**

Cebu Pacific cargo services practices standard safety, segregation, and handling guidelines to ensure that cargo is stored and transported well.

**Goal 7: AFFORDABLE AND CLEAN ENERGY – Ensure access to affordable, reliable, sustainable and modern energy for all**

*Target 7.a: By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced water and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology*

**Key Products and Services**

Integration of sustainable aviation fuel (SAF) in operations

**Societal Value/Contribution to UN SDGs**

Cebu Pacific integrated use of sustainable aviation fuel (SAF) in its operations in 2022 and became the first low-cost carrier in Southeast Asia to incorporate SAF into its operations. The use of SAF results in up to 80% reduction in carbon emissions compared to traditional fossil fuel-based jet fuel.

**Potential Negative Impact of Contribution**

Cost of SAF is highly prohibitive and will have significant impact on the company's costs.

**Management Approach to Negative Impact**

Continuing discussions to develop strategic partnerships supply network

*(Note: Cebu Pacific's use of SAF also contributes to **Goal 12: RESPONSIBLE CONSUMPTION AND PRODUCTION – Ensure sustainable consumption and production patterns.**)*

**Goal 8: DECENT WORK AND ECONOMIC GROWTH – Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all**

*Target 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.*

**Key Products and Services**

Support to Local Economy

**Societal Value/Contribution to UN SDGs**

Cebu Pacific empowers local suppliers by creating opportunities for small and medium enterprises to be part of its inflight catering services. In 2022, 62% of the Company's non-aircraft related procurement spend was spent on local suppliers.

**Potential Negative Impact of Contribution**

Local suppliers not able to meet CEB standards

**Management Approach to Negative Impact**

Cebu Pacific has a stringent supplier accreditation process and works with partners to make sure that

they continuously improve and deliver quality products that meet the Company's standards.

*Target 8.6: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal*

**Key Products and Services**

Job creation

**Societal Value/Contribution to UN SDGs**

Cebu Pacific's workforce in 2022 is composed of 3,786 employees, 54% of which are women. The Company assures employees of stable employment and security of tenure. Majority of its workforce are under full-time employment contract.

Jobs in aviation have a multiplier effect. Based on the International Air Transport Association (IATA), every job in aviation creates 29 jobs for the tourism sector.

**Potential Negative Impact of Contribution**

Unsatisfied workforce, high attrition rate

**Management Approach to Negative Impact**

Cebu Pacific offers competitive wages and benefits, good working conditions to ensure that employees remain happy, engaged, motivated, and productive.

**Goal 9: INDUSTRY, INNOVATION AND INFRASTRUCTURE – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation**

*Target 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities*

**Key Products and Services**

Fleet modernization through next-gen Airbus NEOs

**Societal Value/Contribution to UN SDGs**

Out of 70 aircraft making Cebu Pacific's fleet as of end 2022, 23 are of the New Engine Option (NEO) variant from Airbus, which is among the most fuel-efficient in its category. Airbus NEO's are the new generation aircraft estimated to reduce fuel burn between 15% and 27% compared to their Classic Engine Option (CEO) counterparts. Cebu Pacific's NEO aircraft are also fitted with more seats, allowing Cebu Pacific to serve more customers and reduce average emission on a per passenger basis.

Cebu Pacific received four new Airbus NEO in 2022 and is targeted to complete the transition of its entire fleet to all NEOs by 2028.

**Potential Negative Impact of Contribution**

Remaining GHG emissions

**Management Approach to Negative Impact**

The company aims to put together in 2023 its emissions reduction roadmap.

**Key Products and Services**

Enhancement of fuel-efficient practices in operations and engineering

**Societal Value/Contribution to UN SDGs**

Cebu Pacific employs industry best practices for fuel efficiency, which yielded 6.9 million kilograms in jet fuel saved in 2022. The Company's SkyBreathe Fuel Efficiency Management System provides information that helps optimize flight operations and analyzes data from each flight, enabling the crafting of fuel-saving plans that result in lower fuel consumption.

**Potential Negative Impact of Contribution**

Remaining GHG emissions

**Management Approach to Negative Impact**

The company aims to put together in 2023 its emissions reduction roadmap.

**Goal 10: SUSTAINABLE CITIES AND COMMUNITIES – Make cities and human settlements inclusive, safe, resilient and sustainable**

*Target 11.2: By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons*

**Key Products and Services**

Provider of low-cost air transport

**Societal Value/Contribution to UN SDGs**

Air travel is an economic enabler and equalizer. The low-cost carrier business model has made travel more accessible to more people. In 2022, Cebu Pacific had flown over 14.8 million passengers through 108,329 flights to domestic and international destinations. The Company ended 2022 with 33 destinations and 57 routes in the domestic market, and 19 destinations and 22 routes in the international market. Cebu Pacific continues to provide the lowest airfares in the market with its Piso Fares to enable everyJuan to fly.

