



ANNUAL REPORT



More flights for everyJuan

More new destinations to discover and more connections to existing ones got more people plane-hopping in 2019.

22,468

Passengers Carried

↑ 11% from 2018

26,013

Available Seats

↑ 9% from 2018

86%

Seat Load Factor

↑ 1% from 2018

Financial Highlights

PAGE 11

Profits more than double!

An extraordinary, recovery year for CEB backed by the start of upgauging strategy.



Message to Shareholders

PAGE 6

Making moments

Cebu Pacific continues to make flying safe, affordable and accessible to everyJuan.



View Products

PAGE 26

Table of Contents

Who We Are.....	4
Message to Shareholders.....	6
Key Operating Statistics & Financial Highlights.....	11
Board of Directors.....	14
Senior Management & Consultants.....	16
Our Fleet.....	20
Where We Fly.....	23
Our Products.....	26
2019 Highlights.....	37
Contact Us.....	55
Financial Statements.....	57



Cebu Pacific would not be here today without Mr. John Gokongwei and his desire to answer the Filipinos' need for more affordable travel.

[Read Tribute](#)

PAGE 10

Who We Are



Our Vision

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

Our Purpose

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

Our Values

SERVICE

We put people at the heart of service.

INTEGRITY

We do what is right.

TRUST

We cultivate trust and commit to collaboration.

COURAGE

We relentlessly pursue new ideas and better solutions.

BEST OF FILIPINO SPIRIT

We live the best of Filipino spirit at all times.

Message to Shareholders

An extraordinary, recovery year for CEB backed by the start of upgauging strategy.



To our dear Shareholders,

2019 was remarkable as CEB profits more than doubled!

2019 was a remarkable year for your Company! We entered recovery phase and exhibited resiliency from the Philippine Aviation storm of 2018, as macroeconomic environment became more favorable. Average Jet fuel prices dropped 9% year on year to \$77.24 per barrel (source: Mean of Platts Singapore), while the Philippine Peso (PHP) appreciated 2% to 51.79 per US Dollar. Average interest rates also decreased: 3-month USD London Interbank Offer Rate lowered from 2.8% to 1.9% p.a. while ,3-month PHP Bloomberg Valuation decreased from 5.9% to 3.2% p.a. The reopening of Boracay last May was likewise good news for operations as tourists once again flocked the island.

2019 also posted challenges. High traffic in and out of Manila amidst bad weather conditions created a domino effect last 2nd quarter,

reducing our on-time performance (OTP) level to 59%. We recovered, as we increased OTP to 73% as of July, and recovery continued, as we achieved an OTP level of 86% last October- a first in 7 years.

Overall, we are pleased to report full year 2019 revenues of PHP84.8 billion, That's up 14% year on year, backed by 14% growth in passenger revenue to PHP61.7 billion, as we flew a total of 22.5 million, passengers, 11% higher than previous year.

Ancillary revenue posted a 21% growth to PHP17.4 billion, while cargo revenue grew 5% to PHP5.7 billion. With these, we were able to record a healthy EBITDAR margin of 36% and EBIT margin of 15%. We are proud to say our net income grew more than double: from P3.9B in 2018 to Php9.1 in 2019. With these, CEB remains one of the most profitable airlines in the country, and globally.

New engine options support CEB sustainability program

We began 2019 with the delivery of our first of 32 Airbus A321 with New Engine Option (NEO). To accelerate our shift to an all NEO fleet, we made an additional order of 16 A330 NEOs and 15 A320 NEOs. As the launch customer for the new A330-900 NEOs with 460 seats, we will have the densest A330 in the world, Similarly, at 194 seats, CEB's 15 A320 NEOs will likewise have the densest seat configuration, helping CEB hasten replacement of its remaining 180-seat A320 CEOs, enabling long term growth while reducing the need for increase in flight frequencies. This up-gauge strategy will provide CEB with the lowest cost per available seat kilometer for the missions it will be deployed.

In addition to its fuel efficiency and high seat density, NEOs will have lower CO2 emissions per flight, and a smaller carbon footprint, allowing CEB to offer excellent value while remaining sustainably competitive in the market.

Suffice to say, the acquisition of these new aircraft becomes the cornerstone of our sustainability program, supporting previously initiated sustainability programs for the environment, education and community, such as Juan Effect in partnership with the Philippine Department of Tourism, our Tree Planting Activities in line with Board of Investments, and our Cadet Pilot Program, among others, which are all still ongoing.

Up-gauge strategy supports our growth and leadership

In 2019, our North ASEAN and long haul markets performed very well. Hong Kong, Narita, and Singapore, Dubai and Sydney, were among our

top international destinations in terms of passengers and revenue.

Such international growth was backed by our up-gauge strategy. We upgraded key routes such as Manila to Osaka and Shanghai from our 180 seat A320 to 436 seat A330 aircraft. We also launched several short-haul routes from ex-Manila hubs, enabling passengers from Northern Luzon and Visayas to fly to Shanghai, Shenzhen and Narita. Likewise, we added frequencies to Bangkok and other destinations.

Domestic leadership was retained with 51% market share, (source: Civil Aeronautics Board statistics). CEB boosted domestic capacity in Clark, adding direct connections to Cebu, Caticlan, Iloilo, Bacolod, Davao, and Tagbilaran among others. Clark emerged as one of Asia's fastest growing airports, with passenger volume breaching 2.5 million in 2018. With an estimated population of 23 million, there remains a significant untapped market covering northern provinces in the Philippines, posting an opportunity for further expansion.

To summarize, your Company remains to be the leader on all key metrics, having the most passengers, seats, destinations, routes, and flights.

In 2019, we flew a total of 22.5 million, passengers to 64 destinations through 113 routes, with more than 3,300 weekly flights, achieving PHP84.8 billion in revenue and PHP9.1 billion in net profit.

Solid balance sheet poised for growth and challenges

Amidst these remarkable achievements, your Company's financial position remains strong and liquid, ending 2019 with cash and cash equivalents of PHP18.2 billion, total assets of PHP157.2 billion, and net debt level at a conservative 125% of equity. Such robust financial strength will help us to exhibit resiliency amidst headwinds as well as support further growth when opportunities arise.

Our gratitude and appreciation

Cebu Pacific would not be here today without Mr. John Gokongwei and his desire to answer the Filipinos' need for more affordable travel.

Until today, I think Mr. John was most successful with business that catered to every man, the common man, because that was who he was himself. Certainly, 2019 was one of those moments Mr. John would be really proud of. Let me take this opportunity to express my gratitude to the man behind the success of your Company. This is his legacy. Thank you, Dad.

We would also like to thank our shareholders, board of directors, and you, our dear passengers, for your continued trust and confidence in our Company. Our sincere gratitude also goes to our management team

and employees for their passion and dedication to serve. 2019 would not be as remarkable as it is without you. To our suppliers and business partners, your trust and support continue to motivate us as we sustain our progress. We commit to unveil new opportunities to reaffirm our status as the country's largest and preferred flag carrier by providing you with trademark low fares, safe and fun flights, and effective service.

Facing 2020 with strong headwinds

While it becomes obvious that we once again face several hurdles since the start of 2020, particularly with the ongoing COVID-19 crisis, CEB management team has made a difficult decision to suspend all our passenger flights from March 15 to May 15, 2020, while enhanced community quarantine measures are in effect. As we deeply care for the safety of our passengers and

employees, during these uncertain times, I ask that you take care of your personal health and safety, as well as that of your loved ones. Please support the entire nation's efforts to contain and control Coronavirus by following community quarantine measures that are in place. We will continue to reach out to you, our dear customers, to address your concerns, with the aid of various materials which we have prepared.

We are hopeful that this crisis shall pass soon and until then, we remain resilient for you. Together, we will get through this and will emerge from this as a better and stronger Company.

**Maraming Salamat, EVERY JUAN!
Until our next Cebu Pacific flight!**

Lance Y. Gokongwei
PRESIDENT & CEO



Mr. John Gokongwei

AUG 1926 - NOV 2019

Mr. John, as we fondly called him, was the founder of the first Philippine multinational conglomerate; a philanthropist with a passion for education; a visionary. He was an inspiration to entrepreneurs and businessmen around the nation, with his pioneering ideas, his strong work ethic, his passion, and perseverance.

Today, the Gokongwei Group is one of the country's largest and most diversified conglomerates with interests in air transportation, telecommunications, banking, food, power, property, hospitality, retail, and petrochemicals.

Financial Highlights

22,468

Passengers Carried

↑ 11% from 2018

86%

Seat Load Factor

↑ 1% from 2018

26,013

Available Seats

↑ 9% from 2018



	YEARS ENDED DEC 31			2019 VS 2018	
	2019	2018	2017	Inc (DEC)	% Change
Passengers Carried	22,468	20,280	19,745	2,188	11%
Available Seats	26,013	23,909	23,492	2,103	9%
Seat Load Factor	86%	85%	84%	1.0 ppt	-
RPK million	24,883	21,736	21,301	3,148	14%
ASK million	29,298	25,881	26,233	3,417	13%
Number of sectors flown	143,897	135,071	136,849	8,826	7%
Fleet size at period end	75	71	61	4	6%

	YEARS ENDED DEC 31			2019 VS 2018	
	2019	2018	2017	Inc (DEC)	% Change
Total revenues	84,807	74,114	68,029	10,693	14%
Total Operating expenses	72,186	67,064	57,895	5,122	8%
Operating Income loss	12,621	7,050	10,134	5,571	79%
Pre-tax core net income	10,299	5,485	9,036	4,814	88%
EBITDA	28,020	14,529	16,974	13,491	93%
Total Assets	157,733	129,391	109,077	28,341	22%
Total Liabilities	112,832	89,289	69,291	23,542	26%
Equity	44,901	40,102	39,786	4,799	12%
Basic/diluted earnings per share	15.22	6.50	13.05	8.72	134%

Board of Directors



John Gokongwei

Director

† NOVEMBER 2019



James L. Go

Director



Lance Y. Gokongwei

Director, President &
Chief Executive Officer (CEO)



Jose F. Buenaventura
Director



Antonio L. Go
Director



Robina Y. Gokongwei-Pe
Director



Frederick D. Go
Director



Wee Khoon Oh
Independent Director



Cornerlio T. Peralta
Independent Director

Senior Management & Consultants



Mike Szucs
Chief Executive Adviser



Alexander Lao
Chief Strategy Officer



Michael Ivan Shau
Chief Operating Officer



Andy Huang
Chief Finance Officer



Lauren Cansana
Chief Information Officer



Alex Reyes
President & CEO, Cebgo



Candice Iyog
Vice President,
Marketing & Customer Experience



Atty. JR Mantaring
Vice President,
Corporate Affairs



Capt. Sam Avila
Vice President,
Flight Operations



Lei Apostol
Vice President,
Cabin Services



Felix Lopez
Vice President,
People



Atty. Dinnie Tieng
Vice President,
Legal Affairs



Capt. Manny Ilagan
Vice President,
Safety, Quality & Security



Titit Menchaca
Vice President,
Quality Assurance for Ground
Operations & Cabin Services



Robin Dui
Vice President,
Comptroller



Joey Macagga
Vice President,
Fuel Operations



Javier Massot
Senior Adviser,
Ground Operations



Ian Wolfe
Senior Adviser,
Engineering & Fleet Management

Our Fleet

CEB finished 2019 with 75 aircraft.

CEB finished 2019 with 75 aircraft, comprised of eight Airbus A330CEO (Current Engine Option), 30 Airbus A320CEO, seven A321CEO, five Airbus A321NEO (New Engine Option), four Airbus A320NEO, 13 ATR 72-600, seven ATR 72-500, and one ATR Freighter.

Cebu Pacific operates one of the youngest fleets in the world with an average age of 5 years as of end of 2019.

Airbus



Cebu Pacific ended 2019 with eight Airbus A330CEO, 30 Airbus A320CEO, seven A321CEO, five Airbus A321NEO and four Airbus A320NEO aircraft.

The Airbus A330 leads CEB's Airbus fleet with a single-class 436-seat capacity, both used for international flights, as well as to domestic destinations with high passenger volume, like Cebu and Davao. Most of the fleet is composed of the A320CEO with 180 seats.

The newest addition to the fleet are the A321CEO with 230 seats, A321NEO with 236 seats, and the A320NEO with 188 seats – all made by world-renowned seat manufacturer Recaro. These seats

are lighter and ergonomically designed, giving passengers more legroom. Each seat is also equipped with a USB port which allows passengers to charge their mobile devices inflight.

Between 2020 and 2026, Cebu Pacific will take delivery of 27 Airbus A321NEO, one more Airbus A320NEO, and the newly-confirmed orders of 16 A330NEO, 5 A320NEO, and 10 A321XLR aircraft. This latest order accelerates the carrier's plan to boost capacity while shifting to more fuel-efficient and eco-friendly aircraft.

By 2024, Cebu Pacific expects to have an all-next generation fleet of Airbus jets.





In 2019, CEB took delivery of its 13th ATR 72-600 high capacity aircraft out of the 16 it ordered at the 2015 Paris Airshow. CEB ended the year with 21 in its ATR fleet, eight of which are its existing 72-500 aircraft, with one already converted to a freighter.

These turboprop aircraft manufactured by Avions de Transport Regional (ATR) in Toulouse, France, are known for their reliability, ease of maintenance, and ability to land on short runways—making the ATR the top choice in the turboprop class.

Equipped with the high-density Armonia cabin, the new high-capacity 72-600 also has 78 slimline seats and

wider overhead bins with 30% more stowage space when compared to the 72-500 model. The new 72-600 model is also known to have more efficient fuel burn, which translates to more affordable fares for every Juan.

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

Between 2020 and 2022, Cebu Pacific will take delivery of three more ATR 72-600 to be utilized for more connectivity between the Philippines' many islands.

1
ATR
Freighter

7
ATR
72-500

13
ATR
72-600

Where We Fly

International

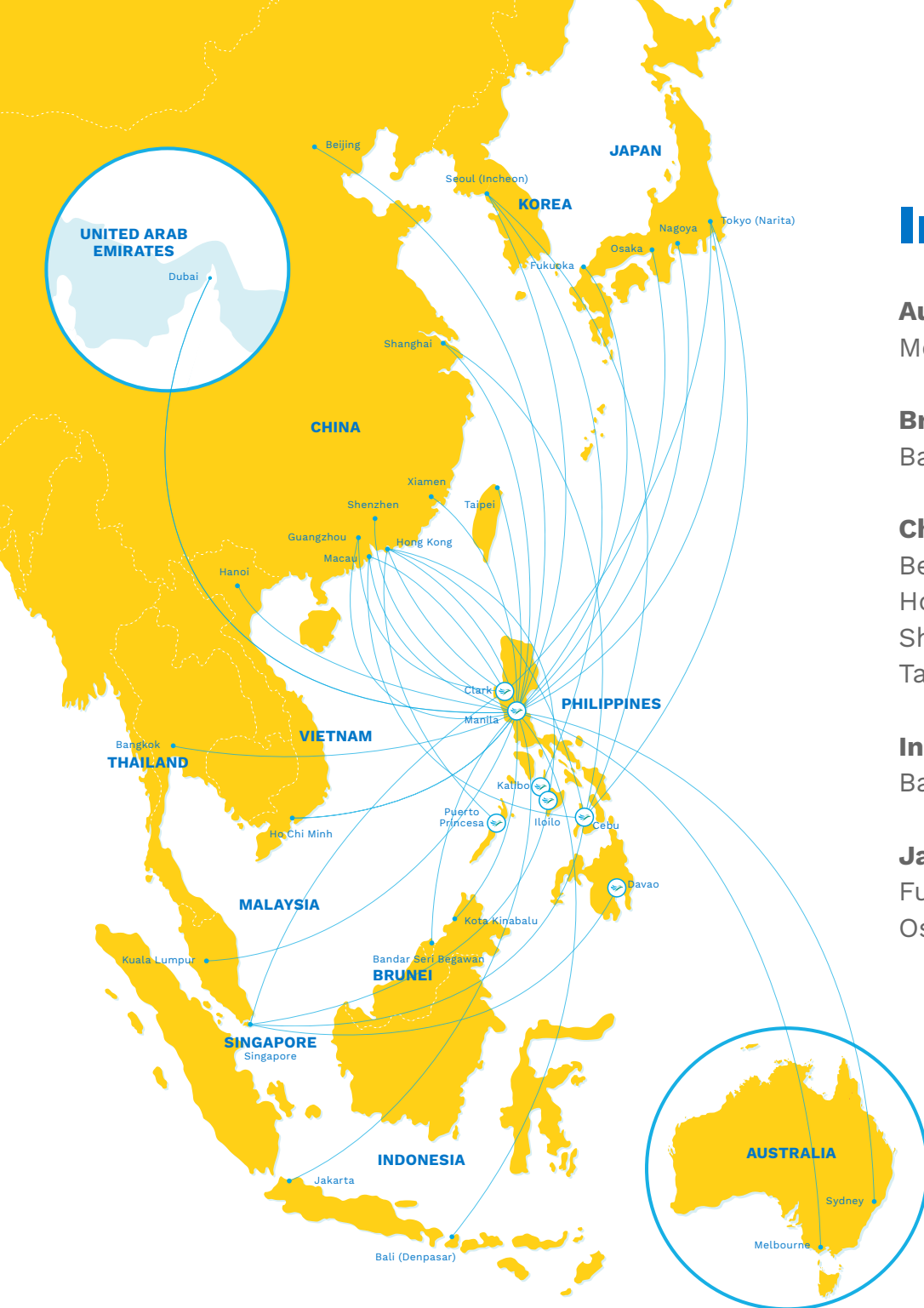
Australia
Brunei
China
Indonesia
Japan
Korea
Malaysia
Singapore
Thailand
United Arab Emirates
Vietnam

Domestic

Bacolod
Batanes
Bohol
Boracay
Butuan
Calbayog
Cagayan de Oro
Camiguin
Cauayan
Cebu
Clark
Coron
Cotabato

Davao
Dipolog
Dumaguete
General Santos
Iloilo
Kalibo
Legazpi
Manila
Marinduque
Masbate
Naga
Ozamiz
Pagadian

Puerto Princesa
Roxas
San Jose
Siargao
Surigao
Tablas
Tacloban
Tawi-Tawi
Tuguegarao
Virac
Zamboanga



International Destinations

Australia

Melbourne, Sydney

Brunei

Bandar Seri Begawan

China

Beijing, Guangzhou, Hong Kong, Macau, Shanghai, Shenzhen, Taipei, Xiamen

Indonesia

Bali (Denpasar), Jakarta

Japan

Fukuoka, Nagoya, Osaka, Tokyo (Narita)

Korea

Seoul (Incheon)

Malaysia

Kota Kinabalu, Kuala Lumpur

Singapore

Thailand

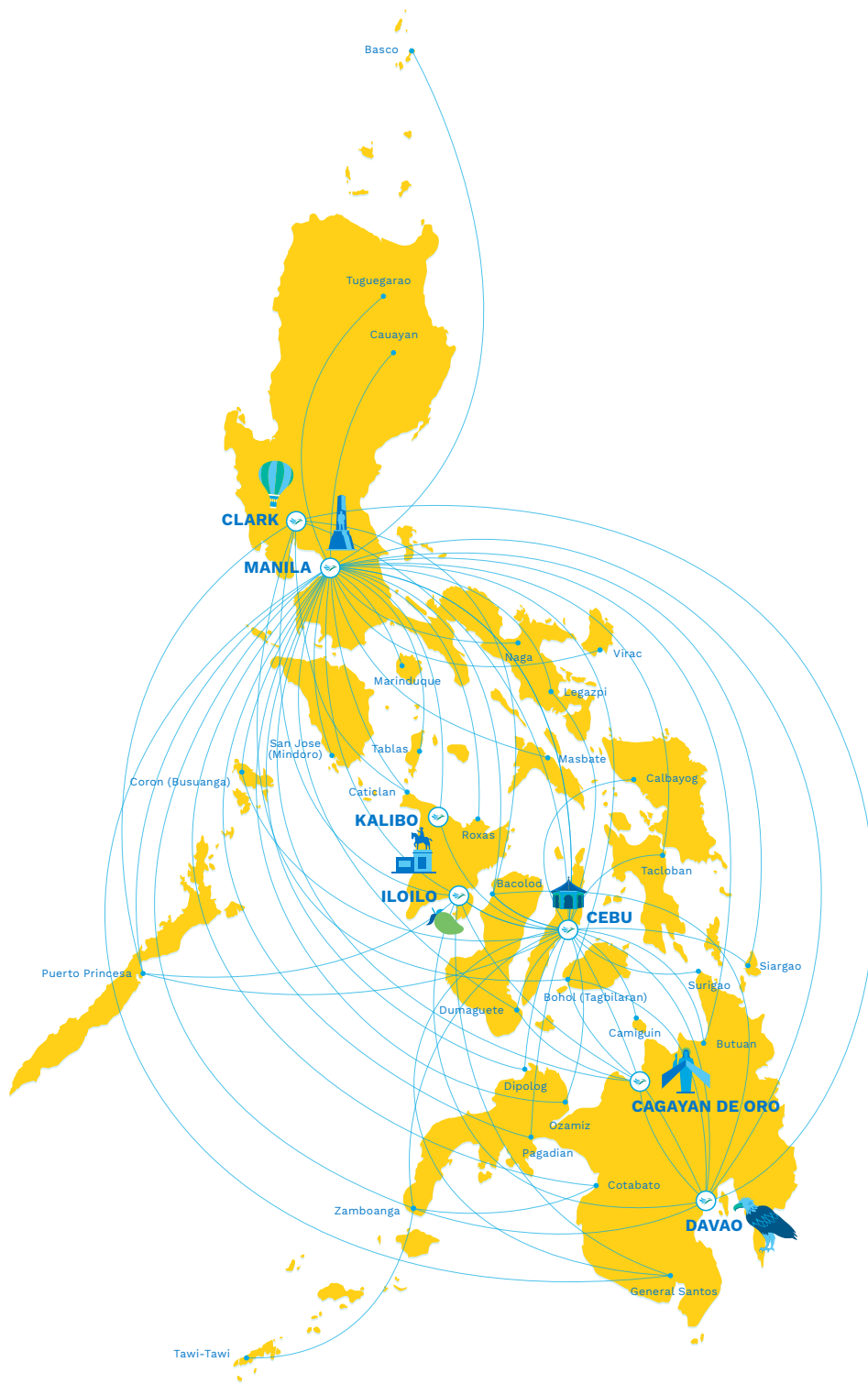
Bangkok

United Arab Emirates

Dubai

Vietnam

Hanoi, Ho Chi Minh



Domestic Destinations

Bacolod	Legazpi
Batanes (Basco)	Manila
Bohol (Tagbilaran)	Marinduque
Boracay (Caticlan)	Masbate
Butuan	Naga
Calbayog	O Zamiz
Cagayan de Oro	Pagadian
Camiguin	Puerto Princesa
Cauayan	Roxas
Cebu	San Jose (Mindoro)
Clark	Siargao
Coron (Busuanga)	Surigao
Cotabato	Tablas
Davao	Tacloban
Dipolog	Tawi-Tawi
Dumaguete	Tuguegarao
General Santos	Virac
Iloilo	Zamboanga
Kalibo	

Our Products

CEB Fare Bundles

GetGo

CEB Mobile App

Charlie the Chatbot

Fast Check-in Options

CEB Prepaid Baggage

CEB Seat Selector

Payment Options

Smile & Waytogo

CEB Travelsure

CEB Sports Equipment

CEB Surfboard

CEB Transfers

CEB Cargo

CEB Biz

Fun Cafe

CEB Moments

CEB Meals

CEB Getaways

CEB Wi-Fi Kit

CEB Flexi



CEB Fare Bundles offer a simple solution for guests looking to book their travel essentials in one easy step. Different fare options are now available to guests with different travel preferences and requirements: “Fly” is for airfare only, “Fly+Bag” is for airfare and baggage allowance, and “Fly+Bag+Meal” is for airfare, baggage allowance, and meal.

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



GetGo is CEB’s lifestyle rewards program that allows guests to accumulate points with their Cebu Pacific and Cebgo flights, as well as with their everyday expenses and transactions with GetGo partners. With enough accumulated points, members may redeem free flights.

For more information, guests can visit the GetGo website.

www.GetGo.com.ph



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

[Download app](#)





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

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

More than that, Charlie is online 24/7 to provide answers to frequently asked questions about booking and requirements needed before the

flight. Customers may also be lead to relevant information about other offerings, such as premium seat selections, inflight meals, baggage allowance, and more!

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

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



Fast Check-in Options

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

Mobile Check-in

Guests can check-in via the official Cebu Pacific Mobile App from seven days up to four hours before international flight departure, and up to one hour before domestic flight departure. With the Cebu Pacific Mobile App, there is no need to get a paper boarding pass for flights to and from select domestic and international destinations. Guests can simply flash the Boarding Pass from their app and board the flight.

Web Check-in

Cebu Pacific was the first airline in the Philippines to provide guests the option to check-in for their flights online. This is available from seven days up to four hours before international flight departure, and up to one hour before domestic flight departure.

Kiosk Check-in

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





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

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

[Pre-order now](#)



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

[View seat options](#)

Payment Centers

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

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



Payment Options

Cebu Pacific guests can also book online and pay using their credit cards:
VISA • Mastercard • AMEX • JCB



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



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



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

[Visit waytogo.cebupacificair.com](http://waytogo.cebupacificair.com)



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

TravelSure covers:

- Emergency medical treatment in case of accident or sickness during travel
- Unexpected travel circumstances like cancellations or delays due to weather, loss of travel documents or luggage, and other unforeseen events
- **Personal accidents**
Recovery of travel expenses or reimbursement of the unused portion of travel and accommodation expenses
- **Baggage Protect**
An insurance add-on that covers any unforeseen physical loss or damage to checked baggage.

Depending on the country of origin, insurance is underwritten by either Chubb or Malayan Insurance.

[Get CEB Travelsure](#)



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

Equipment covered by this service include:

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

[Book CEB Sports Equipment](#)



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

[Book CEB Surfboard](#)



Cebu Pacific and Cebgo guests can now avail of CEB Transfers, safe and seamless land transfer service available in many Philippine destinations. Passengers can book CEB Transfers from Caticlan or Kalibo airports to the guests' hotel or resort in the island of Boracay, to and from El Nido and Sabang (via Puerto Princesa) in Palawan. New services include transfers between the airport and various points of the city in Iloilo, Bacolod, Roxas, and Bohol. The CEB Transfers service in partnership with Southwest Tours Inc., and Lexus Shuttle Services.

[Book CEB Transfers](#)



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

The Cebu Pacific Air group is the largest domestic cargo carrier, representing 46% of the market, with over 152.1 million kilos delivered to domestic destinations in full year 2019. CEB Cargo also contributes quite heavily to the total CEB business, having delivered a total of 62 million kilos to international destinations in 2019. It services more than 1,500 accounts ranging from logistics, e-commerce and other industries, tailor-fitting

products to the clients' domestic and international cargo needs. This includes express cargo service, seamless transshipment, and over 40 interline partnerships for worldwide reach.

[Visit CEB Cargo site](#)



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

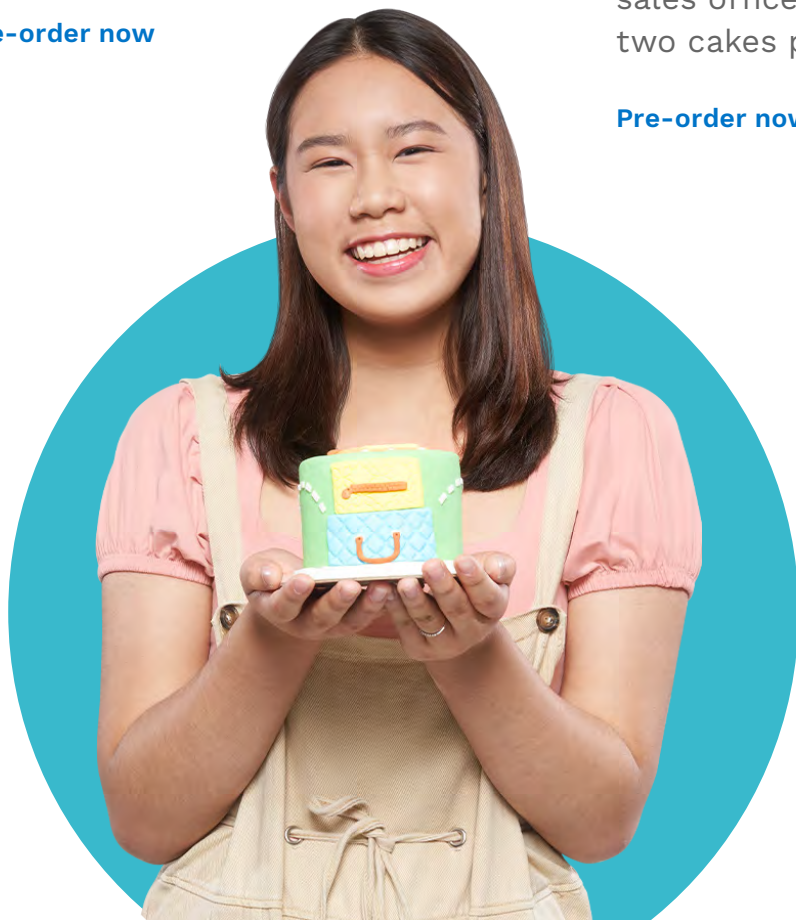
[Visit CEB Biz site](#)





Cebu Pacific's Fun Shop presents a wide variety of flavorful buy-on-board snacks and drinks fit for everyone's taste. Hearty rice meals and specialty snacks are exclusively available for pre-order at cebupacificair.com

[Pre-order now](#)



The perfect package to celebrate milestones on board a Cebu Pacific flight. CEB Moments cake and greeting card are available for pre-order up to 72 hours before your flight. This may be done online, or through the reservation hotlines and sales offices. You may order up to two cakes per flight.

[Pre-order now](#)



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

[Pre-order now](#)





Cebu Pacific now offers flight and hotel packages through CEB Getaways. This offers a convenient and seamless travel package solution for Cebu Pacific flyers. In partnership with GoQuo Pte Ltd., this enables us to offer low fares and affordable hotel options in different destinations.

[Visit CEB Getaways site](#)



Easily share your travel moments on the go! Cebu Pacific offers a rentable pocket wi-fi that also doubles as a power bank. Stay connected with the group and share travel moments anytime, anywhere, with fast and reliable internet connection when travelling abroad. In partnership with Big Sky Nation, this service is available for international flights* to and from Manila-NAIA Terminal 3 and can be pre-ordered online, or through the call center and sales offices.

*except to Dubai and Brunei

[Book your CEB Wi-Fi Kit](#)



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

[Visit CEB Flexi site](#)



2019 Highlights

Cebu Pacific, on its 23rd year, sets the stage for its next phase of expansion.

In 2019, the Philippines' leading carrier flew 22 million passengers and closed the year with a fleet of 75 aircraft. The year is marked with the arrival of next-generation jets, capacity leadership in key hubs, global industry membership, and an expanded sustainability agenda.



New Aircraft & Network Growth

New Aircraft

New Engine Option jets entered the Cebu Pacific fleet in 2019, laying the foundation of the next stage of re-fleet for Cebu Pacific. Cebu Pacific welcomed a total of 12 new aircraft – six Airbus 321NEOS (New Engine Options) and five (5) Airbus A320NEO and an ATR 72-600.

The 236-seater A321neo has 31% more capacity against the A320, allowing CEB to incrementally increase service to routes with higher demand, without necessarily having to mount additional flights. This warrants its ecoplane seal.



Cebu Pacific President and CEO Lance Y. Gokongwei formally welcomes the A321neo in the CEB fleet.



The A321neo is more fuel efficient while covering more distances and carrying more passengers.

In addition, the A321neo has USB ports for charging of devices while on the flight. Its seats are made by renowned manufacturer Recaro, ergonomically designed with a fixed natural incline and of lighter material for a more comfortable seating experience.

CEB's first dedicated cargo freighter, a passenger ATR 72-500 converted into an all-cargo configuration, entered into service in 2019. With a capacity of seven tons, the cargo freighter initially serviced two destinations carrying e-commerce and general cargo. The CEB Cargo ATR freighter makes CEB the first passenger airline to operate an all-cargo aircraft.



The CEB Cargo freighter is operated by CEB's wholly-owned subsidiary Cebgo.



A321neo seats are made by Recaro, of lighter density material and designed with a natural incline for more comfort.



A321neo seats come with USB ports for charging of devices in-flight.



CEB formally receives the CEB Cargo ATR 72-500 all-cargo freighter.

Network Growth

More routes across hubs

With new destinations and new routes opened in 2019, Cebu Pacific further boosted its network growth. It also ended the year as the largest carrier, capacity-wise at Clark International Airport with a 28% share, and Palawan, counting both Busuanga (Coron) and Puerto Princesa at 46% share.

China was a particular area of growth with a new destination, Shenzhen, from Manila; and new routes directly connecting Shanghai and Guangzhou to hubs Cebu and Clark, respectively.

The Manila-Marinduque-Manila service was inaugurated in April, cutting the equivalent of an eight-hour journey by land and ferry to an hour's flight.



CEB ends the year as capacity leader in its Clark hub, with new international connections to Narita and Guangzhou; and new domestic connections to Bacolod, Iloilo, and Puerto Princesa.



Marinduque is a new CEB destination, with the direct service to and from Manila inaugurated on April 1, 2019.



CEB flies Cebu to Coron (Busuanga) twice daily.

The airline further pushed growth in Northern and Central Luzon with the beginning of operations to three new routes from the Clark hub – Bacolod, Iloilo and Tokyo (Narita), Japan. Clark-Narita is the first from the hub to fly directly to the gateway of Japan's capital.



CEB launches first commercial international flight from Palawan (Puerto Princesa) to Hong Kong.

To close off the year, CEB boosted presence in Palawan with two new routes: Coron (Busuanga) – Cebu and Puerto Princesa – Hong Kong, the first commercial international service from Palawan.

With this, CEB was the largest carrier capacity-wise at the Clark International Airport with a 28% share and the Busuanga and Puerto Princesa airports in Palawan with a 46% share.

Services for passengers

In January, Cebu Pacific's chatbot, Charlie, was launched to address customer concerns in real time. Charlie can answer frequently asked questions via the official Facebook page or the Cebu Pacific website. Among his capabilities are assisting passengers in checking in for their flights, and to provide flight itineraries or boarding passes.

The CEB Wi-Fi Kit was also launched in 2019, so users can enjoy connectivity while on their travels. In partnership with Big Sky Nation, the pocket Wi-Fi service is good for unlimited data up to 4G/LTE speeds in over 100 countries. The rentable device can connect up to five (5) gadgets at a time and also works as a power bank.



CEB Wi-Fi Kit keeps travelers connected



CEB was given a 98% rating by the Bureau of Quarantine for passing four audits in 2019, and was awarded its HACCP certification proving CEB's commitment to operate under strict food-safety conditions.



CEB Flexi is an invaluable add-on made available to the public. It offers a cost-efficient way to rebook tickets should the passenger encounter changes in schedule or circumstances. Availed on initial booking, CEB Flexi allows passengers to rebook their flights twice, up to two hours before scheduled time of departure.



CEB was also awarded the Halal Certificate by the HDIP in 2019, confirming that CEB's selected inflight meals have been prepared in accordance with Islamic Law and the Philippine Halal standards.

As part of its continued efforts to delight passengers, CEB Meals offer refreshed menus every season, and has included options for vegetarians. Meals are Halal-certified and prepared in compliance with the Hazard Analysis Critical Control Points (HACCP) system for international food safety.

Organizational Milestones

CEB as IATA member

In 2019, Cebu Pacific was formally inducted into the International Air Transport Association (IATA), the trade association of the global airline industry.

CEB joins a membership of over 290 airlines from 117 countries all over the world, representing 82% of global air traffic. Cebu Pacific is IATA's largest member among Philippine carriers.



Regional Vice President for Asia Pacific of the International Air Transport Association Conrad Clifford presents the IATA Certificate of Membership to Cebu Pacific President and CEO Lance Gokongwei.

Awards Received

The company's efforts for the Juan Effect program and the Cadet Pilot program have garnered multiple awards from different public relations associations such as the PRSP's Anvil Awards, the IABC's Quill Awards. These endeavors were also recognized by the JG Pride in Performance, PR Asia and the DSWD Salamat Po Awards.



Among CEB's recognition in 2019 came are awards from the Philippine Association of National Advertisers (PANA).



CEB's Juan Effect placed Bronze at the Asia-Pacific Tambuli Awards 2019.



Juan Effect won Best CSR Program at the 2019 PR Awards in Singapore.

Sustainability

In 2019, CEB flew an average of 61,500 passengers a day. As CEB continues to grow with more aircraft in its fleet, and more destinations and routes in its network, it is imperative to integrate sustainable business practices in core operations, keeping in mind the welfare and well-being of staff, the environment and the communities served.

Environmental Stewardship

As a mover of people and products, Cebu Pacific is a main contributor to economic growth through tourism and transport. However, this growth can also come at a cost to the environment. CEB mitigates its impact by streamlining operations and making investments accordingly.

Foremost of these investments is on the CEB fleet, exerting extra effort on efficient fuel use and keeping carbon emissions in check. The CEB fleet is one of the youngest in the world, with an average of five years in 2019. The current aircraft order supports a plan to have, by 2024, a fleet of all new-generation aircraft, designed to be quieter, more fuel efficient and less harmful to the environment.



Department of Tourism Secretary Bernadette Romulo-Puyat joined celebrity ambassadors Jasmine Curtis-Smith, Erwan Heusaff and Kyle “Kulas” Jennerman of “Becoming Filipino” on its launch.

CEB also employs strategies to reduce fuel consumption and emissions, which involves identifying the most efficient flight paths and encouraging pilots to apply industry-accepted best practices in fuel efficiency.

In 2019, CEB's total carbon emissions from flights was 2.01 million tons of CO₂ for 143,897 domestic and international flights. On the current fleet, this translated to CEB generating approximately 80.42 grams of carbon for each kilometer travelled by a passenger (gCO₂/pk). Despite having more flights from 2018 to 2019, the younger fleet age and efficiency of planes enabled CEB to lower the carbon emissions intensity per passenger by 5.6% from 2018's intensity of 85.21g CO₂/pk.

Alongside these initiatives was reduction of electricity use in the head office by 6% , against a 5% target through investments in energy efficiency measures. CEB Inflight Catering Services has spearheaded the shift to more eco-friendly utensils since October 2018, and continues efforts towards more biodegradable

food packaging. Cabin crew have also started segregating waste inflight, where used PET bottles are collected for upcycling.

CEB has also ramped up its sustainability tourism program, Juan Effect, in partnership with the Department of Tourism

(DOT), local government agencies, tourism stakeholders, and travelers themselves. Formally launched in its pilot site Siargao, the award-winning campaign garnered close to 20,000 pledges—a strong showing of support towards practicing responsible travel habits to preserve natural resources for future generations.



Siargao is CEB's Juan Effect pilot site.

Contributions to Local Economy

As Cebu Pacific grows, it strives to create a ripple effect on local businesses so the community grows along with it.

CEB actively encourages local suppliers to be part of the products and services ecosystem. Sixty percent (60%) of CEB's non-aircraft purchases come from local suppliers. Some of the top non-aircraft purchases are ground service parts and services, cargo, catering, IT software and hardware, and safety and security.



CEB Cargo provides logistical support for businesses, transporting perishable products, and supports in humanitarian aid.



The CEB Cargo dedicated freighter can serve more areas within the Philippines.

CEB also creates opportunities to empower small- and medium-sized enterprises, in particular to become part of the suppliers of Inflight Catering Services. Working with the ICS to level up their operations up to CEB standards, Pan Bakeshoppe, a home-based business of two bakers and two packers has now grown to employ 20 skilled workers, and supplies CEB's buy-on-board meals.

CEB Cargo plays a huge role in the transport of essential supplies over vast distances quickly. CEB Cargo provides logistical support for businesses, transporting perishable agricultural products and supporting humanitarian aid during natural disasters. In 2019, when CEB's first dedicated cargo freighter entered into service, CEB Cargo transported a total of 210.1 million kilograms of cargo. Cebu Pacific also facilitated the transport of 220,000 kilograms humanitarian aid cargo for free.

Employees

Employees are the heartbeat of the Cebu Pacific organization, and CEB has always endeavored to recruit the best talent, enhance their skills, and retain them.

Launched in 2017, the Cebu Pacific Cadet Pilot Program has produced its first batch of graduates in 2019. The “study now, pay later” plan helps qualified students fulfill their dream of studying aviation, in partnership with Flight Training Adelaide. Graduates of the program then begin their continued training at CEB with the aim of employing them as full-fledged First Officers.



The first batch of cadet-pilots under the Cadet Pilot Program graduates in 2019.



The Cadet Pilot Program moved steadily in 2019, with the second batch of graduates also proceeding to their next level of training.



Mikee Vitug and Jess Labares are the first transgender women to be hired as cabin crew by a Philippine carrier. Mikee and Jess graduated with 12 other cabin crew trainees in November 2019.

CEB is committed to personal and professional development of all employees. CEB's robust training programs comprise of comprehensive and specialized learning modules across job functions and roles, including specialized technical trainings such as for safety and security, cabin crew, and pilots. In 2019, CEB invested in a total of 24,232 basic, people management, and leadership training hours for its employees.

As ambassadors of the company, CEB employees and their qualified dependents enjoy free flights to any CEB destination based on availability of seats. Over 4,000 employees and 11,000 dependents availed of this benefit in 2019.

CEB also upholds diversity and inclusion, to drive innovation and long-term success. CEB provides equal opportunity. As of end 2019, CEB is home to 39 nationalities.

In leadership positions (managers and up), there are as many males as females (162). Out of its 771 pilots, 41 are female (compared to 32 in the previous year); of over 1,800 cabin crew, 266 are male.

In 2019, CEB, through its subsidiary Cebgo, made history with the first two transgender cabin crew in the Philippines. They graduated in November 2019, along with 12 other Cebgo cabin crew trainees.

Community Engagement and Corporate Social Responsibility

CEB uses digital tools, along with traditional channels as part of its Customer Care service delivery. Using these tools, the Customer Care team listen to feedback and concerns, resolve complaints, and identify pain points in the whole customer experience.

In the past year, CEB renewed its commitment to the Change for Good program of the UNICEF. To date, it is one of the few airline-partners in the world to plow back donations in its own country.



CEB continues its commitment with the UNICEF Change for Good program, where passengers' small change are donated towards initiatives that support the Filipino child.



CEB, through its rewards arm, GetGo, achieved a Points for Good campaign, in which points are donated to benefit the UNICEF programs.



CEB worked with the Give-a-Textbook Foundation to transport much-needed textbooks and other materials from Melbourne, Australia to the Bantay Bata Children’s Village.

CEB maintained partnerships among government and private sectors, including non-government organizations as conduit or collaborator for delivery of humanitarian aid, relief, and environmental programs.



In partnership with Lakbay Aral, CEB provides opportunities for underprivileged children to learn more about the aviation industry, in the hopes of sparking in them the desire to make dreams take flight.

In 2019, CEB employees once again contributed sweat equity and volunteer hours towards projects that touch on disaster relief, education and environmental conservation.



CEB employees contribute volunteer hours to activities geared towards environmental conservation.



CEB employees contribute volunteer hours to activities geared towards humanitarian aid and disaster relief.

Contact Us



Reservation Hotlines

Philippines

Manila: (+632) 8702-0888

Cebu: (+6332) 230-8888

Website

www.cebupacificair.com

Group Bookings

groupbookings@cebupacificair.com

Follow us!



Cebu Pacific Air



@cebupacificair



@cebupacificair



Cebu Pacific Air

Independent Public Accountants

SGV & Co.

SGV Building, 6760 Ayala Avenue
1226 Makati City, Philippines

Investor Relations

invrelation@cebupacificair.com

Stock Transfer & Dividend Paying Agent

BDO Unibank, Inc.