**Potential Negative Impact of Contribution**

Increased GHG emissions from flights

**Management Approach to Negative Impact**

(See Management Approach on GHG emission section, p. 13)

**Goal 12: RESPONSIBLE CONSUMPTION AND PRODUCTION - Ensure sustainable consumption and production patterns**

*Target 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse*

**Key Products and Services**

Availability of food and drink for purchase inflight

**Societal Value/Contribution to UN SDGs**

All Cebu Pacific flights have been using more sustainable alternatives to replace plastic spoons, forks, stirrers, and cups on all domestic and international flights.

**Potential Negative Impact of Contribution**

Plastic packaging is still present.

**Management Approach to Negative Impact**

Inflight waste segregation

*Target 12.b: Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products*

**Key Products and Services**

Provider of low-cost air transport enabling more people to fly and travel

**Societal Value/Contribution to UN SDGs**

Cebu Pacific advocates for sustainable tourism via our Juan Effect program. Juan Effect is a sustainable tourism program of Cebu Pacific, done in partnership with the Department of Tourism, Department of Environment and Natural Resources, and the Department of Interior and Local Government. The campaign aims to help mitigate the tourism sector's impact on the environment through various interventions geared towards educating tourists. It engages the local community, the government, and tourism stakeholders in educating travelers about their responsibilities as tourists. The Juan Effect advocacy was previously launched in Boracay, Siargao, and Bohol.

**Potential Negative Impact of Contribution**

High volume of tourists in local areas may have detrimental effects to the environment and society.

**Management Approach to Negative Impact**

Close partnership and cooperation with stakeholders

**Annex A**  
**Cebu Pacific Environment and Social Policies**

**CEBU PACIFIC ENVIRONMENT and SOCIAL POLICIES**

In line with our corporate vision of building stronger nations where cultures and communities are connected, meaningful relationships are built, and lives are enriched by opportunities and experiences we make possible, Cebu Pacific strives to become one of the most respected and admired companies in our area. We recognize that environment and social responsibility is crucial to our long-term growth and profitability.

**ENVIRONMENT COMMITMENT**

Cebu Pacific takes great pride in enabling every Juan to fly to different places in the Philippines and to international destinations. As a mover of people and cargo and a key player in tourism and economic growth, we have a role in helping improve the livability of our destinations and promoting our natural wonders. We recognize the aviation industry's impact to the environment and understand that environmental stewardship is essential to the company's success and the country's future.

1. We comply with environmental laws and regulations, and where applicable, go beyond compliance and adapt international best practices to avoid environmental damage that would impact the business, environment, and community.
2. We aim to reduce carbon emissions from our operations through investments in technology, efficiency improvements, and optimization of flight operations. We will find ways to offset our emissions through globally accepted mechanisms.
3. We work towards reducing our environmental impact by implementing best practices for better waste management, energy efficiency and conservation, and resource efficiency throughout our operations through continuous monitoring, innovation, and appropriate technology investments.
  - Minimize waste and pollution through proper waste segregation, resource efficiency and keeping products and materials in use as much as possible, and by recovering and regenerating products and materials at the end of each service life;
  - Increase energy efficiency and practice energy conservation to reduce energy consumption; and
  - Optimize water consumption and prevent discharge of harmful substances into waterways and communities
4. We pay attention to the sustainability of our supply chain, and encourage our business partners and suppliers to work towards improving environmental practices.
5. We advocate for our workforce, customers, and other stakeholders to make pledges to help reduce negative impact to our environment, be it in our offices, our homes, and in our island destinations.

## SOCIAL COMMITMENT

Cebu Pacific puts people at the heart of our service and is committed to enabling everyJuan to live richer and fuller lives.

1. We prioritize the safety of our staff, passengers, and nearby communities and adhere to stringent Safety, Quality, and Security (SQS) and Occupational Safety and Health (OSH) policies.
2. We strive to create a fun, respectable, and meaningful working environment for our employees by providing fair compensation and benefits, opportunities for growth, learning, and development on a professional and personal level, and ensuring that employees are free from any form of discrimination or harassment.
3. We collaborate with our suppliers and key partners to protect the health and welfare of their employees and their stakeholders.
4. We make available platforms for stakeholder engagement that would enable us to hear and address employee, business partners, and community grievances related to E&S matters.
5. We participate in nation-building by contributing to development goals of partner organizations while also encouraging our employees and customers to boost domestic tourism, support local livelihoods, and other meaningful causes

We continuously seek to improve environmental and social performance. Metrics and key initiatives on E&S matters across the company and its affiliates are consolidated through the Sustainability Office.