Trust and Investment Group
15/F South Tower
BDO Corporate Center
7899 Makati Avenue
Makati City, Philippines

Financial Statements

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

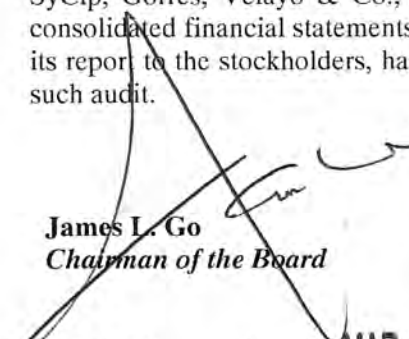
The management of Cebu Air, Inc. and its Subsidiaries (collectively referred to as the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance 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.

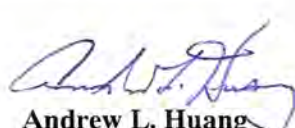
The Board of Directors is responsible for overseeing the Group's financial reporting process.

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.


James L. Go
Chairman of the Board


Lance Y. Gokongwei
President and Chief Executive Officer


Andrew L. Huang
Chief Finance Officer

Signed this _____ day of **MAR 27, 2020**

Subscribed and Sworn to before me this _____, 2020 in the City of _____, affiants exhibiting to me their Passport, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
James L. Go	P0986521A	11/23/2016 until 11/22/2021	Manila
Lance Y. Gokongwei	P0870174A	11/11/2016 until 11/10/2021	Manila
Andrew L. Huang	P3044414A	05/15/2017 until 05/14/2022	Manila

Doc. No. _____
Page No. _____
Book No. _____
Series of _____

NOTARY PUBLIC

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Cebu Air, Inc.
2nd Floor, Doña Juanita Marquez Lim Building
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, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, 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, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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



Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted Philippine Financial Reporting Standard (PFRS) 16, *Leases*, under the modified retrospective approach which resulted to significant changes in the Group's lease recognition policies, processes, procedures and controls. The Group's adoption of PFRS 16 is significant to our audit because the Group's nature of activities entails high volume of lease agreements covering its aircraft and office spaces; the recorded amounts are material to the consolidated financial statements; and adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liability amounting to ₱16.43 billion as of January 1, 2019, and the recognition of depreciation expense and interest expense of ₱5.92 billion and ₱0.46 billion, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 applied by the Group, are included in Notes 3, 5 and 30 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemption, the selection of the transition approach and any election of available practical expedients.

On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements), identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to leases, including the transition adjustments, based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Estimation of Asset Retirement Obligation

As of December 31, 2019, the Group operates twenty-four (24) aircraft under lease where the Group is contractually required 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. Refer to Notes 5, 19 and 30 of the consolidated financial statements.



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

Audit response

We obtained an understanding of management's process over estimating asset retirement obligation for above mentioned aircraft and tested the relevant controls. We recalculated the asset retirement obligation and evaluated the key assumptions adopted by management in estimating the asset retirement obligation for each aircraft by discussing with the Group's relevant fleet maintenance engineers the aircraft utilization statistics. In addition, we obtained an understanding of the redelivery terms of the related leases by comparing the estimated costs and comparable actual costs incurred by the Group from previous similar restorations.

Application of Hedge Accounting

The Parent Company uses derivative financial instruments to manage its exposure to fuel price risk and foreign currency risk. Such derivative financial instruments are initially recognized at fair value on the date in which a derivative contract is entered into and are subsequently measured at fair value. The changes in fair value are recognized in the consolidated statements of income, except for derivatives maturing in 2020 and beyond, which the Parent Company applies cash flow hedge accounting. As of December 31, 2019, these contracts gave rise to derivative financial assets and liabilities of ₱149.59 million and ₱275.90 million, respectively. Refer to Note 8 of the consolidated financial statements.

Given the complexity related to hedge accounting, we considered this area as a key audit matter.

Audit Response

We included an internal specialist in our team to assist us in understanding the risk management policies and testing the relevant controls on the designation and management of hedge accounting relationships. We tested the reconciliations between underlying source systems and the spreadsheets used to manage the hedging models. On a sampling basis, we inspected the hedging policies and documentations to assess whether the Parent Company complies with the requirements of PFRS 9. On a sampling basis, we evaluated the Parent Company's assessment of hedge accounting relationships by assessing whether the Parent Company has captured all material sources of ineffectiveness and re-performing the hedge effectiveness assessment. Also, we checked the appropriateness of disclosures on financial risk management and hedge accounting.



Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2019 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, 2019, which is expected to be made available to us after that date.

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

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

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

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

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

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

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

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

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



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

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

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

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



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

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

SYCIP GORRES VELAYO & CO.



Wenda Lynn M. Loyola

Partner

CPA Certificate No. 109952

SEC Accreditation No. 1540-AR-1 (Group A),

January 10, 2019, valid until January 9, 2022

Tax Identification No. 242-019-387

BIR Accreditation No. 08-001998-117-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8125250, January 7, 2020, Makati City

March 27, 2020



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

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	₱18,195,375,713	₱16,892,650,545
Receivables (Note 9)	2,717,302,820	2,607,900,691
Expendable parts, fuel, materials and supplies (Note 10)	1,974,186,020	2,010,145,500
Other current assets (Note 11)	3,083,503,979	4,433,968,752
Total Current Assets	25,970,368,532	25,944,665,488
Noncurrent Assets		
Property and equipment (Notes 12 and 32)	106,555,422,616	95,099,591,115
Right-of-use asset (Note 30)	17,811,040,810	—
Investments in joint ventures and an associate (Note 13)	1,221,452,018	943,781,695
Goodwill (Note 14)	566,781,533	566,781,533
Deferred tax assets - net (Note 25)	782,968,305	1,484,018,621
Other noncurrent assets (Note 15)	4,824,538,748	5,352,644,064
Total Noncurrent Assets	131,762,204,030	103,446,817,028
TOTAL ASSETS	₱157,732,572,562	₱129,391,482,516
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued liabilities (Note 16)	₱17,831,961,190	₱16,341,313,165
Unearned transportation revenue (Note 17)	11,881,599,591	11,110,518,032
Current portion of long-term debt (Note 18)	6,885,155,619	6,615,195,647
Current lease liability (Note 30)	5,748,068,779	—
Current portion of financial liabilities at fair value through other comprehensive income (Note 8)	112,805,261	—
Current portion of financial liabilities at fair value through profit and loss (Note 8)	—	585,770,498
Due to related parties (Note 27)	38,600,221	40,719,770
Income tax payable	197,879,264	9,366,597
Total Current Liabilities	42,696,069,925	34,702,883,709
Noncurrent Liabilities		
Financial liabilities at fair value through other comprehensive income - net of current portion (Note 8)	13,507,241	—
Financial liabilities at fair value through other profit and loss - net of current portion (Note 8)	—	177,214,864
Long-term debt - net of current portion (Note 18)	50,259,365,657	47,182,350,614
Lease liability-net of current portion (Note 30)	11,761,406,725	—
Retirement liability (Note 24)	923,942,818	491,456,336
Other noncurrent liabilities (Note 19)	7,177,304,536	6,735,443,714
Total Noncurrent Liabilities	70,135,526,977	54,586,465,528
Total Liabilities	112,831,596,902	89,289,349,237
Equity		
Common stock (Note 20)	613,236,550	613,236,550
Capital paid in excess of par value (Note 20)	8,405,568,120	8,405,568,120
Treasury stock (Note 20)	(906,120,839)	(785,536,714)
Other comprehensive income (losses) (Notes 24 and 28)	(137,395,353)	(140,286,079)
Retained earnings (Note 20)	36,925,687,182	32,009,151,402
Total Equity	44,900,975,660	40,102,133,279
TOTAL LIABILITIES AND EQUITY	₱157,732,572,562	₱129,391,482,516

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2019	2018	2017
REVENUE			
Sale of air transportation services			
Passenger	₱61,682,323,782	₱54,259,795,992	₱49,931,290,735
Cargo	5,745,173,259	5,491,327,591	4,603,543,430
Ancillary revenue (Note 21)	17,379,313,322	14,362,653,302	13,494,297,261
	84,806,810,363	74,113,776,885	68,029,131,426
EXPENSES			
Flying operations (Notes 10 and 22)	30,261,357,287	29,912,106,516	23,861,060,267
Depreciation and amortization (Notes 6, 12 and 30)	15,399,075,784	7,479,321,315	6,839,363,607
Aircraft and traffic servicing (Note 22)	9,262,480,358	8,111,170,564	7,706,352,539
Repairs and maintenance (Notes 10, 19 and 22)	7,993,913,625	8,067,957,794	7,552,583,483
Reservation and sales (Note 22)	4,059,163,907	3,829,521,057	3,674,592,703
Passenger service	1,919,420,047	1,654,730,940	1,515,192,403
Aircraft and engine lease (Notes 6 and 30)	313,939,967	5,650,909,509	4,635,003,450
General and administrative (Note 23)	2,976,441,881	2,358,173,730	2,110,704,952
	72,185,792,856	67,063,891,425	57,894,853,404
	12,621,017,507	7,049,885,460	10,134,278,022
OTHER INCOME (EXPENSES)			
Interest income (Notes 6 and 7)	670,599,817	401,621,150	182,952,825
Equity in net income of joint ventures and associates (Notes 6 and 13)	66,959,384	136,264,174	140,330,649
Gain (loss) on sale of aircraft (Note 12)	(225,675,379)	(46,466,570)	102,574,043
Hedging gains (losses) - net (Note 8)	(63,352,472)	(322,579,940)	(132,570,164)
Foreign exchange gains (losses) – net	274,565,577	(1,632,975,227)	(797,976,543)
Interest expense (Notes 6, 18 and 30)	(3,059,708,885)	(2,102,581,740)	(1,421,536,504)
	(2,336,611,958)	(3,566,718,153)	(1,926,225,694)
INCOME BEFORE INCOME TAX	10,284,405,549	3,483,167,307	8,208,052,328
PROVISION FOR (BENEFIT FROM)			
INCOME TAX (Note 25)	1,161,452,869	(439,577,231)	300,205,703
NET INCOME	9,122,952,680	3,922,744,538	7,907,846,625
OTHER COMPREHENSIVE INCOME, NET OF TAX			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gains (losses) on retirement liability (Note 24)	(252,687,387)	9,867,738	55,474,114
Net fair value changes on cash flow hedge reserve (Note 8)	256,816,995	–	–
Tax effect (Note 25)	1,238,882	2,960,321	16,642,234
	2,890,726	6,907,417	38,831,880
TOTAL COMPREHENSIVE INCOME	₱9,125,843,406	₱3,929,651,955	₱7,946,678,505
Basic/Diluted Earnings Per Share (Note 26)	₱15.22	₱6.50	₱13.05

See accompanying Notes to Consolidated Financial Statements



CEBU AIR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 20)	Capital Paid in Excess of Par Value (Note 20)	Treasury Stock (Note 20)	Other Comprehensive Income (Losses)			Retained Earnings			Total Equity
				Remeasurement Loss on Retirement Liability (Note 24)	Cash flow hedge reserve (Note 8)	Total	Appropriated (Note 20)	Unappropriated (Note 20)	Total	
Balance at January 1, 2019	₱613,236,550	₱8,405,568,120	(₱785,536,714)	(₱140,286,079)	₱–	(₱140,286,079)	₱22,000,000,000	₱10,009,151,402	₱32,009,151,402	₱40,102,133,279
Net income	–	–	–	–	–	–	–	9,122,952,680	9,122,952,680	9,122,952,680
Other comprehensive income	–	–	–	(176,881,171)	179,771,897	2,890,726	–	–	–	2,890,726
Total comprehensive income	–	–	–	(176,881,171)	179,771,897	2,890,726	–	9,122,952,680	9,122,952,680	9,125,843,406
Reversal of appropriations	–	–	–	–	–	–	(22,000,000,000)	22,000,000,000	–	–
Appropriation of retained earnings (Note 20)	–	–	–	–	–	–	26,000,000,000	(26,000,000,000)	–	–
Dividend declaration (Note 20)	–	–	–	–	–	–	–	(4,206,416,900)	(4,206,416,900)	(4,206,416,900)
Treasury stock	–	–	(120,584,125)	–	–	–	–	–	–	(120,584,125)
Balance at December 31, 2019	₱613,236,550	₱8,405,568,120	(₱906,120,839)	(₱317,167,250)	₱179,771,897	(₱137,395,353)	₱26,000,000,000	₱10,925,687,182	₱36,925,687,182	₱44,900,975,660
Balance at January 1, 2018	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱147,193,496)	₱–	(₱147,193,496)	₱18,300,000,000	₱13,143,287,513	₱31,443,287,513	₱39,785,579,366
Effect of the adoption of PFRS 15, <i>Revenue from Contracts with Customers</i> (Note 3)	–	–	–	–	–	–	–	(630,090,664)	(630,090,664)	(630,090,664)
Balance at January 1, 2018, as restated	613,236,550	8,405,568,120	(529,319,321)	(147,193,496)	–	(147,193,496)	18,300,000,000	12,513,196,849	30,813,196,849	39,155,488,702
Net income	–	–	–	–	–	–	–	3,922,744,538	3,922,744,538	3,922,744,538
Other comprehensive income	–	–	–	6,907,417	–	6,907,417	–	–	–	6,907,417
Total comprehensive income	–	–	–	6,907,417	–	6,907,417	–	3,922,744,538	3,922,744,538	3,929,651,955
Reversal of appropriations	–	–	–	–	–	–	(18,300,000,000)	18,300,000,000	–	–
Appropriation of retained earnings (Note 20)	–	–	–	–	–	–	22,000,000,000	(22,000,000,000)	–	–
Dividend declaration (Note 20)	–	–	–	–	–	–	–	(2,726,789,985)	(2,726,789,985)	(2,726,789,985)
Treasury stock	–	–	(256,217,393)	–	–	–	–	–	–	(256,217,393)
Balance at December 31, 2018	₱613,236,550	₱8,405,568,120	(₱785,536,714)	(₱140,286,079)	₱–	(₱140,286,079)	₱22,000,000,000	₱10,009,151,402	₱32,009,151,402	₱40,102,133,279
Balance at January 1, 2017	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱186,025,376)	₱–	(₱186,025,376)	₱14,516,762,000	₱10,685,050,546	₱25,201,812,546	₱33,505,272,519
Net income	–	–	–	–	–	–	–	7,907,846,625	7,907,846,625	7,907,846,625
Other comprehensive income	–	–	–	38,831,880	–	38,831,880	–	–	–	38,831,880
Total comprehensive income	–	–	–	38,831,880	–	38,831,880	–	7,907,846,625	7,907,846,625	7,946,678,505
Reversal of appropriations	–	–	–	–	–	–	(14,516,762,000)	14,516,762,000	–	–
Appropriation of retained earnings (Note 20)	–	–	–	–	–	–	18,300,000,000	(18,300,000,000)	–	–
Dividend declaration (Note 20)	–	–	–	–	–	–	–	(1,666,371,658)	(1,666,371,658)	(1,666,371,658)
Balance at December 31, 2017	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱147,193,496)	₱–	(₱147,193,496)	₱18,300,000,000	₱13,143,287,513	₱31,443,287,513	₱39,785,579,366

See accompanying Notes to Consolidated Financial Statements.



CEBU AIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱10,284,405,549	₱3,483,167,307	₱8,208,052,328
Adjustments for:			
Depreciation and amortization (Note 12 and Note 30)	15,399,075,784	7,479,321,315	6,839,363,607
Interest expense (Notes 18 and 30)	3,059,708,885	2,102,581,740	1,421,536,504
Provision for asset retirement obligation (Note 19)	1,940,084,130	2,106,298,997	1,209,416,327
Loss (gain) on sale of aircraft (Note 12)	225,675,379	46,466,570	(102,574,043)
Net changes in fair value of derivatives (Note 8)	63,352,472	322,579,940	132,570,164
Loss on disposal of property and equipment (Note 12)	866,740	72,190,274	1,057,537
Equity in net income of joint ventures and associates (Note 13)	(66,959,384)	(136,264,174)	(140,330,649)
Unrealized foreign exchange losses (gains) - net	(562,962,298)	937,361,008	214,663,356
Redeemed and expired portion of deferred revenue on rewards program (Note 19)	(643,868,244)	(457,845,854)	(257,358,595)
Interest income (Note 7)	(670,599,817)	(401,621,150)	(182,952,825)
Operating income before working capital changes	29,028,779,196	15,554,235,973	17,343,443,711
Decrease (increase) in:			
Receivables	(75,906,582)	(730,758,984)	206,671,372
Expendable parts, fuel, materials and supplies	35,959,480	(426,407,532)	(423,633,546)
Financial assets at fair value through profit or loss	—	—	—
Other current assets	1,230,765,673	(2,467,564,517)	(1,067,415,685)
Increase (decrease) in:			
Accounts payable and other accrued liabilities	1,512,339,343	2,106,389,166	1,598,242,475
Unearned transportation revenue	771,081,559	1,430,075,913	908,598,728
Retirement liability	179,799,095	(138,597,324)	68,191,761
Amounts of due to related parties	(2,119,549)	2,003,347	1,026,869
Deferred revenue on rewards program	924,714,078	691,673,528	600,627,717
Other noncurrent liabilities	(1,779,069,142)	—	—
Financial liabilities at fair value through profit or loss	(425,431,913)	894,805,510	(145,196,347)
Net cash generated from operations	31,400,911,238	16,915,855,080	19,090,557,055
Interest paid	(2,671,033,108)	(1,985,463,851)	(1,389,252,059)
Income tax paid with creditable withholding taxes (Note 31)	(153,429,669)	(32,760,158)	(82,385,107)
Interest received	667,605,134	389,801,760	176,304,913
Net cash provided by operating activities	29,244,053,595	15,287,432,831	17,795,224,802
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment (Note 12)	(25,570,098,817)	(26,030,449,395)	(14,776,336,747)
Proceeds from sale of property and equipment	4,406,643,673	4,642,125,073	8,643,672,392
Investments in shares of stocks in joint ventures and an associate (Note 13)	(240,000,000)	(46,000,000)	—
Dividends received from a joint venture	62,871,045	72,645,788	124,720,940
Increase in advances to suppliers and other noncurrent assets	528,105,316	(1,545,099,621)	(2,780,725,984)
Net cash used in investing activities	(20,812,478,783)	(22,906,778,155)	(8,788,669,399)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term debt:			
Availments (Notes 18 and 31)	13,539,632,216	32,680,071,705	8,903,267,500
Payments of long-term debt (Notes 18 and 31)	(9,133,438,560)	(21,237,489,536)	(10,984,079,753)
Payments for lease liability (Notes 30 and 31)	(6,680,508,048)	—	—
Purchase of treasury stock (Note 20)	(120,584,125)	(256,217,393)	—
Dividends paid (Notes 20 and 31)	(4,206,416,900)	(2,726,789,985)	(1,666,371,658)
Net cash provided by (used in) financing activities	(6,601,315,417)	8,459,574,791	(3,747,183,911)
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	(527,534,227)	438,876,572	57,930,710
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,302,725,168	1,279,106,039	5,317,302,202
CASH AND CASH EQUIVALENTS AT JANUARY 1	16,892,650,545	15,613,544,506	10,296,242,304
CASH AND CASH EQUIVALENTS AT DECEMBER 31 (Note 7)	₱18,195,375,713	₱16,892,650,545	₱15,613,544,506

See accompanying Notes to Consolidated Financial Statements.



CEBU AIR, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Cebu Air, Inc. (the Parent Company) was incorporated and organized in the Philippines on August 26, 1988 to carry on, by means of aircraft of every kind and description, the general business of a private carrier or charter engaged in the transportation of passengers, mail, merchandise and freight, and to acquire, purchase, lease, construct, own, maintain, operate and dispose of airplanes and other aircraft of every kind and description, and also to own, purchase, construct, lease, operate and dispose of hangars, transportation depots, aircraft service stations and agencies, and other objects and service of a similar nature which may be necessary, convenient or useful as an auxiliary to aircraft transportation. The principal place of business of the Parent Company is at 2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City.

The Parent Company has twelve special purpose entities (SPEs) that it controls, namely: Panatag Two Aircraft Leasing Limited (PTALL), Summit C Aircraft Leasing Limited (SCALL), Tikgi One Aviation Designated Activity Company (TOADAC), Summit D Aircraft Leasing Limited (SDALL), CAI Limited (CL), Sampaguita Leasing Co. Ltd (SLCL), Dia Boracay Ltd. (DBL), Mactan Leasing Co., Ltd (MLCL), Cebuano Leasing Co., Ltd. (CLCL), Dia El Nido Ltd. (DENL), Tarsier Leasing Co., Ltd. (TLCL) and RAMEN Aircraft Leasing Limited (RALL). Other than CL, these are SPEs in which the Parent Company does not have equity interest, but have entered into finance lease arrangements with for funding of various aircraft deliveries (Notes 12, 18 and 30).

On March 20, 2014, the Parent Company acquired 100% ownership of CEBGO, Inc. (CEBGO) (Note 14). The Parent Company, its twelve SPEs and CEBGO (collectively known as the Group) are consolidated for financial reporting purposes (Note 2).

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, 2018, the remaining 40% equity stake owned by the Parent Company in 1Aviation is accounted for as joint venture with equity method accounting treatment (Note 13).

In May 2017, the Parent Company lost control over Ibon Leasing Limited (ILL) due to loss of power to influence the relevant activities of ILL as the result of the sale of aircraft to third party (Note 12). Accordingly, the Parent Company derecognized its related assets and liabilities in its consolidated financial statements.

In April 2018, Cebu Aircraft Leasing Limited (CALL) and Sharp Aircraft Leasing Limited (SALL) were dissolved due to the sale of aircraft to third parties (Note 12).

In October 2018, Panatag Three Aircraft Leasing Limited (PTHALL) was dissolved due to refinancing of the related loans.

In December 2018, Summit A Aircraft Leasing Limited (SAALL) and Summit B Aircraft Leasing Limited (SBALL) were dissolved due to refinancing of the related loans. Vector Aircraft Leasing Limited (VALL) was subsequently dissolved due to sale of three (3) A320 aircraft to third parties that have been leased back by the Parent Company (Note 12).



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

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 20). The Parent Company's ultimate parent is JG Summit Holdings, Inc. (JGSHI). The Parent Company is 66.70%-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 pioneer and 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 six (6) years for each batch of aircraft registered to BOI (see Notes 25 and 32).

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.

On May 24, 2005, the Reformed-Value Added Tax (R-VAT) law was signed as R.A. 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.



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, 2019 and 2018 represent the consolidated financial statements of the Parent Company, the SPEs that it controls and its wholly owned subsidiary CEBGO.

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

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while



any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards and amendments effective as of January 1, 2019. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applied PFRS 16, *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below. Several other amendments and interpretations which are effective for annual periods beginning on or after January 1, 2019 did not have significant impact to the Group's consolidated financial statements unless otherwise stated.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (for example, personal computers) and short-term leases (that is, leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (that is, the lease liability) and an asset representing the right to use the underlying asset during the lease term (that is, the right-of-use asset). Lessees will be required to recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

The Group has lease agreements for its aircraft, engine, hangar, office spaces, ticketing stations and certain equipment. Before adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all the risks and benefits incidental to ownership of the leased item to the Group; otherwise it was classified as an operating lease.

Upon adoption of PFRS 16, the Group used the modified retrospective method with the date of initial application of January 1, 2019. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to outstanding contracts as at January 1, 2019.

The Group also elects to use the exemptions provided by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application.



At the date of the initial application, the Group used an incremental borrowing rate ranging from 2.12% to 7.99% to measure lease liabilities.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use asset and lease liability equal the lease asset and liability recognised under PAS 17). The requirements of IFRS 16 were applied to these leases from January 1, 2019.

Leases previously classified as operating leases

The Group recognised right-of-use asset and lease liability for those leases previously classified as operating leases, except for short-term leases. The right-of-use asset were recognised based on the amount equal to the lease liability, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liability was recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

On January 1, 2019, the Group recognized the right-of-use asset and lease liability amounting to ₱16.427 billion on leases previously classified as operating leases (Note 30).

For the period ended December 31, 2019, the impact of the adoption on expenses is to decrease aircraft and engine lease by ₱6.169 billion and general and administrative expenses by ₱58.6 million, consequently increasing depreciation by ₱5.918 billion and interest expense by ₱460.9 million.

The present value of the 2018 minimum lease payments discounted using on average 2.9% incremental borrowing rate amounted to ₱30.463 billion. The difference of the amount against the recorded lease liability at initial adoption is due to the change in A330 lease term and short term leases treated immediately as expense.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.



Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance and assessment, that it is probable that its tax treatments (including those for its subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
 - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
 - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The adoption of the following pronouncements did not have any significant impact on the Group's financial position or performance:

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests. The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.



- *Annual Improvements to PFRSs 2015-2017 Cycle:*

- *Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

- *Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

- *Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

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 29.

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 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.



Financial Instruments - Initial Recognition and Subsequent Measurement (Beginning January 1, 2018)

Classification of financial instruments

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

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

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 Financial Liabilities at OCI and FVPL

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 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 Group's financial assets and liabilities at OCI and FVPL consist of derivative liabilities as of December 31, 2019 and 2018, respectively.

Derivative Financial Instruments (before September 1, 2019)

The Group uses derivative financial instruments such as jet fuel/sing kero and brent crude swaps and zero cost collars and crack swap contracts to manage its exposure to fuel price fluctuations and forward contracts for the risk associated with foreign currency (FX). Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Derivatives maturing in 2019 are not designated as accounting hedges.

Any changes in the fair value of these derivative financial instruments are recognized under 'Hedging gains (losses)' in the statement of comprehensive income and are presented net.

Derivative Financial Instruments and Hedge Accounting (effective September 1, 2019)

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

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 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 'Hedging gains (losses)' in the 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 Group applies cash flow hedge accounting to all designated hedges beginning September 1, 2019.

c. Other Financial Liabilities

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement (Before January 1, 2018)

Classification of financial instruments

Financial instruments within the scope of PAS 39 are classified as:

- a. Financial assets and financial liabilities at FVPL;
- b. Loans and receivables;
- c. Held-to-maturity investments;
- d. Available-for-sale financial assets; and
- e. Other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates at every reporting period. The



financial instruments of the Group as of December 31, 2017 consist of loans and receivables, financial assets and liabilities at FVPL and other financial liabilities.

Date of recognition of financial instruments

Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provision of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized using the settlement date accounting. Derivatives are recognized on the trade date basis.

In case where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 difference amount.

a. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans and receivables are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of loans and receivables.

After initial measurement, loans and receivables are subsequently carried at amortized cost using the EIR method, less allowance for credit losses. 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 and transaction costs. Gains and losses are recognized in profit or loss, when loans and receivables are derecognized or impaired, as well as through the amortization process.

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 Financial Liabilities at FVPL

Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading purposes, derivative instruments or those designated upon initial recognition as at FVPL. Financial assets and financial liabilities are designated by management on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets or liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are subsequently measured at fair value. Changes in fair value of such assets or liabilities are accounted for in profit or loss. The Group uses commodity swaps, zero cost collar and foreign currency forwards to hedge its exposure to fuel price fluctuations and foreign currency fluctuations, respectively. Such are accounted for as non-hedge derivatives.



An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

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

The Group assesses whether an embedded derivative is required to be separated from the host contract when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

The Group's financial assets and liabilities at FVPL consist of derivative assets as of December 31, 2017.

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.

Other financial liabilities are initially recognized at the fair value of the consideration received, less directly attributable transaction costs.

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

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

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 (Beginning January 1, 2018)

The Group 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 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 e.g. 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 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 is the estimated selling price in the ordinary course of business less estimated costs 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>
Passenger 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



Category	EUL (in Years)
Communication equipment	5
Special tools	5
Maintenance and test equipment	5
Other equipment	5
<i>*With residual value of 15.00%</i>	

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss, when the asset is derecognized.

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

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

Borrowing Costs

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

The Group has not capitalized any borrowing costs for the years ended December 31, 2019 and 2018 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.

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%, 49%, 35%, and 40% investments in Philippine Academy for Aviation Training, Inc. (PAAT), Aviation Partnership (Philippines) Corporation (A-plus), SIA Engineering (Philippines) Corporation (SIAEP) and 1Aviation (1AV), respectively, and are classified as investments in joint ventures. The Parent Company's 15.00% investment in Air Block Box Asia Pacific Pte. Ltd. (ABB) and 40% investment in Digital Analytics Ventures, Inc. (DAVI) is classified as an investment in associate. 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, 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. Dividends received are treated as a revaluation of 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 the 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 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 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 exist, 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.

Liability Under Lifestyle Rewards Program

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

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

Common Stock

Common stock 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 the proceeds.

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

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 (Upon adoption of PFRS 15 beginning January 1, 2018)

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 baggage fees, 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.

Interest income

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

Revenue Recognition (Prior to adoption of PFRS 15)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of air transportation services

Passenger ticket and cargo waybill sales, excluding portion relating to awards under Lifestyle Rewards Program, are initially recorded 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.



Ancillary revenue

Flight and booking services

Revenue from services incidental to the transportation of passengers such as excess baggage, inflight sales and rebooking and cancellation fees are recognized upon booking.

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 classified as financial assets at FVPL 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, 2019 and 2018. 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.

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 (Upon adoption of PFRS 16 beginning January 1, 2019)

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.



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.

Leases (Before January 1, 2019)

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for (a), (c) and (d) scenarios above, and at the date of renewal or extension period for scenario (b).

Group as lessee (Before and upon adoption of PFRS 16)

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included under 'Property and equipment' account with the corresponding liability to the lessor included under

'Long-term debt' account in the consolidated statement of financial position. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the EUL of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

A sale and leaseback transaction includes the sale of an asset and the leasing back of the same asset. If the leaseback is classified as an operating lease, then, any gain is recognized immediately in the profit or loss if the sale and leaseback terms are demonstrably at fair value. Otherwise the sale and leaseback are accounted for as follows:

- If the sale price is below the fair value, then, the gain or loss is recognized immediately other than to the extent that a loss is compensated for by future rentals at below market price, then the loss is deferred and amortized over the period that the asset is expected to be used.
- If the sale price is above the fair value, then, any gain is deferred and amortized over the period that the asset is expected to be used.



- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognized immediately as a loss on the sale.

Group as lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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 Per Share (EPS)

Basic EPS is computed by dividing net income 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 EPS amounts are calculated by dividing the net profit 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.

For the years ended December 31, 2019, 2018 and 2017, the Group does not have any dilutive potential ordinary shares.

Segment Reporting

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

Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting event) are reflected in the consolidated financial statements. Post year-end events that



are not adjusting events are disclosed in the notes to the consolidated financial statements, when material.

5. Significant Accounting Judgments and Estimates

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

Judgments

a. Classification of leases (Before January 1, 2019)

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items, are capitalized.

The Group also has lease agreements where it has determined that the risks and rewards related to the leased assets are retained with the lessors (for example, no bargain purchase option and transfer of ownership at the end of the lease term). The Group determined that it has no risks relating to changing economic conditions since the Group does not own the leased aircraft. These leases are classified as operating leases. These lease agreements also include aircraft from sale and operating leaseback transactions entered by the Group as discussed in Note 30.

b. Determining the lease term of contracts with renewal and termination options – Group as lessee (Upon adoption of PFRS 16)

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.

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 customisation 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.

c. 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.

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:

1. 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);
2. The currency in which funds from financing activities are generated; and
3. 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. 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 30).

f. 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.

g. Classification of joint arrangements and investment in associate

The Group's investments in JVs are structured in separate incorporated entities (see Note 13). Even though the Group 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 Group and the parties to the agreement only have rights to the net assets of the JVs through the terms of the contractual arrangements.

The Group's investment in ABB and DAVI are considered as an investment in associate and significant influence is evident on the Group's representation in the board of directors.



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. These fuel derivatives are not designated for hedge accounting until September 1, 2019 in which the Management began applying hedge accounting under PFRS 9, Financial Instruments: Recognition and Measurement, to designate all derivatives maturing 2020 and beyond 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, 2019 and 2018, the Group has deferred tax assets amounting to ₱2,835.5 million and ₱3,534.6 million, respectively (see Note 25).

b. Estimation of Asset Retirement Obligation (ARO)

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



Assumptions used to compute ARO are reviewed and updated annually by the Group. As of December 31, 2019 and 2018, 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, 2019 and 2018, the Group's ARO (included under 'Other noncurrent liabilities' account in the consolidated statement of financial position) has a carrying value of ₱5,942.4 million and ₱5,781.4 million, respectively (see Note 19). The related repairs and maintenance expense for the years ended December 31, 2019, 2018 and 2017 amounted to ₱1,940.1 million, ₱2,106.3 million and ₱1,209.4 million, respectively (see Note 22).

c. Impairment of goodwill and intangible assets

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. The impairment testing is performed annually as at December 31 and when circumstances indicate that the carrying amount is impaired. The impairment testing also requires an estimation of the recoverable amounts, which is the FVLCD or VIU of the CGU whichever is higher, to which the goodwill and intangibles with indefinite useful lives are allocated.

In determining the recoverable amount of these assets, the management estimates the VIU of the CGU to which goodwill and intangible assets are allocated. Estimating the VIU requires management to make an estimate of the expected future cash flows from the asset or CGUs and choose a suitable discount rate in order to calculate the present value of those cash flows.

As of December 31, 2019 and 2018, the Group has determined that goodwill and intangibles with indefinite useful lives are recoverable based on VIU. Goodwill amounted to ₱566.8 million as of December 31, 2019 and 2018 (see Note 14). Brand and market opportunities, which are recorded under 'Other noncurrent assets' account amounted to ₱852.7 million as of December 31, 2019 and 2018 (see Notes 14 and 15).

d. 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 29.

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

The Group determines the fair values of its aircraft by relying on a third party's valuation which has a global view of all area of the market which brings essential context of changes in the market and the opportunities and risks. The judgment includes determination whether the difference between the fair value of the aircraft and its selling price should be accounted as immediate gain in the profit or loss or be deferred over the operating lease term. The Group entered into sale and operating leaseback transactions in 2018 (see Notes 12 and 30).



f. 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, 2019 and 2018, the carrying values of the Group's property and equipment amounted to ₱106,555.4 million and ₱95,099.6 million, respectively (see Note 12).

The Group's depreciation and amortization expense amounted to ₱15,399.1 million, ₱7,479.3 million and ₱6,839.4 million in 2019, 2018 and 2017, respectively (see Note 12 and Note 30).

g. 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, 2019 and December 31, 2018 are disclosed in Note 9.

h. Determination of NRV of expendable parts, fuel, materials and supplies

The Group's estimates of the NRV of expendable parts, fuel, materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the expendable parts, fuel, materials and supplies are expected to be realized. In determining the NRV, the Group considers any adjustment necessary for obsolescence, which is generally providing 100.00% for nonmoving items for more than one year. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused expendable parts, fuel, materials and supplies to be written-down below cost no longer exist or when there is a clear evidence of an increase in NRV because of a change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The related balances as of December 31, 2019 and 2018 are discussed in Note 10.

i. Estimation of liability under the Lifestyle Rewards Program

A portion of passenger revenue attributable to the award of lifestyle reward program points, estimated based on expected utilization on these benefits, is deferred until utilized. The points expected to be redeemed are measured at fair value which is estimated using the Peso value of the points. Deferred revenue included as part of 'Other noncurrent liabilities' account amounted to ₱1,234.9 million and ₱954.1 million as of December 31, 2019 and 2018, respectively (see Note 19). The rewards program started in 2015. Any remaining unredeemed points are recognized as revenue upon expiration.



j. 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 30).

k. Estimation of retirement 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 24).

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 ₱923.9 million and ₱491.5 million as of December 31, 2019 and 2018, respectively (see Note 24).

6. Segment Information

The Group has one reportable operating segment, which is the airline business (system-wide). 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.

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



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

	2019	2018	2017
Revenue	₱85,818,935,141	₱74,651,662,209	₱68,454,988,943
Earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR)	30,274,117,388	22,286,415,281	22,818,061,406
Depreciation and amortization	15,399,075,784	7,479,321,315	6,839,363,607
Interest expense	3,059,708,885	2,102,581,740	1,421,536,504
Interest income	670,599,817	401,621,150	182,952,825
Earnings before interest and taxes (EBIT)	12,621,017,507	7,049,885,460	10,134,278,022
Pre-tax core net income	10,298,867,823	5,485,189,044	9,036,024,992
Net income	9,122,952,680	3,922,744,538	7,907,846,625
Capital expenditures	25,570,098,817	26,030,449,395	14,776,336,747
Hedging gains (losses) - net	(63,352,472)	(322,579,940)	(132,570,164)
Equity in net income of JVs and associates	66,959,384	136,264,174	140,330,649
Income tax expense (benefit)	1,161,452,869	(439,577,231)	300,205,703

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

Pre-tax core net income is the operating income after deducting net interest expense and adding equity income/loss of joint venture.

EBIT is the operating income before interest and taxes.

EBITDAR is the operating income after adding depreciation and amortization, provision for ARO 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:

	2019	2018	2017
Revenue (excluding non transport revenue and other income)	₱84,806,810,363	₱74,113,776,885	₱68,029,131,426
Expenses	(72,185,792,856)	(67,063,891,425)	(57,894,853,404)
Operating income/EBIT	12,621,017,507	7,049,885,460	10,134,278,022
Interest expense - net	(2,389,109,068)	(1,700,960,590)	(1,238,583,679)
Equity in net income of an associate	66,959,384	136,264,174	140,330,649
Pre-tax core net income	₱10,298,867,823	₱5,485,189,044	₱9,036,024,992
Operating income	₱12,621,017,507	₱7,049,885,460	₱10,134,278,022
Depreciation and amortization	15,399,075,784	7,479,321,315	6,839,363,607
Provision for ARO	1,940,084,130	2,106,298,997	1,209,416,327
Aircraft and engine lease expense	313,939,967	5,650,909,509	4,635,003,450
EBITDAR	₱30,274,117,388	₱22,286,415,281	₱22,818,061,406



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:

	2019	2018	2017
Total segment revenue of reportable operating segment	₱84,806,810,363	₱74,113,776,885	₱68,029,131,426
Nontransport revenue and other income	1,012,124,778	537,885,324	425,857,517
Total revenue	₱85,818,935,141	₱74,651,662,209	₱68,454,988,943

Nontransport revenue and other income include interest income, share in net income of JVs and an associates, gain on sale of aircraft, foreign exchange and fuel hedging gains.

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

	2019	2018	2017
Total segment income of reportable segment	₱12,621,017,507	₱7,049,885,460	₱10,134,278,022
Add (deduct) unallocated items:			
Nontransport revenue and other income	1,012,124,778	537,885,324	425,857,517
Nontransport expenses and other charges	(3,348,736,736)	(4,104,603,477)	(2,352,083,211)
Benefit from (provision for) income tax	(1,161,452,869)	439,577,231	(300,205,703)
Net income	9,122,952,680	3,922,744,538	7,907,846,625
Other comprehensive gain, net of tax	2,890,726	6,907,417	38,831,880
Total comprehensive income	₱9,125,843,406	₱3,929,651,955	₱7,946,678,505

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

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

7. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	₱48,609,828	₱45,551,426
Cash in banks	5,480,190,476	2,997,401,427
Short-term placements	12,666,575,409	13,849,697,692
	₱18,195,375,713	₱16,892,650,545

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 3.82%, 6.50% and 3.30% in 2019, 2018 and 2017, respectively. Moreover, short-term



placements in US dollar (USD) earn interest on an average annual interest rate of 2.03%, 2.80% and 1.96% in 2019, 2018 and 2017, respectively.

Interest income earned on cash in banks and short-term placements, presented in the consolidated statements of comprehensive income, amounted to ₱670.6 million, ₱401.6 million and ₱183.0 million in 2019, 2018 and 2017, respectively.

8. Financial Assets and Financial Liabilities at Fair Value through Other Comprehensive Income (FVOCI)

This account consists of net derivative financial liabilities as of December 31, 2019 and 2018. Hedges matured in 2019 are not designated as accounting hedges while those hedges maturing 2020 and beyond are designated for hedge accounting under PFRS 9, *Financial Instruments: Recognition and Measurement*, beginning September 30, 2019.

Net derivative liabilities amounted to ₱126.3 million and ₱763.0 million as of December 31, 2019 and 2018, respectively. Details follow:

	2019	2018
Designated hedges	₱126,312,502	₱—
Not designated hedges	—	762,985,362
	₱126,312,502	₱762,985,362

As of December 31, 2019, this account consists of zero cost collars, commodity swaps and foreign currency forwards. As of December 31, 2018, this account consists of zero cost collars and commodity swaps.

Commodity Swaps and Zero Cost Collars

The Group enters into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as charges against or credit to profit or loss. As of December 31, 2018 and 2017, the Group has outstanding fuel hedging transactions. The notional quantity is the amount of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The swaps and collars can be exercised at various calculation dates with specified quantities on each calculation date. The collars have various maturity dates through 2019 until 2020.

For the years ended December 31, 2019, 2018 and 2017, the Group recognized net changes in fair value of derivatives amounting to nil, ₱289.0 million loss and ₱135.9 million loss, respectively. These are recognized in 'Hedging gains (losses) - net' account under the consolidated statements of comprehensive income.

Fuel Derivatives

The Group enters into zero cost collars and commodity swaps derivative contracts to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges until September 30, 2019.

The gains or losses on derivatives not designated for hedge accounting are accounted directly as charges against or credit to profit or loss whereas for designated hedges, effective portion identified under PFRS 9 hedge accounting are recognized as other comprehensive income or loss. Hedge



ineffectiveness is recognized directly to profit or loss. As of December 31, 2019 and 2018, the Group has outstanding fuel hedging transactions. The notional quantity is the amount of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The swaps and collars can be exercised at various calculation dates with specified quantities on each calculation date. The collars have various maturity dates through 2019 until 2021.

For the year ended December 31, 2019, the Group recognized changes in fair value of derivatives totaling to ₱772.1 million net gain of which ₱256.8 million net gain is attributable to the effective portion of accounting hedges directly recognized in other comprehensive income as 'Net fair value changes on cash flow hedge reserve'.

For the years ended December 31, 2018 and 2017, the Group recognized net changes in fair value of derivatives amounting to ₱289.0 million loss and ₱135.9 million loss, respectively. These are recognized in 'Hedging gains (losses) - net' account under the consolidated statements of comprehensive income.

Foreign Currency Forwards

For the years ended December 31, 2019, 2018 and 2017, the Group recognized net changes in fair value of derivatives in profit or loss amounting to ₱560.9 million, ₱33.6 million losses and ₱3.3 million gain, respectively.

Fair Value Changes on Derivatives

The changes in fair value of all derivative financial instruments not designated as accounting hedges follow:

	2019	2018
Balance at January 1:		
Derivative assets	₱11,217,175	₱454,400,088
Derivative liabilities	(774,202,537)	—
	(762,985,362)	454,400,088
Net changes in fair value of derivatives:		
Fuel	772,126,178	—
Foreign currency	(560,885,231)	(322,579,940)
	211,240,947	(322,579,940)
	(551,744,415)	131,820,148
Fair value of settled instruments	425,431,913	(894,805,510)
	(₱126,312,502)	(₱762,985,362)
Balance at December 31:		
Current	(₱112,805,261)	(₱585,770,498)
Non-current	(₱13,507,241)	(₱177,214,864)
	(₱126,312,502)	(₱762,985,362)
Attributable to:		
Derivative assets	₱149,592,195	₱11,217,175
Derivative liabilities	(275,904,697)	(774,202,537)
	(₱126,312,502)	(₱762,985,362)



9. Receivables

This account consists of:

	2019	2018
Trade receivables	₱2,104,795,183	₱1,865,625,762
Due from related parties (Note 27)	328,080,593	371,643,140
Interest receivable	25,006,105	22,011,422
Others	340,313,610	431,846,335
	2,798,195,491	2,691,126,659
Less allowance for expected credit losses (ECL)	80,892,671	83,225,968
	₱2,717,302,820	₱2,607,900,691

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

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

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

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

	2019		
	Trade Receivables	Others	Total
Balance at January 1	₱8,589,292	₱74,636,676	₱83,225,968
Unrealized foreign exchange gain	(53,112)	(2,280,185)	(2,333,297)
Balance at December 31	₱8,536,180	₱72,356,491	₱80,892,671

	2018		
	Trade Receivables	Others	Total
Balance at January 1	₱8,516,928	₱329,473,745	₱337,990,673
Accounts written-off	—	(256,746,201)	(256,746,201)
Unrealized foreign exchange gain	72,364	1,909,132	1,981,496
Balance at December 31	₱8,589,292	₱74,636,676	₱83,225,968

In 2018, the Group has written-off previously impaired receivable amounting to ₱256.7 million that was deemed uncollectible.