E&S risks are monitored through the Data Privacy, Business Continuity, and Sustainability Board (DBSB); and accountable departments are expected to mitigate these risks in a timely manner.

Environmental and Social data are publicly disclosed through regular Environment, Social, and Governance communications and annual Sustainability Reporting to update stakeholders on Cebu Pacific's ESG performance.

Key partners are required to align with CEB E&S policies and comply with environmental laws and occupational health and safety standards. Manpower service providers must provide a grievance mechanism to its own employees. Prospective suppliers and 3rd party partners are required to accomplish an environment and social questionnaire as part of the procurement process.

For more information on the Cebu Pacific Environmental and Social Policies please contact:

[CEBSustainability@cebupacificair.com](mailto:CEBSustainability@cebupacificair.com)

For suppliers and third party service providers with mandatory E&S disclosures to Cebu Pacific, request a copy of disclosures and reporting requirements here: [CEBSustainability@cebupacificair.com](mailto:CEBSustainability@cebupacificair.com)

**Annex B**  
**Vendor Compliance Addendum**

**VENDOR COMPLIANCE ADDENDUM**

[Cebu Air, Inc. (doing business under the names and styles of Cebu Pacific and Cebu Pacific Air)] [Cebgo, Inc.], as a Philippine entity and in furtherance of the principles of corporate responsibility and good governance, takes compliance with laws seriously. Part of its compliance exercise is to ensure that it only contracts with partners and suppliers (the “Counterparty”) who have the same standards for compliance which it requires from all its counterpart.

Capitalized terms used herein shall have the meanings set forth in Clause 1 of this Addendum.

**1. Definitions**

“**Agreement**” means the [indicate contract or arrangement] between the Corporation and the Counterparty.

“**Corporation**” means [Cebu Air, Inc. or Cebgo, Inc.]

**2. Compliance with Laws and Policies**

Each Party represents and warrants, at all times, that it is conducting its business and operations in compliance with all applicable laws (including its sub-tier suppliers or subcontractors). In particular, each Party further represents and warrants that:

- 2.1 It shall comply with all applicable laws and regulations in relation to labor, including but not limited to, prohibition on involuntary servitude and child labor, freedom of association and collective bargaining, regularization, wages and benefits, working conditions, and non-discrimination of employees, among others. Further to its commitment to comply with applicable law, the Corporation is committed to undertake all reasonable steps to ensure the health, safety and welfare for the best interest of its employees and the communities where it operates by ensuring adherence to industry rules and regulations, standards of independent accreditation bodies where the Corporation obtained accreditation, and contractual obligation. At the minimum, all counterparties of the Corporation must comply and adhere to such standards and the following policies of the Corporation on occupational safety and health.

Each Party further undertakes that it has in place, and shall maintain in place, for the duration of this Agreement its own policies and procedures, a grievance mechanism for employees to raise reasonable workplace concerns. The mechanism should involve an appropriate level of management and address concerns promptly, using an understandable and transparent process that provides feedback to those concerned, without any retribution. The mechanism should also not impede access to other judicial and administrative remedies that might be available under law or through existing arbitration procedures, or substitute for grievance mechanisms provided through collective agreements. For the avoidance of doubt, each Party shall be solely responsible for and ensure resolution of the grievance raised by its employees.

- 2.2 It shall comply with all applicable national and international anti-corruption laws and regulations, including but not limited to Republic Act No. 6713 (Code of Conduct of Ethical Standards for Public Officials and Employees). At the minimum, each Party must adhere to the standards and policies of the Corporation in relation to anti-bribery and corruption, particularly its Anti-Bribery and Corruption Policy which may be accessed at (<https://cebupacificair.a.bigcontent.io/v1/static/CEBU'sAnti-BriberyandCorruptionPolicy>).
- 2.3 It shall comply with all applicable environmental laws, regulations and standards as well as implement an effective system to identify and eliminate potential hazards to the environment. At the minimum, each Party shall keep current all required environmental permits, approvals and registrations in relation to its business and operations and adhere to the standards and policies of the Corporation on environment and sustainability [*For A+ and LAV contracts, please include*] [and must mandatorily submit its environment metrics to the Corporation].

The authorized representative of the Counterparty will be given access to the link, which contains all the policies in this Clause.