The adoption of PFRS 9 did not have a significant impact on the Group's impairment allowances on its debt instruments as of January 1, 2018 and for the year ended December 31, 2018 because:

- Cash and cash equivalents' credit grade, excluding cash on hand, are high grade based on the Group's internal grading system which kept the probability of default at a minimum;
- Receivables are all current other than the receivables with impairment amounting to ₱8.6 million; and
- Refundable deposits pertain to the amounts provided to lessors to be refunded upon termination of agreement. These deposits are recognized under 'Other noncurrent assets' in the consolidated statement of financial position. Effect of PFRS 9 impairment allowance is not material to the Group.



10. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

	2019	2018
At NRV:		
Expendable parts	₱1,398,072,004	₱1,448,111,018
At cost:		
Fuel	530,119,750	509,691,513
Materials and supplies	45,994,266	52,342,969
	576,114,016	562,034,482
	₱1,974,186,020	₱2,010,145,500

The cost of expendable parts amounted to ₱1,488.2 million and ₱1,469.0 million as of December 31, 2019 and 2018, respectively. The allowance for inventory write down amounted to ₱90.2 million and ₱20.5 million as of December 31, 2019 and 2018, respectively (see Note 22). No expendable parts, fuel, material and supplies are pledged as security for liabilities.

The cost of expendable and consumable parts, and materials and supplies recognized as expense (included under 'Repairs and maintenance' account in the consolidated statements of comprehensive income) for the years ended December 31, 2019, 2018 and 2017 amounted to ₱780.0 million, ₱765.4 million and ₱587.9 million, respectively. The cost of fuel reported as expense under 'Flying operations' account amounted to ₱24,591.7 million, ₱25,431.1 million and ₱19,595.0 million in 2019, 2018 and 2017, respectively.

11. Other Current Assets

This account consists of:

	2019	2018
Current portion of advances to suppliers	₱2,660,274,154	₱3,520,474,351
Prepaid rent	44,419,181	438,532,344
Prepaid insurance	89,863,155	75,541,811
Others	288,947,489	399,420,246
	₱3,083,503,979	₱4,433,968,752

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 (see Note 30).

Prepaid rent pertains to advance rental on aircraft under lease and on office spaces in airports (see Note 30).

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:

	2019							
	Passenger Aircraft (Notes 18 and 32)	Engines	Rotables	Ground Support Equipment	EDP Equipment, Mainframe and Peripherals	Leasehold Improvements	Transportation Equipment	Sub-total
Cost								
Balance at January 1, 2019	₱86,905,402,878	₱10,548,772,257	₱4,661,658,560	₱1,093,416,091	₱1,148,196,184	₱1,516,693,027	₱411,602,426	₱106,285,741,423
Additions	18,601,787,018	1,024,507,321	1,059,393,963	292,937,887	92,515,677	2,597,860	65,531,245	21,139,270,971
Reclassification	885,858,666	—	—	—	—	179,704,330	—	1,065,562,996
Disposals/others	(6,895,548,795)	(1,616,303,798)	(993,786)	(8,078,594)	(12,079,219)	—	(2,149,105)	(8,535,153,297)
Balance at December 31, 2019	99,497,499,767	9,956,975,780	5,720,058,737	1,378,275,384	1,228,632,642	1,698,995,217	474,984,566	119,955,422,093
Accumulated Depreciation and Amortization								
Balance at January 1, 2019	18,369,712,253	3,718,805,898	1,250,538,965	613,131,241	934,486,389	829,712,683	247,747,135	25,964,134,564
Depreciation and amortization	8,357,098,135	361,640,733	268,549,001	157,168,666	124,509,357	90,967,169	51,822,257	9,411,755,318
Disposals/others	(3,332,095,083)	(547,568,644)	(200,702)	(8,078,594)	(11,982,184)	—	(2,149,107)	(3,902,074,314)
Balance at December 31, 2019	23,394,715,305	3,532,877,987	1,518,887,264	762,221,313	1,047,013,562	920,679,852	297,420,285	31,473,815,568
Net Book Values	₱76,102,784,462	₱6,424,097,793	₱4,201,171,473	₱616,054,071	₱181,619,080	₱778,315,365	₱177,564,281	₱88,481,606,525



2019							
	Furniture, Fixtures and Office Equipment	Communication Equipment	Special Tools	Maintenance and Test Equipment	Other Equipment	Construction in-Progress	Total
Cost							
Balance at January 1, 2019	₱281,554,729	₱32,501,549	₱16,684,607	₱6,542,926	₱161,989,172	₱14,598,838,659	₱121,383,853,065
Additions	43,455,923	1,399,487	1,018,062	—	92,955,333	4,291,999,041	25,570,098,817
Reclassification	—	—	—	—	—	(1,065,562,996)	—
Disposals/others	(1,214,787)	(1,781)	—	(13,329)	(2,777,020)	—	(8,539,160,214)
Balance at December 31, 2019	323,795,865	33,899,255	17,702,669	6,529,597	252,167,485	17,825,274,704	138,414,791,668
Accumulated Depreciation and Amortization							
Balance at January 1, 2019	174,973,606	21,072,991	14,202,623	6,482,147	103,396,019	—	26,284,261,950
Depreciation and amortization	42,416,795	4,283,445	743,206	15,808	21,866,950	—	9,481,081,522
Reclassification	(580,683)	—	—	—	580,683	—	—
Disposals/others	(1,173,979)	(1,781)	—	(13,329)	(2,711,017)	—	(3,905,974,420)
Balance at December 31, 2019	215,635,739	25,354,655	14,945,829	6,484,626	123,132,635	—	31,859,369,052
Net Book Values	₱108,160,126	₱8,544,600	₱2,756,840	₱44,971	₱129,034,850	₱17,825,274,704	₱106,555,422,616

2018								
	Passenger Aircraft (Notes 18 and 32)	Engines	Rotables	Ground Support Equipment	EDP Equipment, Mainframe and Peripherals	Leasehold Improvements	Transportation Equipment	Sub-total
Cost								
Balance at January 1, 2018	₱70,335,605,502	₱9,397,746,370	₱4,130,242,815	₱745,781,211	₱1,021,257,336	₱1,351,667,016	₱322,192,738	₱87,304,492,988
Additions	4,323,606,889	1,155,919,367	547,876,099	410,486,177	147,332,575	31,713,539	109,100,759	6,726,035,405
Reclassification	20,515,650,411	—	—	—	—	133,312,472	—	20,648,962,883
Disposals/others	(8,269,459,924)	(4,893,480)	(16,460,354)	(62,851,297)	(20,393,727)	—	(19,691,071)	(8,393,749,853)
Balance at December 31, 2018	86,905,402,878	10,548,772,257	4,661,658,560	1,093,416,091	1,148,196,184	1,516,693,027	411,602,426	106,285,741,423
Accumulated Depreciation and Amortization								
Balance at January 1, 2018	15,436,864,029	3,378,044,191	1,041,628,191	519,922,353	834,159,218	730,342,355	221,747,190	22,162,707,527
Depreciation and amortization	6,514,310,021	341,359,799	213,427,725	100,474,032	120,635,331	99,370,328	44,824,849	7,434,402,085
Reclassification	—	—	—	—	—	—	—	—
Disposals/others	(3,581,461,797)	(598,092)	(4,516,951)	(7,265,144)	(20,308,160)	—	(18,824,904)	(3,632,975,048)
Balance at December 31, 2018	18,369,712,253	3,718,805,898	1,250,538,965	613,131,241	934,486,389	829,712,683	247,747,135	25,964,134,564
Net Book Values	₱68,535,690,625	₱6,829,966,359	₱3,411,119,595	₱480,284,850	₱213,709,795	₱686,980,344	₱163,855,291	₱80,321,606,859



	2018						
	Furniture, Fixtures and Office Equipment	Communication Equipment	Special Tools	Maintenance and Test Equipment	Other Equipment	Construction in-Progress	Total
Cost							
Balance at January 1, 2018	₱216,078,228	₱29,440,488	₱15,799,420	₱6,542,926	₱117,407,637	₱16,028,762,376	₱103,718,524,063
Additions	66,421,761	3,125,227	888,187	—	44,892,220	19,189,086,595	26,030,449,395
Reclassification	—	—	—	—	—	(20,648,962,883)	—
Disposals/others	(945,260)	(64,166)	(3,000)	—	(310,685)	29,952,571	(8,365,120,393)
Balance at December 31, 2018	281,554,729	32,501,549	16,684,607	6,542,926	161,989,172	14,598,838,659	121,383,853,065
Accumulated Depreciation and Amortization							
Balance at January 1, 2018	146,253,049	17,161,118	13,577,354	6,466,339	93,066,289	—	22,439,231,676
Depreciation and amortization	29,658,705	3,976,039	628,269	15,808	10,640,409	—	7,479,321,315
Reclassification	—	—	—	—	—	—	—
Disposals/others	(938,148)	(64,166)	(3,000)	—	(310,679)	—	(3,634,291,041)
Balance at December 31, 2018	174,973,606	21,072,991	14,202,623	6,482,147	103,396,019	—	26,284,261,950
Net Book Values	₱106,581,123	₱11,428,558	₱2,481,984	₱60,779	₱58,593,153	₱14,598,838,659	₱95,099,591,115



Passenger Aircraft and Engines Held as Securing Assets Under Various Loans

The Group entered into various Export Credit Agency (ECA) and commercial loan facilities to finance the purchase of its aircraft and engines. As of December 31, 2019 and 2018, the Group's passenger aircraft and engines held as securing assets under various loans are as follows:

	2019		2018	
	ECA Loans	Commercial Loans	ECA Loans	Commercial Loans
A320 CEO	—	17	3	17
ATR 72-600	—	12	—	12
A321 CEO	—	7	—	7
A321 NEO	—	5	—	—
A330 CEO	—	2	—	2
ATR 72-500	—	—	2	—
	—	43	5	38

Under the terms of the ECA loan and 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. 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, 2019 and 2018, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱58.4 billion and ₱67.1 billion, respectively.

Forward Sale Agreement

In 2016, the Parent Company signed a forward sale agreement with Sunrise Asset Management, a subsidiary of Allegiant Travel Company (collectively known as "Allegiant") covering four (4) A319 aircraft. The aircraft were scheduled for delivery on various dates in 2017 and 2018.

Three (3) of the four Airbus A319 were delivered to Allegiant in 2017 and the last Airbus A319 aircraft was delivered in 2018. The Parent Company recognized ₱156.7 million and ₱532.9 million loss on sale in the consolidated statements of comprehensive income in 2018 and 2017, respectively.

On December 18, 2018, the Parent Company signed another forward sale agreement with Allegiant covering three (3) A320 CEO aircraft. The aircraft were delivered to Allegiant on various dates within 2019 and the Parent Company recognized ₱352.1 million loss on sale in the consolidated statements of comprehensive income in 2019.

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

Sale and Operating Leaseback

In May and November 2017, the Group entered into a sale and operating leaseback transactions with ILL and JPA No. 78/79/80/81 Co., Ltd. covering two (2) and four (4) Airbus A320, respectively (see Note 30).

The sale of aircraft required the prepayment of outstanding balance of the loan facility attributed to the sold Airbus A320. The total amount of loans and breakage costs paid amounted to ₱4,162.6 million and ₱12.3 million, respectively. The Group recognized gain on sale of aircraft amounting to ₱635.5 million from these transactions.



In July and August 2018, the Group entered into a sale and operating leaseback transaction with JPA No. 117/118/119 Co., Ltd. covering three (3) Airbus A320. The Group recognized gain on sale of aircraft amounting to ₱110.2 million from these transactions in 2018.

Operating Fleet

As of December 31, 2019, the Group's operating fleet follows:

	2019
Leased aircraft:	
Airbus A320 CEO	26
Airbus A321 CEO	7
Airbus A330 CEO	6
Airbus A320 NEO	4
ATR 72-600	1
Owned aircraft:	
ATR 72-600	12
ATR 72-500	8
Airbus A321 NEO	5
Airbus A320 CEO	4
Airbus A330 CEO	2
	75

As of December 31, 2018, the Group's operating fleet follows:

	2018
Owned/Under finance lease (Note 18):	
Airbus A320 CEO	20
ATR 72-600	12
ATR 72-500	8
Airbus A321 CEO	7
Airbus A321 NEO	-
Airbus A330 CEO	2
Under operating lease (Note 30):	
Airbus A320 CEO	16
Airbus A320 NEO	-
Airbus A330 CEO	6
ATR 72-600	-
	71

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, 2019 and 2018, the Group's capitalized pre-delivery payments as construction in-progress amounted to ₱17,663.1 million and ₱14,347.7 million, respectively (see Note 30).



The Group recognized loss on disposal of property and equipment reflected under 'Others' in the 'General and administrative expenses' account amounting to ₱0.9 million, ₱72.2 million and ₱1.1 million in 2019, 2018 and 2017, respectively (see Note 23).

As of December 31, 2019 and 2018, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱4,708.5 million and ₱2,667.2 million, respectively.

As of December 31, 2019 and 2018, there are no temporarily idle property and equipment.

13. Investments in Joint Ventures and Associates

Investments in Joint Ventures

The Parent Company has numerous investments in joint arrangements that are accounted for as joint ventures. These represent the 60%, 49%, 35%, and 40% interests in PAAT, A-plus, SIAEP and 1Aviation, respectively.

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. As such, the Parent Company recognizes 50% share in net income and net assets 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 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.

Investment in 1Aviation

Investment in 1Aviation refers to the Parent Company's 40.00% 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 and net assets of the joint venture. 1Aviation is engaged in the business of providing groundhandling services for all types of aircraft, whether for the transport of passengers or cargo, international or domestic flights, private, commercial, government or military purposes to be performed at the Ninoy Aquino International Airport and other airports in the Philippines as may be agreed by the co-venturers.



Investment in Associates

The Parent Company has investments in associates as follows:

Investment in DAVI

Investment in DAVI refers to the Parent Company's 40.00% 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 Air Black Box

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 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. The investment gave the Parent Company a 15% shareholding proportion to ABB. The Parent Company has assessed that it has significant influence over ABB through its representation in the BOD and participation in the policy-making process of ABB. Accordingly, the investment was classified as an investment in an associate and is accounted for at equity method. ABB started its operations in 2018, the investment is recognized at cost and is subject to any remeasurement within the measurement period. As of December 31, 2019 and 2018, the net carrying amount of the Group's investment with ABB amounted to ₱43.7 million.



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

	2019								
	Investment in joint ventures					Investment in associates			
	A-plus	SIAEP	PAAT	lAviation	Subtotal	ABB	DAVI	Subtotal	Total
Cost									
Balance at January 1, 2019	₱87,012,572	₱486,168,900	₱134,873,645	₱46,000,000	₱754,055,117	₱43,713,923	₱—	₱43,713,923	₱797,769,040
Investment during the year	—	—	—	—	—	—	240,000,000	240,000,000	240,000,000
Balance at December 31, 2019	87,012,572	486,168,900	134,873,645	46,000,000	754,055,117	43,713,923	240,000,000	283,713,923	1,037,769,040
Accumulated Equity in Net Income (Loss)									
Balance at January 1, 2019	165,427,530	(60,503,657)	62,102,459	(21,013,677)	146,012,655	—	—	—	146,012,655
Equity in net income (loss) during the year	24,289,538	44,938,402	40,708,849	5,671,979	115,608,768	—	(48,649,384)	(48,649,384)	66,959,384
Dividends declared	(32,289,091)	—	—	—	(32,289,091)	—	—	—	(32,289,091)
Adjustment	3,000,030	—	—	—	3,000,030	—	—	—	3,000,030
Balance at December 31, 2019	160,428,007	(15,565,255)	102,811,308	(15,341,698)	232,332,362	—	(48,649,384)	(48,649,384)	183,682,978
Net Carrying Value	₱247,440,579	₱470,603,645	₱237,684,953	₱30,658,302	₱986,387,479	₱43,713,923	₱191,350,616	₱235,064,539	₱1,221,452,018

	2018						
	Investment in joint ventures					Investment in Associate (ABB)	Total
	A-plus	SIAEP	PAAT	lAviation	Subtotal		
Cost							
Balance at January 1, 2018	₱87,012,572	₱486,168,900	₱134,873,645	₱—	708,055,117	₱43,713,923	₱751,769,040
Investment during the year	—	—	—	46,000,000	46,000,000	—	46,000,000
Balance at December 31, 2018	87,012,572	486,168,900	134,873,645	46,000,000	754,055,117	43,713,923	797,769,040
Accumulated Equity in Net Income (Loss)							
Balance at January 1, 2018	142,323,570	(106,944,858)	53,824,686	—	89,203,398	—	89,203,398
Equity in net income (loss) during the year	102,558,877	46,441,201	8,277,773	(21,013,677)	136,264,174	—	136,264,174
Dividends declared	(79,454,917)	—	—	—	(79,454,917)	—	(79,454,917)
Balance at December 31, 2018	165,427,530	(60,503,657)	62,102,459	(21,013,677)	146,012,655	—	146,012,655
Net Carrying Value	₱252,440,102	₱425,665,243	₱196,976,104	₱24,986,323	₱900,067,772	₱43,713,923	₱943,781,695



Selected financial information as of December 31 follow:

	2019				
	A-plus	SIAEP	PAAT	1Aviation	DAVI
Total current assets	₱618,359,474	₱838,471,300	₱136,869,696	₱185,176,065	₱378,541,217
Noncurrent assets	372,301,755	1,537,244,282	1,109,394,337	127,369,228	264,864,495
Current liabilities	(296,985,746)	(428,221,822)	(144,799,533)	(235,899,538)	(165,029,173)
Noncurrent liabilities	(188,694,709)	(602,911,917)	(626,094,595)	—	—
Equity	504,980,774	1,344,581,843	475,369,905	76,645,755	478,376,539
Proportion of the Group's ownership	49%	35%	50%	40%	40%
Carrying amount of the investments	₱247,440,579	₱470,603,645	₱237,684,953	₱30,658,302	₱191,350,616

	2018			
	A-plus	SIAEP	PAAT	1Aviation
Total current assets	₱703,718,875	₱904,002,877	₱145,133,727	₱68,832,080
Noncurrent assets	239,423,720	1,648,489,384	1,150,357,261	283,007,321
Current liabilities	(427,958,713)	(658,949,475)	(44,850,669)	(289,373,594)
Noncurrent liabilities	—	(677,356,377)	(856,688,112)	—
Equity	515,183,882	1,216,186,409	393,952,207	62,465,807
Proportion of the Group's ownership	49%	35%	50%	40%
Carrying amount of the investments	₱252,440,102	₱425,665,243	₱196,976,104	₱24,986,323

Summary of statements of comprehensive income of A-plus, SIAEP, PAAT, 1Aviation and DAVI for the twelve-month ended December 31 follow:

	2019				
	A-plus	SIAEP	PAAT	1Aviation	DAVI
Revenue	₱1,046,954,727	₱1,839,961,218	₱333,026,768	₱1,156,237,628	₱—
Expenses	(931,039,016)	(1,667,854,607)	(197,481,595)	(1,122,369,883)	(124,165,746)
Other income (expenses)	(38,882,140)	(22,686,135)	(26,089,311)	(13,610,676)	3,147,687
Income before tax	77,033,571	149,420,476	109,455,862	20,257,069	(121,018,059)
Income tax expense	27,463,085	21,025,042	28,038,165	6,077,121	605,401
Net income (loss)	₱49,570,486	₱128,395,434	₱81,417,697	₱14,179,948	(₱121,623,460)
Group's share of profit (loss) for the year	₱24,289,538	₱44,938,402	₱40,708,849	₱5,671,979	(₱48,649,384)

	2018			
	A-plus	SIAEP	PAAT	1Aviation
Revenue	₱1,037,425,075	₱1,839,177,793	₱237,669,156	₱174,576,555
Expenses	(860,831,651)	(1,660,888,818)	(173,179,771)	(249,414,260)
Other income (expenses)	113,280,844	(24,186,909)	(43,116,858)	(209,953)
Income before tax	289,874,268	154,102,066	21,372,527	(75,047,658)
Income tax expense (benefit)	80,570,437	21,412,920	4,816,980	(22,513,464)
Net income (loss)	₱209,303,831	₱132,689,146	₱16,555,547	(₱52,534,194)
Group's share of profit (loss) for the year	₱102,558,877	₱46,441,201	₱8,277,774	(₱21,013,678)

	2017			
	A-plus	SIAEP	PAAT	1Aviation
Revenue	₱1,048,531,465	₱1,511,437,871	₱291,754,990	₱—
Expenses	(787,755,096)	(1,431,375,266)	(207,365,599)	—
Other income (expenses)	27,808,071	(29,617,330)	(32,481,449)	—
Income before tax	288,584,440	50,445,275	51,907,942	—
Income tax expense	76,613,034	10,710,542	6,792,936	—
Net income	₱211,971,406	₱39,734,733	₱45,115,006	₱—
Group's share of profit for the year	₱103,865,989	₱13,907,157	₱22,557,503	₱—



The fiscal year-end of A-plus and SIAEP is every March 31 while the year-end of PAAT, 1Aviation, ABB and DAVI is every December 31.

For the periods ended December 31, 2019 and 2018, the Parent Company received dividends from A-plus amounting to ₱32.3 million and ₱79.5 million, respectively. Dividends received in 2018 includes dividends declared in 2017 amounting to ₱42.1 million. Outstanding dividends receivable from A-plus amounted to ₱43.0 million as of December 31, 2018. There are no outstanding dividends receivable as of December 31, 2019.

The share of the Parent Company in the net income of A-plus included in the consolidated retained earnings amounted to ₱160.4 million and ₱165.4 million as of December 31, 2019 and 2018, respectively, which is not currently available for dividend distribution unless declared by A-plus.

The share of the Parent Company in the net income of PAAT included in the consolidated retained earnings amounted to ₱102.8 million and ₱62.1 million as of December 31, 2019 and 2018, respectively, which is not currently available for dividend distribution unless declared by PAAT.

As of December 31, 2019 and 2018, the share of the Parent Company in SIAEP's accumulated losses amounted to ₱15.6 million and ₱60.5 million, respectively.

As of December 31, 2019, DAVI's accumulated losses amounted to ₱121.8 million.

The Parent Company's share in the accumulated losses recognized by 1Aviation amounted to ₱15.3 million as of December 31, 2019 and ₱21.0 million for the ten months ended December 31, 2018.

14. Goodwill

This account, which has a balance of ₱566.8 million as of December 31, 2019 and 2018, represents the goodwill arising from the acquisition of CEBGO. Goodwill is attributed to the following:

Achievement of Economies of Scale

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

Defensive Strategy

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

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

Impairment testing of Goodwill and Intangible Assets with Indefinite Useful Lives

For purposes of impairment testing of these assets, CEBGO was considered as the CGU. In 2019, 2018 and 2017, 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, 2019 and 2018, 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 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.

15. Other Noncurrent Assets

This account consists of:

	2019	2018
Advances to suppliers - net of current portion	₱3,236,198,911	₱4,122,016,516
Intangible assets	852,691,869	852,691,869
Receivables - net of current portion	413,021,745	—
Refundable deposits	181,057,483	203,244,020
Others	141,568,740	174,691,659
	₱4,824,538,748	₱5,352,644,064

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

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

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

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

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:

	2019	2018
Accounts payable	₱6,958,462,545	₱6,434,772,574
Accrued expenses	5,449,556,979	4,865,824,365
Airport and other related fees payable	4,366,214,762	3,684,830,069
Advances from agents and others	567,139,322	787,104,397
Accrued interest (Note 18)	264,836,425	337,109,129
Other payables	225,751,157	231,672,631
	₱17,831,961,190	₱16,341,313,165

Accrued Expenses

The Group's accrued expenses include accruals for:

	2019	2018
Maintenance (Note 30)	₱1,980,857,518	₱1,460,007,483
Compensation and benefits	1,198,865,414	955,379,006
Advertising and promotion	869,632,192	740,372,440
Navigational charges	533,531,564	573,939,401
Repairs and services	318,569,741	491,531,304
Training costs	131,178,203	70,706,678
Rent (Note 30)	121,596,746	62,995,824
Professional fees	43,252,344	31,390,498
Reservation costs	37,025,264	101,704,391
Fuel	20,185,483	87,645,898
Landing and take-off fees	12,437,398	20,751,933
Ground handling charges	5,827,811	25,751,032
Aircraft insurance	4,684,222	4,391,964
Catering supplies	3,869,688	65,142,224
Others	168,043,391	174,114,289
	₱5,449,556,979	₱4,865,824,365

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, 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. These also include commitment fees received for the sale and purchase of three (3) A320 aircraft amounting to ₱315.5 million (US\$6.0 million) and one (1) A319 aircraft amounting to



₱49.9 million (US\$1.0 million) as of December 31, 2018 and 2017, respectively. Commitment fees applied for the delivery of one (1) aircraft in 2018 and three (3) aircraft in 2017 amounted to ₱52.1 million (US\$1 million) and ₱152.0 million (US\$3.0 million), respectively.

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.

Other Payables

Other payables are noninterest-bearing and have an average term of two months. This account includes commissions payable, refunds payable and other tax liabilities such as withholding taxes and output value added tax (VAT).

17. Unearned Transportation Revenue

This account consists of:

	2019	2018
Unearned passenger revenue	₱10,157,264,041	₱9,598,133,327
Deferred ancillary revenue	1,724,335,550	1,512,384,705
	₱11,881,599,591	₱11,110,518,032

Recognized deferred ancillary revenue as of December 31, 2019 and 2018 with the effect of PFRS 15 follows:

	2019	2018
Balance at January 1, as previously reported	₱1,512,384,705	₱—
Effect of the adoption of PFRS 15	—	630,090,664
Balance at January 1, as restated	1,512,384,705	630,090,664
Deferred during the year	16,920,218,675	13,527,286,250
Recognized to income during the year	(16,708,267,830)	(12,644,992,209)
Balance at December 31	₱1,724,335,550	₱1,512,384,705

18. Long-term Debt

This account consists of:

			2019		
	Annual Interest Rates Range (Note 28)	Maturities	US Dollar		Philippine Peso Equivalent
US Dollar commercial loans	3.00% to 5.00%	Various dates through 2025	US\$109,810,163	JPY –	₱5,560,237,584
	3.00% to 5.00% (US Dollar LIBOR)		491,954,372	–	24,910,109,670
			601,764,535	–	30,470,347,254
Japanese Yen commercial loans	Less than 1.00% (JPY LIBOR)	Various dates through 2029	–	18,200,294,064	8,424,916,122
Philippine Peso commercial loans	5.00% to 7.00% (BVAL)	2016 through 2026	–	–	18,249,257,900
			US\$601,764,535	JPY18,200,294,064	₱57,144,521,276



2018				
	Annual Interest Rates Range (Note 28)	Maturities	US Dollar	Philippine Peso Equivalent
ECA loans	3.00% to 5.00%	Various dates through 2024	US\$895,255	₱47,072,508
	3.00% to 5.00% (US Dollar LIBOR)		55,944,933	2,941,584,577
			56,840,188	2,988,657,085
US Dollar commercial loans	3.00% to 5.00%	Various dates through 2025		
	3.00% to 5.00% (US Dollar LIBOR)		123,810,163	6,509,938,371
			445,752,453	23,437,663,976
			569,562,616	29,947,602,347
Philippine Peso commercial loans	5.00% to 7.00% (PDST-R2 and BVAL)	2016 through 2026	–	20,861,286,829
			US\$626,402,804	₱53,797,546,261

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

2019			
	US Dollar	Japanese Yen	Philippine Peso Equivalent
Current			
US Dollar loans	US\$70,617,999	JPY–	₱3,575,742,379
Japanese Yen loans	–	1,506,555,004	697,384,311
Philippine Peso loans	–	–	2,612,028,929
	70,617,999	1,506,555,004	6,885,155,619
Noncurrent			
US Dollar loans	531,146,536	–	26,894,604,875
Japanese Yen loans	–	16,693,739,060	7,727,531,811
Philippine Peso loans	–	–	15,637,228,971
	531,146,536	16,693,739,060	50,259,365,657
	US\$601,764,535	JPY18,200,294,064	₱57,144,521,276

2018		
	US Dollar	Philippine Peso Equivalent
Current		
US Dollar loans	US\$76,134,780	₱4,003,166,718
Philippine Peso loans	–	2,612,028,929
	76,134,780	6,615,195,647
Noncurrent		
US Dollar loans	550,268,024	28,933,092,714
Philippine Peso loans	–	18,249,257,900
	550,268,024	47,182,350,614
	US\$626,402,804	₱53,797,546,261



Long-term debt rollforward follows:

2019					
	US Dollar Loans	Japanese Yen Loans	Philippine Peso Equivalent	Philippine Peso Loans	Total
Balances at January 1	US\$626,402,804	JPY–	₱32,936,259,418	₱20,861,286,843	₱53,797,546,261
Availments	97,544,126	18,579,575,317	13,539,632,216	–	13,539,632,216
Payments	(122,182,395)	(379,281,253)	(6,521,409,617)	(2,612,028,943)	(9,133,438,560)
	601,764,535	18,200,294,064	39,954,482,017	18,249,257,900	58,203,739,917
Unrealized foreign exchange loss	–	–	(1,059,218,641)	–	(1,059,218,641)
Balances at December 31	US\$601,764,535	JPY18,200,294,064	₱38,895,263,376	₱18,249,257,900	₱57,144,521,276

2018				
	US Dollar Loans	Philippine Peso Equivalent	Philippine Peso Loans	Total
Balances at January 1	US\$549,497,421	₱27,436,406,252	₱13,545,804,500	₱40,982,210,752
Availments	444,146,352	23,408,556,667	9,271,515,038	32,680,071,705
Payments	(367,240,969)	(19,281,456,841)	(1,956,032,695)	(21,237,489,536)
	US\$626,402,804	31,563,506,078	20,861,286,843	52,424,792,921
Unrealized foreign exchange loss	–	1,372,753,340	–	1,372,753,340
Balances at December 31	US\$626,402,804	₱32,936,259,418	₱20,861,286,843	₱53,797,546,261

ECA Loans

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

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

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

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

As of December 31, 2018 and 2017, the terms of the remaining ECA-backed facilities follow:

- Term of twelve (12) years starting from the delivery date of each Airbus A320 aircraft and ten (10) years for each ATR 72-500 turboprop aircraft.



- Combination of annuity style and equal principal repayments made on a semi-annual basis and a quarterly basis.
- Mixed interest rates with fixed annual interest rates ranges from 3.00% to 5.00% and variable rates based on US dollar LIBOR plus margin.
- Other than what is permitted by the transaction documents or the ECA administrative parties, the SPEs cannot create or allow to exist any other security interest.
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the ECA lenders will foreclose on secured assets, namely the aircraft.

In 2019, the Parent Company exercised the option to purchase the remaining two (2) ATR 72-500 upon maturity and full payment of their corresponding loan facilities and prepaid the ECA loans covering three (3) more Airbus A320 CEO. As of December 31, 2019, the Parent Company no longer has remaining ECA-backed facilities in its portfolio.

As of December 31, 2019 and 2018, the total outstanding balance of the ECA loans amounted to nil and ₱2,988.7 million (US\$56.8 million), respectively. Interest expense amounted to ₱39.7 million, ₱176.4 million and ₱291.6 million in 2019, 2018 and 2017, respectively.

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 prepaid the US dollar loan facilities for ten (10) Airbus A320 aircraft resulting to dissolution of PTHALL, SAALL and SBALL (Note 1). The Group subsequently entered into four (4) Philippine peso commercial loan facilities and six (6) USD commercial loans for the same aircraft. 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.

As of December 31, 2019 and 2018, the terms of the remaining commercial loan facilities follow:

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

As of December 31, 2019 and 2018, the total outstanding balance of the US dollar commercial loans amounted to ₱30,470.3 million (US\$601.8 million) and ₱29,947.6 million (US\$569.6 million),



respectively. Interest expense amounted to ₱1,255.4 million, ₱1,099.8 million and ₱780.6 million in 2019, 2018 and 2017, respectively.

Japanese Yen Commercial Loans

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

As of December 31, 2019, the total outstanding balance of the Japanese yen commercial loans amounted to ₱8,424.9 million (¥18.2 billion). Interest expense amounted to ₱174.1 million in 2019.

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, 2019 and 2018, 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 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, 2019 and 2018, the total outstanding Philippine Peso commercial loans amounted to ₱18,249.3 million and ₱20,861.3 million, respectively. Interest expense incurred from these loans amounted to ₱1,129.4 million, ₱826.4 million and ₱349.3 million in 2019, 2018 and 2017, 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, 2019 and 2018, the Group is not in breach of any loan covenants.

19. Other Noncurrent Liabilities

This account consists of:

	2019	2018
Asset retirement obligation (ARO)	₱5,942,401,451	₱5,781,386,463
Deferred revenue on rewards program	1,234,903,085	954,057,251
	₱7,177,304,536	₱6,735,443,714

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:

	2019	2018
Balance at beginning of year	₱5,781,386,463	₱3,675,087,466
Provision for ARO (Note 6)	1,940,084,130	2,106,298,997
Applications during the year	(1,779,069,142)	—
Balance at end of year	₱5,942,401,451	₱5,781,386,463

In 2019, 2018 and 2017, ARO expenses included as part of repairs and maintenance amounted to ₱1,940.1 million and ₱2,106.3 million and ₱1,209.4 million, respectively (see Note 22).

Deferred Revenue on Rewards Program

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

The rollforward analyses of deferred revenue follow:

	2019	2018
Balance at January 1	₱954,057,251	₱720,229,576
Add: Estimated liability on issued points	924,714,078	691,673,529
Subtotal	1,878,771,329	1,411,903,105
Less: Estimated liability on redeemed points	246,829,251	178,326,243
Estimated liability on expired points	397,038,993	279,519,611
Balance at December 31	₱1,234,903,085	₱954,057,251

20. Equity

The details of the number of common stock and the movements thereon follow:

	2019	2018
Authorized - at ₱1 par value	1,340,000,000	1,340,000,000
Capital stock	613,236,550	613,236,550
Treasury shares	(12,319,850)	(10,871,060)
Issued and outstanding shares	600,916,700	602,365,490

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 Group has 98 and 97 existing certified shareholders as of December 31, 2019 and 2018, respectively.

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 2019 and 2018, the Parent Company recorded additional treasury shares with cost of ₱120.6 million and ₱256.2 million, respectively, from SBP. The Parent Company has 12,319,850 and 10,871,060 shares held in treasury with cost of ₱906.1 million and ₱785.5 million as of December 31, 2019 and 2018, respectively, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.

Appropriation of Retained Earnings

On December 4, 2019, December 12, 2018 and December 15, 2017, the Parent Company's BOD appropriated ₱26.0 billion, ₱22.0 billion and ₱18.3 billion, respectively, from its unrestricted retained earnings for purposes of the Group's re-fleeting program. Appropriations as of December 31, 2018, and 2017 were reversed in the following year. The appropriated amount as of December 31, 2019 will be used for the settlement of aircraft and engine lease commitments in 2020 (see Note 30).

As of December 31, 2019 and 2018, the Group has appropriated retained earnings totaling ₱26,000.0 million and ₱22,000.0 million, respectively.

Unappropriated Retained Earnings

The income of the subsidiaries and JVs that are recognized in the consolidated statements of comprehensive income are not available for dividend declaration unless these are declared by the subsidiaries and JVs (see Note 13). Likewise, retained earnings are restricted for the payment of dividends to the extent of the cost of common stock held in treasury amounting to ₱906.1 million and ₱785.5 million as of December 31, 2019 and 2018, respectively.

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

On May 19, 2018, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱1,745.1 million or ₱2.88 per share and a special cash dividend in the amount of ₱981.6 million or ₱1.62 per share from the unrestricted retained earnings of the Parent Company to all stockholders of record as of June 14, 2018 and payable on July 10, 2018. Total dividends declared and paid amounted to ₱2,726.8 million for the year ended December 31, 2018.

On May 19, 2017, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱606.0 million or ₱1.00 per share and a special cash dividend in the amount of ₱1,060.4 million or ₱1.75 per share from the unrestricted retained earnings of the Parent Company to all stockholders of record as of June 9, 2017 and payable on July 5, 2017. Total dividends declared and paid amounted to ₱1,666.4 million for the year ended December 31, 2017.

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 amount of retained earnings that is available for dividend declaration as of December 31, 2019 and 2018 amounted to ₱2,863.2 million and ₱1,565.0 million, respectively.

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 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.

The Group's debt-to-capital ratios follow:

	2019	2018
(a) Long-term debt and lease liability (Note 18 and Note 30)	₱74,653,996,780	₱53,797,546,261
(b) Equity	44,900,975,660	40,102,133,279
(c) Debt-to-equity ratio (a/b)	1.7:1	1.3:1

The JGSHI Group's policy is to ensure that debt-to-equity ratio will not exceed to 2:1 as of December 31, 2019 and 2018. Such ratio is currently being managed on a group level by the Group's ultimate parent.

21. Ancillary Revenue

Ancillary revenue consist of:

	2019	2018	2017
Baggage fees	₱8,237,585,725	₱6,734,690,889	₱6,503,929,372
Rebooking, refunds, cancellation fees, etc.	6,381,316,817	5,225,377,108	4,872,677,534
Others	2,760,410,780	2,402,585,305	2,117,690,355
	₱17,379,313,322	₱14,362,653,302	₱13,494,297,261

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

22. Operating Expenses

Flying Operations

This account consists of:

	2019	2018	2017
Aviation fuel expense (Note 10)	₱24,591,651,508	₱25,431,126,363	₱19,594,980,725
Flight deck	4,590,316,625	3,652,711,319	3,565,189,572
Aviation insurance	322,729,132	249,703,574	226,084,461
Others	756,660,022	578,565,260	474,805,509
	₱30,261,357,287	₱29,912,106,516	₱23,861,060,267



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

Aviation insurance pertains to insurance costs incurred directly for aircraft.

Aircraft and Traffic Servicing

This account consists of:

	2019	2018	2017
Airport charges	₱4,674,113,045	₱4,288,318,826	₱4,388,454,073
Ground handling	3,755,778,991	3,038,311,999	2,682,026,202
Others	832,588,322	784,539,739	635,872,264
	₱9,262,480,358	₱8,111,170,564	₱7,706,352,539

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.

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 operating lease agreements (see Note 30). Total amount of repairs and maintenance includes provision for aircraft return condition amounting to ₱1,940.1 million, ₱2,106.3 million and ₱1,209.4 million in 2019, 2018 and 2017, respectively (see Note 19).

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 ₱4,059.2 million, ₱3,829.5 million and ₱3,674.6 million in 2019, 2018 and 2017, respectively.

23. General and Administrative Expenses

This account consists of:

	2019	2018	2017
Staff costs	₱1,003,057,243	₱780,432,494	₱713,911,477
IT and other professional fees	976,592,978	556,576,785	351,993,584
Security	411,533,945	328,985,561	237,743,941
Utilities	136,749,683	125,105,092	144,290,695
Rent expense (Note 30)	60,917,142	91,595,800	119,274,051
Travel and transportation	55,942,843	28,237,288	53,113,095
Others	331,648,047	447,240,710	490,378,109
	₱2,976,441,881	₱2,358,173,730	₱2,110,704,952



Others include membership dues, annual listing maintenance fees, supplies, bank charges, loss on disposal of aircraft and others.

24. Employee Benefits

The Group 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 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.

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 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Average remaining working life	7-10 years	7 - 9 years	7 - 9 years
Discount rate	4.98% - 5.02%	7.35% - 7.36%	5.73% - 5.76%
Salary increase rate	5.70%	5.70%	5.70% - 5.50%

As of December 31, 2019 and 2018, 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:

	2019	2018
Present value of defined benefit obligation	₱1,652,947,542	₱1,063,211,853
Fair value of plan assets	(729,004,724)	(571,755,517)
	₱923,942,818	₱491,456,336



Remeasurement gains recognized in OCI follow:

	2019	2018	2017
Actuarial gains from benefit obligation	(P197,637,916)	P18,426,105	P83,944,869
Return on plan assets, excluding amount included in net interest cost	(55,049,471)	(8,558,367)	(28,470,755)
Amount to be recognized in OCI	(P252,687,387)	P9,867,738	P55,474,114

Movements in the fair value of plan assets follow:

	2019	2018
Balance at January 1	P571,755,517	P435,430,849
Interest income included in net interest cost	99,370,089	21,586,353
Actual contribution during the year	116,773,839	124,017,696
Return on plan assets, excluding amount included in net interest cost	(55,049,471)	(8,558,367)
Benefits paid	(3,845,250)	(721,014)
Balance at December 31	P729,004,724	P571,755,517

The plan assets consist of:

	2019	%	2018	%
Cash	P438,920,547	60%	P72,845,784	13%
Investment in debt securities	231,602,982	32%	436,129,987	76%
Investment in equity securities	–	0%	58,241,642	10%
Receivables	58,508,792	8%	4,587,342	1%
	729,032,321		571,804,755	
Liabilities	(27,597)	–	(49,238)	–
	P729,004,724	100%	P571,755,517	100%

The Group expects to contribute about P145.7 million into the retirement fund for the year ending 2020.

The actual returns on plan assets amounted to P44.0 million and P13.0 million gains in 2019 and 2018, respectively.

Changes in present value of the defined benefit obligation follow:

	2019	2018
Balance at January 1	P1,063,211,853	P1,072,391,925
Current service cost	145,684,534	116,773,839
Past service cost	265,243,016	–
Interest cost	64,916,506	58,097,643
Benefits paid	(175,148,438)	(165,625,449)
Effect to curtailment	(79,901,033)	–
Settlement	171,303,188	–
Actuarial loss/gain due to:		
Experience adjustments	(114,394,368)	132,371,974
Changes in financial assumption	312,032,284	9,912,666
Changes in demographical assumption	–	(160,710,745)
Balance at December 31	P1,652,947,542	P1,063,211,853



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 2019.

Movements in retirement liability follow:

	2019	2018
Balance at January 1	₱491,456,336	₱636,961,076
Retirement expense	467,876,122	153,285,129
Recognized in OCI	252,687,387	(9,867,738)
Benefits paid	(171,303,188)	(164,904,435)
Actual contribution	(116,773,839)	(124,017,696)
Balance at December 31	₱923,942,818	₱491,456,336

The benefits paid during 2019 and 2018 were paid out of Group's operating funds.

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

	2019	2018	2017
Current service cost	₱145,684,534	₱116,773,839	₱124,017,696
Past service cost	265,243,016	—	—
Settlement loss/gain	91,402,155	—	—
Interest cost	(34,453,583)	36,511,290	30,978,048
Total retirement expense	₱467,876,122	₱153,285,129	₱154,995,744

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:

	2019	PVO
Discount rates	5.98% (+1.00%)	₱1,493,570,281
	3.98% (-1.00%)	1,841,915,831
Salary increase rates	6.70% (+1.00%)	1,846,465,269
	4.70% (-1.00%)	1,486,751,636
	2018	PVO
Discount rates	8.35% (+1.00%)	₱981,606,186
	6.35% (-1.00%)	1,157,746,082
Salary increase	8.35% (+1.00%)	1,165,857,113
	6.35% (-1.00%)	973,270,554

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, 2019 and 2018, the Group's investment consists of 32% of debt instruments and 68% of cash and receivables and 76% of debt instruments, 10% equity instruments and 14% 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, 2019 and 2018:

Plan Year	2019		
	Normal Retirement	Other Normal Retirement	Total
Less than one year	₱90,442,997	₱47,110,349	₱137,553,346
One to less than five years	224,544,748	258,535,821	483,080,569
Five to less than 10 years	537,444,911	462,533,678	999,978,589
10 to less than 15 years	743,723,694	579,813,554	1,323,537,248
15 to less than 20 years	936,900,489	616,022,277	1,552,922,766
20 years and above	4,403,768,261	1,174,830,392	5,578,598,653

Plan Year	2018		
	Normal Retirement	Other Normal Retirement	Total
Less than one year	₱77,038,901	₱43,945,745	₱120,984,646
One to less than five years	166,608,820	234,591,773	401,200,593
Five to less than 10 years	411,519,586	413,313,851	824,833,437
10 to less than 15 years	508,423,380	475,165,193	983,588,573
15 to less than 20 years	606,655,451	491,658,812	1,098,314,263
20 years and above	2,649,264,205	874,899,835	3,524,164,040

The average duration of the expected benefit payments as of December 31, 2019 and 2018 is 19.92 years and 19.01 years, respectively.