**3. Audit**

The Corporation may confirm compliance with this Addendum by reasonable means regarding the Counterparty’s measures, practices, and policies in relation to compliance to this Addendum. The Counterparty shall exert utmost endeavors to fully cooperate.

**4. Equitable Relief**

The Counterparty acknowledges that any breach of its covenants or obligations set forth in this Addendum may cause the Corporation irreparable harm for which monetary damages would not be adequate compensation and agrees that, in the event of such breach or threatened breach, the Corporation is entitled to seek equitable relief, including a restraining order, injunctive relief, specific performance and any other relief that may be available from any court, in addition to any other remedy to which the Corporation may be entitled at law or in equity. Such remedies shall not be deemed to be exclusive, but shall be in addition to all other remedies available at law or in equity, subject to any express exclusions or limitations in this Addendum to the contrary.

**5. Material Breach**

The Counterparty’s failure to comply with any of the provisions of this Addendum is a material breach of this Agreement. In such event, the Corporation may terminate the Agreement effective immediately upon written notice to the Counterparty.

**6. Indemnification**

The Counterparty shall defend, indemnify and hold harmless the Corporation, its affiliates and its respective officers, directors, employees, agents, successors and permitted assigns (each, an “Indemnitee”) from and against all losses, damages, liabilities, deficiencies, actions, judgments, interest, awards, penalties, fines, costs or expenses of whatever kind, including reasonable attorney’s fees, the cost of enforcing any right to indemnification hereunder and the cost of pursuing any insurance providers, arising out of or resulting from any third party claim against any Indemnitee due to Counterparty’s failure to comply with any of its obligations under this Addendum.

**7. Integration**

This Addendum is made an integral part of the Agreement between the Corporation and the Counterparty. In case of any conflict between the provisions of this Addendum and the Agreement, the provisions of this Addendum shall prevail.

By signing on the space provided below (digitally or otherwise), the authorized signatory of the Counterparty pledges and affirms the due execution and compliance by the Counterparty with the terms of this Addendum.

|                                  |  |
|----------------------------------|--|
| REGISTERED NAME OF COUNTERPARTY  |  |
| NAME OF AUTHORIZED SIGNATORY     |  |
| POSITION OF AUTHORIZED SIGNATORY |  |
| DATE OF SIGNATURE                |  |
| SIGNATURE                        |  |

## Environmental, Social & Governance Questionnaire<sup>1</sup>

|  | Y | N |
|--|---|---|
| 1. Any environmental sanctions and fines in the last 3 years? If yes, please specify. (Score: 1 – No; 0 – Yes)   |   |   |
| 2. Any significant labor cases in the last 3 years? If yes, please give details. (Score: 1-No; 0-Yes)  |   |   |
| 3. Do you have any environmental programs and policies (i.e., emissions reduction, recycling, materials recovery, or circularity programs) in place? Are there opportunities for involvement (i.e., can collect ink cartridges or used paper for recycling, reducing Cebu Pacific Air, Inc.-CEB waste)? (Score: 1 – Yes; 0 – No) |   |   |
| 4. Do you have complete and up-to-date environmental and discharge permits? If yes, please provide copies. (Score: 1 – Yes; 0 – No)  |   |   |
| 5. Do you prefer and promote the use of environment-friendly, sustainably sourced materials (i.e., less packaging/recycled/recyclable) when available and when practical. Examples: recycled paper products, non-toxic cleaners, smart power strips, LED light bulbs, biodegradable packaging. (Score: 1 – Yes; 0 – No)          |   |   |
| 6. Does the company comply with all local labor laws (remuneration, working hours, employment status etc.)? (Score: 1 – Yes; 0 – No)<br><br>If yes, are you willing to show sample records?  |   |   |
| 7. Does the company have any policies and programs for the prevention of Bribery and Corruption within and in relation to external transactions? If yes, are you willing to show sample records? (Score: 1 – Yes; 0 – No)  |   |   |
| 8. Does the company have any specific policies against forced labor, child labor, or human rights violations? If yes, are you willing to show sample records? (Score: 1 – Yes; 0 – No)   |   |   |
| 9. Does the company have programs to promote a healthy and safe working environment (basic services, working condition, emergency preparedness, first aid, etc.)? If yes, are you willing to show sample records? (Score: 1 – Yes; 0 – No)   |   |   |
| 10. Preference for local suppliers (decrease transportation cost and associated carbon emissions, support for local businesses vs international importation to contribute to the local economy, energy-efficient products). Please cite examples. (Score: 1 – Yes; 0 – No)   |   |   |

<sup>1</sup> This would apply at the time of procurement for new suppliers.