25. Income Taxes

Provision for (benefit from) income tax consists of:

	2019	2018	2017
Current	₱467,986,478	₱426,357,162	₱134,353,111
Deferred	693,466,391	(865,934,393)	165,852,592
	₱1,161,452,869	(₱439,577,231)	₱300,205,703

Details of current taxes follow:

	2019	2018	2017
RCIT	₱467,986,478	₱423,172,309	₱—
MCIT	—	3,184,853	134,353,111
	₱467,986,478	₱426,357,162	₱134,353,111

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.00% and 7.50% on peso-denominated and foreign currency-denominated short-term placements and cash in banks, respectively, which are final withholding taxes on gross interest income.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% 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.



In addition, under Section 11 of R.A. No. 7151 (Parent Company's Congressional Franchise) and under Section 15 of R.A. No. 9517 (CEBGO's Congressional Franchise) known as the "ipso facto clause" and the "equality clause", respectively, the Group is allowed to benefit from the tax privileges being enjoyed by competing airlines. The Group's major competitor, by virtue of P.D. No. 1590, is enjoying tax exemptions which are likewise being claimed by the Group, 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.

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

	2019	2018
Items recognized in profit or loss		
Deferred tax assets:		
ARO	₱1,782,720,435	₱1,734,415,939
Unrealized foreign exchange losses - net	280,883,228	880,664,588
Deferred revenue - Lifestyle rewards program	370,470,926	286,217,175
Unrealized loss on net derivative liabilities	37,893,750	228,895,609
NOLCO	—	205,652,081
Lease liability, net of ROU asset	49,852,246	—
Retirement liability	148,676,929	94,737,201
MCIT	12,206,273	26,358,572
Allowance for credit losses	24,267,801	24,967,790
	2,706,971,588	3,481,908,955
Deferred tax liability:		
Double depreciation	1,789,818,540	1,864,944,473
Excess of fair value of assets acquired over cost	185,645,561	185,645,561
Unrealized gain on net derivative assets	—	—
	1,975,464,101	2,050,590,034
	731,507,487	1,431,318,921
Item recognized directly in other comprehensive income		
Deferred tax asset:		
Reserve for retirement plan	128,505,917	52,699,700
Deferred tax liability:		
Hedge reserve	77,045,099	—
	51,460,818	52,699,700
	₱782,968,305	₱1,484,018,621

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

Movement in accrued retirement cost and hedge reserves amounted to ₱1.2 million, ₱3.0 million and ₱16.6 million in 2019, 2018 and 2017, respectively, is presented under OCI.

The Parent Company has outstanding registrations with the BOI as a new operator of air transport on a pioneer and non-pioneer status under the Omnibus Investments Code of 1987 (Executive



Order 226) (Note 32). 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, 2019 and 2018, the Parent Company has complied with capital requirements set by the BOI in order to avail the ITH incentives for aircraft of registered activity (Note 32).

CEBGO

Details of NOLCO and MCIT are as follows:

NOLCO

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2014	₱685,506,938	(₱685,506,938)	₱—	₱—	2019
	₱685,506,938	(₱685,506,938)	₱—	₱—	

MCIT

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2016	₱14,152,299	(₱6,345,043)	(₱7,807,256)	₱—	2019
2017	9,021,420	—	—	9,021,420	2020
2018	3,184,853	—	—	3,184,853	2021
	₱26,358,572	(₱6,345,043)	(₱7,807,256)	₱12,206,273	

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

	2019	2018	2017
Statutory income tax rate	30.00%	30.00%	30.00%
Adjustments resulting from:			
Nondeductible items	0.50	0.91	0.20
Interest income subjected to final tax	(1.89)	(3.33)	(0.65)
Income subject to ITH	(19.70)	(59.80)	(25.38)
Others	2.38	19.60	(0.51)
Effective income tax rate	11.29%	(12.62%)	3.66%

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 ₱6.8 million, ₱11.1 million and ₱6.8 million in 2019, 2018 and 2017, respectively.



26. Earnings Per Share

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

	2019	2018	2017
(a) Net income attributable to common shareholders	₱9,122,952,680	₱3,922,744,538	₱7,907,846,625
(b) Weighted average number of common shares for basic EPS	599,504,920	603,217,276	605,953,330
(c) Basic/diluted earnings per share	₱15.22	₱6.50	₱13.05

The Group has no dilutive potential common shares in 2019, 2018 and 2017.

27. Related Party Transaction

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

The Group has entered into transactions with its ultimate parent, its JVs and affiliates principally consisting of advances, sale of passenger tickets, reimbursement of expenses, regular banking transactions, maintenance and administrative service agreements. In addition to the related information disclosed elsewhere in the consolidated financial statements, the following are the 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 Group with the related parties follow:

	2019			
Related Party	Amount/ Volume	Outstanding Balance	Terms	Conditions
Parent company				
(1) CPAHI				
Due from related parties	₱–	₱65,800	Non-interest bearing	Unsecured, No impairment
JV in which the Company is a venture				
(2) A-plus				
Due from related parties	35,402,413	16,782,142	Non-interest bearing	Unsecured, No impairment
Trade payables	(1,021,593,812)	(35,805,872)	Non-interest bearing	Unsecured
(3) SIAEP				
Due from related parties	18,535,626	1,717,275	Non-interest bearing	Unsecured, No impairment
Trade receivables	1,747,917	22,938	Non-interest bearing	Unsecured
Trade payables	(428,275,927)	(21,554,964)	Non-interest bearing	Unsecured
(4) PAAT, Inc.				
Due from related party				
Loans	2,261,342	91,554,427	2% interest per annum	Unsecured, No impairment
Sublease agreement	34,985,420	–	Payable monthly	Unsecured, No impairment
Trade receivables	696,390	10,062	Non-interest bearing	Unsecured, No impairment
Trade payables	(205,252,321)	(10,704,036)	Non-interest bearing	Unsecured
Others	213,063	45,448	Non-interest bearing	Unsecured, No impairment

(Forward)



2019				
Related Party	Amount/ Volume	Outstanding Balance	Terms	Conditions
(5) IAviation				
Due from related parties	₱62,666,281	₱217,915,521,	Non-interest bearing	Unsecured, No impairment
Trade payables	1,018,223,121	(91,208,293)	Non-interest bearing	Unsecured, No impairment
Others	62,891,041	–	Non-interest bearing	Unsecured, No impairment
Entities under common control				
(6) Robinsons Bank Corporation (RBank)				
Trade receivables	163,124	11,875	Non-interest bearing	Unsecured, No impairment
Due to related parties	(96,476,182)	(28,617,253)	Non-interest bearing	Unsecured
Trade payables	–	(10,414,222)	Non-interest bearing	Unsecured
Long-term debt	(346,455,000)	–	Interest bearing	Secured
(7) Universal Robina Corporation (URC)				
Trade receivables	60,423,063	3,725,383	Non-interest bearing	Unsecured, No impairment
Due to related parties	(74,247,197)	(34,616,170)	Non-interest bearing	Unsecured
(8) Robinsons Land Corporation (RLC)				
Trade receivables	277,781	57,201	Interest bearing	Unsecured, No impairment
Trade payables	(356,327)	(121,713)	Non-interest bearing	Unsecured
(9) Robinsons Handyman, Inc.				
Trade receivables	24,908,582	697,421	Interest bearing	Unsecured, No impairment
Trade payables	(18,828,932)	(114,754)	Non-interest bearing	Unsecured
(10) Summit Publishing Inc. (SPI)				
Trade receivables	736,236	241,800	Non-interest bearing	Unsecured, No impairment
Trade payables	(2,354,040)	(446,320)	Non-interest bearing	Unsecured
(11) JG Petrochemical Corporation (JGPC)				
Trade receivables	2,574,962	124,806	Non-interest bearing	Unsecured, No impairment
(12) Robinsons Inc.				
Trade receivables	11,172,358	1,254,347	Non-interest bearing	Unsecured, No impairment
Trade payables	–	(299,289)	Non-interest bearing	Unsecured
Due to related parties	(98,001)	(5,737)	Non-interest bearing	Unsecured
(13) Jobstreet.com Phils., Inc.				
Trade receivables	169,227	–	Non-interest bearing	Unsecured, No impairment
Trade payables	(836,000)	–	Non-interest bearing	Unsecured
2018				
Related Party	Amount/ Volume	Outstanding Balance	Terms	Conditions
Parent company				
(1) CPAHI				
Due from related parties	₱–	₱65,800	Non-interest bearing	Unsecured, No impairment
JV in which the Company is a venture				
(2) A-plus				
Due from related parties	21,217,870	27,386,719	Non-interest bearing	Unsecured, No impairment
Trade payables	(872,940,175)	(11,170,750)	Non-interest bearing	Unsecured
(3) SIAEP				
Due from related parties	8,562,316	8,850,332	Non-interest bearing	Unsecured, No impairment
Trade receivables	1,247,394	122,998	Non-interest bearing	Unsecured
Trade payables	(320,417,073)	(1,380,225)	Non-interest bearing	Unsecured
(4) PAAT, Inc.				
Due from related party				
Loans	2,250,000	90,977,300	2% interest per annum	Unsecured, No impairment
Sublease agreement	34,218,482	–	Payable monthly	Unsecured, No impairment
Trade receivables	505,177	6,580	Non-interest bearing	Unsecured, No impairment
Trade payables	(103,010,904)	–	Non-interest bearing	Unsecured
Others	181,037	56,175	Non-interest bearing	Unsecured, No impairment
(Forward)				



2018				
Related Party	Amount/ Volume	Outstanding Balance	Terms	Conditions
Entities under common control				
(5) Robinsons Bank Corporation (RBank)				
Trade receivables	₱135,085	₱13,984	Non-interest bearing	Unsecured, No impairment
Due to related parties	(136,887,443)	(37,155,727)	Non-interest bearing	Unsecured
Trade payables	—	(10,319,372)	Non-interest bearing	Unsecured
Long-term debt	(455,263,268)	—	Interest bearing	Secured
(6) Universal Robina Corporation (URC)				
Trade receivables	48,187,271	5,529,831	Non-interest bearing	Unsecured, No impairment
Due to related parties	(136,887,443)	(37,055,727)	Non-interest bearing	Unsecured
(7) Robinsons Land Corporation (RLC)				
Trade receivables	20,597,336	175,281	Interest bearing	Unsecured, No impairment
Trade payables	(17,334,605)	(4,360)	Non-interest bearing	Unsecured
(8) Robinsons Handyman, Inc.				
Trade receivables	29,951,432	466,107	Interest bearing	Unsecured, No impairment
Trade payables	(1,830,756)	(1,991,308)	Non-interest bearing	Unsecured
(9) Summit Publishing Inc. (SPI)				
Trade receivables	829,711	101,863	Non-interest bearing	Unsecured, No impairment
Trade payables	(9,640,740)	(580,800)	Non-interest bearing	Unsecured
(10) JG Petrochemical Corporation (JGPC)				
Trade receivables	2,786,009	508,555	Non-interest bearing	Unsecured, No impairment
(11) Robinsons Inc.				
Trade receivables	13,905,075	694,708	Non-interest bearing	Unsecured, No impairment
Trade payables	(508,146)	(299,289)	Non-interest bearing	Unsecured
Due to related parties	(4,567,663)	(9,607)	Non-interest bearing	Unsecured
(12) Jobstreet.com Phils., Inc.				
Trade receivables	217,781	7,591	Non-interest bearing	Unsecured, No impairment
Trade payables	(759,000)	—	Non-interest bearing	Unsecured

Consolidated Statement of Comprehensive Income					
	Year	Sale of Air Transportation Service	Ground handling	Ancillary Revenues	Repairs and Maintenance
JV in which the Parent Company is a venturer					
A-plus	2019	₱—	₱—	₱—	₱815,472,474
	2018	—	—	—	686,588,064
	2017	—	—	—	738,577,829
SIAEP	2019	1,747,917	—	—	377,069,994
	2018	1,247,394	—	—	126,386,639
	2017	960,594	—	—	395,582,713
PAAT	2019	696,390	—	34,985,420	—
	2018	505,177	—	34,218,482	—
	2017	—	—	29,432,744	—
Entities under common control					
Robinsons Bank (RBank)	2019	163,124	—	—	—
	2018	135,085	—	—	—
	2017	3,619,543	—	—	—
URC	2019	60,423,063	—	—	—
	2018	48,187,271	—	—	—
	2017	43,504,985	—	—	—
RLC	2019	277,781	—	—	—
	2018	20,597,336	—	—	—
	2017	33,139,176	—	—	—

(Forward)



Consolidated Statement of Comprehensive Income					
	Year	Sale of Air Transportation Service	Ground handling	Ancillary Revenues	Repairs and Maintenance
RHI	2019	₱24,908,582	₱—	₱—	—
	2018	29,951,432	—	—	—
	2017	—	—	—	—
SPI	2019	736,236	—	—	—
	2018	829,711	—	—	—
	2017	1,164,416	—	—	—
JGPC	2019	2,574,962	—	—	—
	2018	2,786,009	—	—	—
	2017	1,302,261	—	—	—
Robinsons Inc.	2019	11,172,358	—	—	—
	2018	31,898,994	—	—	—
	2017	31,898,994	—	—	—
Jobstreet.com Phils, Inc.	2019	169,227	—	—	—
	2018	217,781	—	—	—
	2017	553,448	—	—	—
lAviation	2019	—	997,587,203	—	—
	2018	—	271,751,913	—	—
	2017	—	—	—	—
Total	2019	₱102,869,640	₱997,587,203	₱34,985,420	₱1,192,542,468
	2018	₱136,356,190	₱271,751,913	₱34,218,482	₱812,974,703
	2017	₱116,143,417	₱—	₱29,432,744	₱1,134,160,542

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, 2019, 2018 and 2017. 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 2019, 2018 and 2017.

The Group's significant transactions with related parties follow:

1. There were expenses paid in advance by the Group on behalf of CPAHI. The said expenses are subject to reimbursement and are recorded under 'Receivables' account in the consolidated statements of financial position.
2. 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. The Group also entered into a Ground Support Equipment (GSE) Maintenance Services Agreement with A-plus. Under the GSE Maintenance Services Agreement, the Group shall render routine preventive maintenance services on certain ground support equipment used by A-plus in providing technical GSE to airline operators in major airports in the Philippines. The Group also performs repair or rectification of deficiencies noted and supply replacement components.
3. 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. Cost of services are recorded as 'Repairs and maintenance' account in the



consolidated statements of comprehensive income and any unpaid amount as of reporting date as trade payable under 'Accounts payable and other accrued liabilities' account.

4. The Group maintains deposit accounts and short-term investments with RBank which is reported under 'Cash and cash equivalents' account. The Group also incurs liabilities to RBank for loan payments of its employees and to URC primarily for the rendering of payroll service to the Group which are recorded under 'Due to related parties' account.
5. The Group provides air transportation services to certain related parties, for which unpaid amounts are recorded as trade receivables under 'Receivables' account in the consolidated statements of financial position.

The Group also purchases goods from URC for in-flight sales and recorded as trade payable, if unpaid, in the consolidated statements of financial position. Total amount of purchases in 2019, 2018 and 2017 amounted to ₱52.3 million, ₱36.1 million and ₱38.6 million, respectively.

6. In 2012, the Group entered into a sub-lease agreement with PAAT for its office space. The lease agreement is for a period of 15 years from November 29, 2012 until November 19, 2027.
7. In 2013 and 2012, under the shareholder loan agreement, the Group provided a loan to PAAT to finance the purchase of its Full Flight Simulator, other equipment and other working capital requirements. Aggregate loans provided by the Group amounted to ₱155.4 million (US\$3.5 million). The loans are subject to two percent (2%) interest per annum. In 2014, the Group collected ₱41.7 million (US\$0.9 million) from PAAT as partial payment of the loan. As of December 31, 2019 and 2018, loan to PAAT amounted to ₱91.6 million (US\$2.3 million) and ₱92.8 million (US\$2.3 million).
8. In 2015, the Parent Company entered into sublease arrangements with CEBGO for the lease of its eight (8) ATR 72-500 aircraft. The sublease period for each aircraft is for three years.
9. In 2016, the Parent Company entered into lease arrangements with CEBGO for the lease of its two (2) ATR 72-600 aircraft. The lease period for each aircraft is for six years.
10. In 2017, the Parent Company entered into a loan agreement with RBank to finance the acquisition of four (4) ATR 72-600 aircraft.
11. In 2017, the Parent Company entered into lease arrangements with CEBGO for the lease of its six (6) ATR 72-600 aircraft. The lease period for each aircraft is for six years.
12. In 2018, the Parent Company entered into sublease arrangements with CEBGO for the lease of its four (4) ATR 72-600 aircraft. The sublease period for each aircraft is for six years.
13. 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.

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

	2019	2018	2017
Short-term employee benefits	₱247,260,598	₱194,595,548	₱165,548,217
Post-employment benefits	30,176,262	53,353,148	25,939,884
	₱277,436,860	₱247,948,696	₱191,488,101



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 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.

28. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, financial assets at FVPL, receivables, payables and interest-bearing borrowings. The main purpose of these financial instruments is to finance the Group's operations and capital expenditures. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into fuel derivatives and foreign currency forward contracts to manage its exposure to fuel price and foreign exchange rate fluctuations, respectively.

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

Risk Management Structure

The Group's risk management structure is closely aligned with that of JGSHI. The Group has its own BOD, which is ultimately responsible for the oversight of the Group's risk management process, and is involved in identifying, measuring, analyzing, monitoring and controlling risks.

The risk management framework encompasses environmental scanning, the identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

Each BOD has created the board-level Audit Committee to spearhead the managing and monitoring of risks.

Audit Committee

The Group's Audit Committee assists the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems, and the internal audit functions of the Group. Furthermore, it is the Audit Committee's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.



The Audit Committee also aims to ensure that:

- a. Financial reports comply with established internal policies and procedures, pertinent accounting and auditing standards and other regulatory requirements;
- b. Risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;
- c. Audit activities of internal and external auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal and external auditors; and
- d. The Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

Enterprise Risk Management (ERM) Division

The ERM Division ensures that a sound ERM framework is in place to effectively identify, monitor, assess and manage key business risks. The risk management framework guides the Board in identifying units/business lines and enterprise level risk exposures, as well as the effectiveness of risk management strategies.

The ERM framework revolves around the following eight interrelated risk management approaches:

1. Internal Environmental Scanning - it involves the review of the overall prevailing risk profile of the Business Unit (BU) to determine how risks are viewed and addressed by the management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the BU.
2. Objective Setting - the Company's BOD mandates Management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives that are aligned with the Group's goals.
3. Event Identification - it identifies both internal and external events affecting the Group's set targets, distinguishing between risks and opportunities.
4. Risk Assessment - the identified risks are analyzed relative to the probability and severity of potential loss that serves as basis for determining how the risks will be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's action or monitoring, and risks that may materially weaken the Company's earnings and capital.
5. Risk Response - the Group's BOD, through the oversight role of the Internal Control Group ensures action plan is executed to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.
6. Control Activities - policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
7. Information and Communication - relevant risk management information is identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
8. Monitoring - the Internal Control and Internal Audit Groups constantly monitor the management of risks through audit reviews, compliance checks, revalidation of risk strategies and performance reviews.



Internal Controls

With the leadership of the Chief Financial Officer (CFO), internal control is embedded in the Group's operations thus increasing their accountability and ownership in the execution of the internal control framework. To accomplish the established goals and objectives, the Group implement robust and efficient process controls to ensure:

1. Compliance with policies, procedures, laws and regulations;
2. Economic and efficient use of resources;
3. Check and balance and proper segregation of duties;
4. Identification and remediation control weaknesses;
5. Reliability and integrity of information; and
6. Proper safeguarding of company resources and protection of company assets through early detection and prevention of fraud.

Treasury Risk Management (TRM) Group

The TRM Group is mainly responsible for the monitoring of market risk exposures and effectively manage these risks. TRM Group is headed by the CFO and is subdivided into two (2) main offices: Front and Middle Offices, with support from the Comptroller and Treasury Departments for the back office functions.

The TRM Group follows a risk management program with the primary objectives of reducing undesirable risk exposures, improving cash flow predictability, protecting margins from excessive volatility, and aligning with industry peers to prevent being at a competitive disadvantage. Internal controls and processes are in place to ensure adherence to this risk management program as approved by the Company's Executive Committee. Part of the program is to mainly manage these market risks using derivatives that are solely for the purpose of hedging. Hedging activities are regularly reviewed and monitored by the Chief Executive Adviser and Chief Strategy Officer to ensure alignment of hedging strategies and objectives with the Company's overall purpose.

This risk management program includes the following four key areas:

1. Risk identification involves review of the business and its processes to identify associated market risks.
2. Risk assessment refers to the quantification of the identified risk exposures and the maximum probable losses and cash outflows the Company may incur within a certain frequency over a certain time frame.
3. Risk control represents the activities and programs the Company undertakes in order to eliminate or minimize these market risk exposures. This mainly involves the determination of hedge levels and level of core risks the Company is willing to retain given key stakeholders' risk tolerance.
4. Risk monitoring pertains to the assessment of the risk control activities against established metrics and tracking of the compliance to limits and thresholds set.

Risk Assessment Tool

To help the Group in the Risk Assessment Process, the Risk Assessment Tool which is a database driven web application was developed for departments to help in the assessment, monitoring and management of risks.

The Risk Assessment Tool documents the following activities:

1. Risk Identification - is the critical step of the risk management process. The objective of risk identification is the early identification of events that may have negative impact on the Group's ability to achieve its goals and objectives.



- 1.1. Risk Indicator - is a potential event or action that may prevent the continuity/action
- 1.2. Risk Driver - is an event or action that triggers the risk to materialize
- 1.3. Value Creation Opportunities - is the positive benefit of addressing or managing the risk
2. Identification of Existing Control Measures - activities, actions or measures already in place to control, prevent or manage the risk.
3. Risk Rating/Score - is the quantification of the likelihood and impact to the Group if the risk materialize. 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 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 and financial assets at 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, 2019 and 2018, without considering the effects of collaterals and other credit risk mitigation techniques.

	2019	2018
Cash and cash equivalents*	₱18,146,765,885	₱16,847,099,119
Receivables		
Trade receivables	2,104,795,183	1,865,625,762
Due from related parties	328,080,593	371,643,140
Interest receivable	25,006,105	22,011,422
Others**	340,313,610	431,846,335
Refundable deposits***	181,057,483	203,244,020
	₱21,126,018,859	₱19,741,469,798

* 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:

	2019				
	Philippines	Asia (excluding Philippines)	Europe	Others	Total
Cash and cash equivalents*	₱13,753,045,329	₱4,349,839,811	₱-	₱43,880,745	₱18,146,765,885
Receivables					
Trade receivables	1,602,675,520	464,396,439	7,292,674	30,430,550	2,104,795,183
Due from related parties	328,080,593	-	-	-	328,080,593
Interest receivable	25,006,105	-	-	-	25,006,105
Others**	208,924,103	23,928,177	100,475,902	6,985,428	340,313,610
Refundable deposits***	-	181,057,483	-	-	181,057,483
	₱15,917,731,650	₱5,019,221,910	₱107,768,576	₱81,296,723	₱21,126,018,859

***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

	2018				
	Philippines	Asia (excluding Philippines)	Europe	Others	Total
Cash and cash equivalents*	₱15,577,558,945	₱1,019,495,979	₱250,044,195	₱-	₱16,847,099,119
Receivables					
Trade receivables	1,424,284,785	393,537,336	919,182	46,884,459	1,865,625,762
Due from related parties	371,643,140	-	-	-	371,643,140
Interest receivable	22,011,422	-	-	-	22,011,422
Others**	325,888,034	103,598,560	1,127,248	1,232,493	431,846,335
Refundable deposits***	-	203,244,020	-	-	203,244,020
	₱17,721,386,326	₱1,719,875,895	₱252,090,625	₱48,116,952	₱19,741,469,798

*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



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, 2019 and 2018:

	2019				Total
	Neither Past Due Nor Specifically Impaired			Past Due or Individually Impaired	
	High Grade	Standard Grade	Substandard Grade		
Cash and cash equivalents*	₱18,146,765,885	₱—	₱—	₱—	₱18,146,765,885
Receivables					
Trade receivables	2,096,259,003	—	—	8,536,180	2,104,795,183
Due from related parties	328,080,593	—	—	—	328,080,593
Interest receivable	25,006,105	—	—	—	25,006,105
Others**	267,957,119	—	—	72,356,491	340,313,610
Refundable deposits***	181,057,483	—	—	—	181,057,483
	₱21,045,126,188	₱—	₱—	₱80,892,671	₱21,126,018,859

*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

	2018				
	Neither Past Due Nor Specifically Impaired			Past Due or Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
Cash and cash equivalents*	₱16,847,099,119	₱—	₱—	₱—	₱16,847,099,119
Receivables					
Trade receivables	1,857,036,470	—	—	8,589,292	1,865,625,762
Due from related parties	371,643,140	—	—	—	371,643,140
Interest receivable	22,011,422	—	—	—	22,011,422
Others**	357,209,659	—	—	74,636,676	431,846,335
Refundable deposits***	203,244,020	—	—	—	203,244,020
	₱19,658,243,830	₱—	₱—	₱83,225,968	₱19,741,469,798

*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

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:

	2019						Total
	Neither Past Due Nor Impaired	Past Due But Not Impaired			Over 180 Days	Past Due and Impaired	
		31-60 Days	61-90 Days	91-180 Days			
Trade receivables	₱2,097,169,296	₱—	₱—	₱—	₱—	₱7,625,887	₱2,104,795,183
Due from related parties	328,080,593	—	—	—	—	—	328,080,593
Interest receivable	25,006,105	—	—	—	—	—	25,006,105
Others*	267,046,826	—	—	—	—	73,266,784	340,313,610
	₱2,717,302,820	₱—	₱—	₱—	₱—	₱80,892,671	₱2,798,195,491

*Include nontrade receivables from insurance, employees and counterparties

	2018						
	Neither Past	Past Due But Not Impaired				Past	Total
	Due Nor Impaired	31-60 Days	61-90 Days	91-180 Days	Over 180 Days	Due and Impaired	
Trade receivables	₱1,857,036,470	₱—	₱—	₱—	₱—	₱8,589,292	₱1,865,625,762
Due from related parties	371,643,140	—	—	—	—	—	371,643,140
Interest receivable	22,011,422	—	—	—	—	—	22,011,422
Others*	357,209,659	—	—	—	—	74,636,676	431,846,335
	₱2,607,900,691	₱—	₱—	₱—	₱—	₱83,225,968	₱2,691,126,659

*Include nontrade receivables from insurance, employees and counterparties

Past due and impaired receivables amounted to ₱80.9 million and ₱83.2 million as of December 31, 2019 and 2018, 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 consolidated statements of financial position. For the past due and impaired receivables, specific allowance for impairment losses amounted to ₱80.9 million and ₱83.2 million as of December 31, 2019 and 2018, 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, 2019 and 2018, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities account in the consolidated statements of financial position) amounted to ₱194.1 million and ₱257.4 million, respectively (see Note 16).

There are no collaterals for impaired receivables.

Impairment assessment (Beginning January 1, 2018)

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 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.

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, 2019 and 2018:

	2019					Total
	Less than one month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Financial Assets						
Cash and cash equivalents	₱18,195,375,713	₱–	₱–	₱–	₱–	₱18,195,375,713
Receivables:						
Trade receivables	2,104,795,183	–	–	–	–	2,104,795,183
Due from related parties*	328,080,593	–	–	–	–	328,080,593
Interest receivable	25,006,105	–	–	–	–	25,006,105
Others **	340,313,610	–	–	–	–	340,313,610
Refundable deposits	–	–	–	–	181,057,483	181,057,483
	₱20,993,571,204	₱–	₱–	₱–	₱181,057,483	₱21,174,628,687
Financial Liabilities						
On-balance sheet						
Accounts payable and other accrued liabilities***	₱17,039,944,865	₱710,490,165	₱566,013,059	₱–	₱–	₱18,316,448,089
Due to related parties*	38,600,221	–	–	–	–	38,600,221
Financial liabilities at FVPL	–	–	–	126,312,502	–	126,312,502
Lease liability	164,357,059	1,084,799,734	4,562,879,965	5,385,169,614	6,312,269,132	17,509,475,504
Long-term debt****	–	–	–	6,885,155,619	50,259,365,657	57,144,521,276
	₱17,242,902,145	₱1,795,289,899	₱5,128,893,024	₱12,396,637,735	₱56,571,634,789	₱93,135,357,592

*Receivable and payable on demand

**Include nontrade receivables from insurance, employees and counterparties

***Excluding government-related payables

****Including future undiscounted interest payments

	2018					Total
	Less than one month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Financial Assets						
Cash and cash equivalents	₱14,631,710,545	₱2,260,940,000	₱–	₱–	₱–	₱16,892,650,545
Receivables:						
Trade receivables	1,865,625,762	–	–	–	–	1,865,625,762
Due from related parties*	371,643,140	–	–	–	–	371,643,140
Interest receivable	22,011,422	–	–	–	–	22,011,422
Others **	431,846,335	–	–	–	–	431,846,335
Refundable deposits	–	–	–	203,244,020	–	203,244,020
	₱17,322,837,204	₱2,260,940,000	₱–	₱203,244,020	₱–	₱19,787,021,224
Financial Liabilities						
On-balance sheet						
Accounts payable and other accrued liabilities***	₱15,290,494,240	₱673,298,863	₱281,332,327	₱–	₱–	₱16,245,125,430
Due to related parties*	40,719,770	–	–	–	–	40,719,770
Financial liabilities at FVPL	–	–	–	762,985,362	–	762,985,362
Long-term debt****	–	–	–	6,615,195,647	47,182,350,614	53,797,546,261
	₱15,331,214,010	₱673,298,863	₱281,332,327	₱7,378,181,009	₱47,182,350,614	₱70,846,376,823

*Receivable and payable on demand

**Include nontrade receivables from insurance, employees and counterparties

***Excluding government-related payables

****Including future undiscounted interest payments

Market risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates, interest rates, commodity prices or other



market changes. The Group's market risk originates from its holding of foreign exchange instruments, interest-bearing instruments and derivatives.

Foreign currency risk

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. It is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the Group's functional currency. During the years ended December 31, 2019, 2018 and 2017, approximately 40.0%, 42.0% and 40.0%, respectively, of the Group's total sales are denominated in currencies other than the functional currency. Furthermore, the Group's capital expenditures are substantially denominated in USD. As of December 31, 2019, 2018 and 2017, 60.0%, 58.0% and 58.0%, respectively, of the Group's financial liabilities were denominated in USD.

The Group has a foreign currency hedging arrangements as of December 31, 2019 and 2018.

The Group has outstanding foreign exchange forward contracts which are designated as hedging instruments in cash flow hedges of US Dollar-denominated forecast fuel purchase. These forward contracts maturing three (3) months from reporting date are designated for hedge accounting.

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

	2019					Total
	US Dollar	Hong Kong Dollar	Singaporean Dollar	Japanese Yen	Other Currencies*	
Financial Assets						
Cash and cash equivalents	₱5,295,624,129	₱988,872,514	₱467,082,855	₱-	₱1,723,161,357	₱8,474,740,855
Receivables	572,284,451	46,924,124	99,910,276	-	477,074,975	1,196,193,826
Refundable deposits**	181,057,483	-	-	-	-	181,057,483
	₱6,048,966,063	₱1,035,796,638	₱566,993,131	-	₱2,200,236,332	₱9,851,992,164
Financial Liabilities						
Accounts payable and other accrued liabilities***	₱1,189,328,656	₱309,241,399	₱43,932,413	₱-	₱383,748,791	₱1,926,251,259
Financial liabilities at FVPL	126,312,501	-	-	-	-	126,312,501
Long-term debt	30,470,347,254	-	-	8,424,916,122	-	38,895,263,376
	₱31,785,988,411	₱309,241,399	₱43,932,413	₱8,424,916,122	₱383,748,791	₱40,947,827,136

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

**Included under 'Other noncurrent assets' account in the consolidated statements of financial position

***Excluding government-related payables

	2018				Total
	US Dollar	Hong Kong Dollar	Singaporean Dollar	Other Currencies*	
Financial Assets					
Cash and cash equivalents	₱6,365,695,617	₱499,509,640	₱304,172,886	₱1,275,154,525	₱8,444,532,668
Receivables	457,238,736	39,591,641	14,023,326	327,007,954	837,861,657
Refundable deposits**	203,244,020	-	-	-	203,244,020
	₱7,026,178,373	₱539,101,281	₱318,196,212	₱1,602,162,479	₱9,485,638,345
Financial Liabilities					
Accounts payable and other accrued liabilities***	₱2,773,527,661	₱2,686,743	₱35,676,287	₱111,196,147	₱2,923,086,838
Financial liabilities at FVPL	762,985,362	-	-	-	762,985,362
Long-term debt	32,936,259,432	-	-	-	32,936,259,432
	₱36,472,772,455	₱2,686,743	₱35,676,287	₱111,196,147	₱36,622,331,632

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

**Included under 'Other noncurrent assets' account in the consolidated statements of financial position

***Excluding government-related payables



The exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of December 31, 2019 and 2018 follow:

	2019	2018
US dollar	₱50.635 to US\$1.00	₱52.5800 to US\$1.00
Singapore dollar	₱37.4909 to SGD1.00	₱38.4706 to SGD1.00
Hong Kong dollar	₱6.5162 to HKD1.00	₱6.7344 to HKD1.00
Japanese yen	₱0.4629 to JPY1.00	₱0.4423 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, 2019, 2018 and 2017 (in thousands):

	2019		2018		2017	
Changes in foreign exchange value	₱2	(₱2)	₱2	(₱2)	₱2	(₱2)
Change in pre-tax income	(₱1,710,759)	₱1,710,759	(₱1,165,636)	₱1,165,636	(₱874,856)	₱874,856

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

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

Commodity price risk

The Group enters into commodity derivatives to manage its price risks on 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 ₱2,732.5 million, ₱2,567.5 million and ₱2,470.9 million for the years December 31, 2019, 2018 and 2017, respectively, in each of the covered periods, assuming no change in volume of fuel is consumed.

Commodity derivative contracts maturing 3 months from reporting date are designated for hedge accounting. Derivative financial instruments which are part of hedging relationships do not expose the Group to market risk since changes in the fair value of the derivatives are offset by the changes in the fair value of the hedged items.

These hedging activities are in accordance with the risk management strategy and objectives outlined in the TRM policies and guidelines which have been approved by the Executive Committee on September 1, 2019.

There is an economic relationship between the hedged items and hedging instruments as the terms of the foreign exchange forward contracts and commodity swaps and zero cost collars match the terms of the expected highly probable forecast transactions. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign currency forward contracts and commodity derivatives are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of hedging instruments against the changes in the fair value of hedged items attributable to the hedged risks.

Hedge ineffectiveness arises from the use of off-market derivatives when hedge accounting is first applied on September 1, 2019. The hedge ineffectiveness arising from the differences on the counterparty and own credit risk incorporated in the hedging instrument and zero credit risk on the



hedged item are deemed insignificant given that all counterparties are given investment grade ratings by the major credit rating agencies.

The tables below summarize the maturity profile of outstanding derivative contracts as of December 31, 2019 and 2018:

	December 31, 2019					Total
	1 to 3 months	3 to 6 months	6 to 12 months	12 to 15 months	More than 15 months	
Foreign exchange forward contracts:						
Notional amount (in US\$)	\$72,000,000	\$66,000,000	\$27,000,000	\$-	\$-	\$165,000,000
Average forward rate	51.88	52.20	51.42	-	-	51.93
Commodity derivatives:						
Notional amount (in barrels)	555,000	555,000	750,000	30,000	90,000	1,980,000
Notional amount (in US\$)	\$36,290,175	\$36,046,725	\$45,657,300	\$1,864,500	\$5,593,500	\$125,452,200
Average hedged rate	65.39	64.95	60.88	62.15	62.15	63.36

	December 31, 2018					Total
	1 to 3 months	3 to 6 months	6 to 12 months	12 to 15 months	More than 15 months	
Foreign exchange forward contracts:						
Notional amount	\$-	\$-	\$-	\$-	\$-	\$-
Average forward rate	-	-	-	-	-	-
Commodity derivatives:						
Notional amount (in barrels)	495,000	375,000	690,000	135,000	405,000	2,100,000
Notional amount	\$34,568,400	\$25,731,000	\$46,947,000	\$8,839,500	\$26,518,500	\$142,604,400
Average hedged rate	69.84	68.62	68.04	65.48	65.48	67.91

The impact of the hedge accounting on hedging instruments on the statement of financial position as of December 31, 2019 follows:

	Change in fair value used for measuring ineffectiveness for the period	Cash flow hedge reserve
Commodity derivatives	₱432,425,502	₱431,796,370
Foreign exchange forward contracts	(174,979,375)	(174,979,375)

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

	2019	2018
Beginning balances at January 1	(₱140,286,079)	(₱147,193,496)
Effective portion on cash flow hedges		
Fuel hedges	256,816,995	-
Actuarial gains on retirement liability	(252,687,387)	9,867,738
Tax effect	(1,238,882)	(2,960,321)
Ending balances at December 31	(₱137,395,353)	(₱140,286,079)

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 (Note 18).



The following tables show information about the Group's long-term debt that are exposed to interest rate risk and are presented by maturity profile (see Note 18):

	2019						Total	Fair Value
	<1 year	>1-2 years	>2-3 years	>3-4 years	>4-5 years	>5 years		
Commercial loans from banks (in US Dollar; Note 18)	US\$70,618,924	US\$71,715,442	US\$82,704,501	US\$93,909,666	US\$73,530,123	US\$209,285,879	US\$601,764,535	US\$570,887,713
US \$ loans (in Philippine Peso)	₱3,575,789,204	₱3,631,311,386	₱4,187,742,418	₱4,755,115,946	₱3,723,197,756	₱10,597,190,544	₱30,470,347,254	₱28,906,899,365
Commercial loans from banks (in JPY; Note 18)	JPY1,506,555,004	JPY1,552,581,304	JPY1,560,736,932	JPY1,568,936,150	JPY1,577,004,749	JPY10,434,479,925	JPY18,200,294,064	JPY20,984,788,280
JPY loans (in Philippine Peso)	₱697,384,311	₱718,689,886	₱722,465,126	₱726,260,544	₱729,995,498	₱4,830,120,757	₱8,424,916,122	₱9,713,858,495
Commercial loans from banks (Note 18)	2,612,028,929	2,612,028,929	2,612,028,929	2,612,028,929	2,612,028,929	5,189,113,255	18,249,257,900	17,431,910,845
	₱6,885,202,444	₱6,962,030,201	₱7,522,236,473	₱8,093,405,419	₱7,065,222,183	₱20,616,424,556	₱57,144,521,276	₱56,052,668,705
	2018						Total	Fair Value
	<1 year	>1-2 years	>2-3 years	>3-4 years	>4-5 years	>5 years		
ECA-backed loans from banks (in US Dollar; Note 18)	US\$9,819,016	US\$18,277,415	US\$18,945,211	US\$8,903,291	US\$–	US\$–	US\$55,944,933	US\$56,797,028
Commercial loans from banks (in US Dollar; Note 18)	51,420,508	105,761,290	126,584,502	56,812,864	49,187,586	55,985,704	445,752,454	543,121,118
	US\$61,239,524	US\$124,038,705	US\$145,529,713	US\$65,716,155	US\$49,187,586	US\$55,985,704	US\$501,697,387	US\$599,918,146
US \$ loans (in Philippine Peso)	₱3,219,974,196	₱6,521,955,079	₱7,651,952,282	₱3,455,355,432	₱2,586,283,246	₱2,943,728,327	₱26,379,248,562	₱31,543,696,107
Commercial loans from banks (Note 18)	2,612,028,929	5,224,057,858	5,224,057,858	2,612,028,929	2,217,526,135	2,971,587,120	20,861,286,829	18,333,530,913
	₱5,832,003,125	₱11,746,012,937	₱12,876,010,140	₱6,067,384,361	₱4,803,809,381	₱5,915,315,447	₱47,240,535,391	₱49,877,227,020



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, 2019, 2018 and 2017.

	2019		2018		2017	
Changes in interest rates	1.50%	(1.50%)	1.50%	(1.50%)	1.50%	(1.50%)
Changes in pre-tax income	(P1,763,244,706)	P1,763,244,706	(P1,448,969,995)	P1,448,969,995	(P697,042,375)	P697,042,375

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, 2019 and 2018:

	Change in Basis Points	Effect on Profit Before Tax
2019	+200%	(P89,723,562)
	-200%	94,059,175
2018	+200%	(P316,040,738)
	-200%	293,031,068

29. 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, 2019 and 2018:

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Asset				
Refundable deposits* (Note 15)	P181,057,483	P172,215,179	P203,244,020	P157,423,930
Financial Liability:				
Other financial liability:				
Long-term debt**(Note 18)	P57,144,521,276	P56,052,668,705	P53,797,546,261	P49,877,227,020

*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 3% to 4% in 2019 and 2018, respectively.



Long-term debt

The fair value of long-term debt is determined using the discounted cash flow methodology, with reference to the Group's current incremental lending rates for similar types of loans. The discount rates used range from 2% to 6% as of December 31, 2019 and 2018.

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

	2019			
	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value:				
Financial liabilities at FVPL				
(Note 8)	P=	P126,312,502	P=	P126,312,502
Assets and liabilities for which fair values are disclosed:				
Refundable deposits	P=	P=	P172,215,179	P172,215,179
Long-term debt	-	(56,052,668,705)	-	(56,052,668,705)
	2018			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial liabilities at FVPL				
(Note 8)	P=	P762,985,362	P=	P762,985,362
Assets and liabilities for which fair values are disclosed:				
Refundable deposits	P=	P=	P157,423,930	P157,423,930
Long-term debt	-	(49,877,227,020)	-	(49,877,227,020)

There were no transfers within any hierarchy level of fair value measurements for the years ended December 31, 2019 and 2018, respectively.

30. 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 movement in right-of-use asset follows:

	2019
Balance at January 1, as previously reported	₱–
Effect of adoption of PFRS 16	16,426,809,577
Balance at January 1, as restated	16,426,809,577
Additions	7,302,225,495
	23,729,035,072
Accumulated depreciation	
Balance at January 1, as previously reported	–
Depreciation expense	5,917,994,262
	5,917,994,262
	₱17,811,040,810

The movement in lease liability follows:

	2019
Balance at January 1, as previously reported	₱–
Effect of adoption of PFRS 16	16,426,809,577
Balance at January 1, as restated	16,426,809,577
Additions during the year	7,302,225,494
Accretion of interest	460,948,481
Payment	(6,680,508,048)
	17,509,475,504
Less: current portion	5,748,068,779
	₱11,761,406,725

The maturity analysis of lease liabilities are disclosed in Note 28.

The following are the amounts recognized in consolidated statement of comprehensive income:

	2019
Depreciation expense on right-of-use asset	₱5,917,994,262
Interest expense on lease liability	460,948,481
Rent expense on short term leases	1,016,018,064
	₱7,394,960,807

The Group had total cash outflows for leases of ₱6,680 million in 2019. The Group also had non-cash additions to right-of-use asset and lease liability of ₱7,302 million in 2019.

Details of the Group's lease commitments follows:

Aircraft Lease Commitments

The Group entered into operating lease agreements with certain leasing companies, which cover the following aircraft:



A320 CEO aircraft

The following table summarizes the specific lease agreements on the Group's Airbus A320 CEO aircraft:

Date of Lease Agreement	Lessors	No. of Units	Lease Expiry
March 2008	Lunar Aircraft Trading Company Limited	1	January 2021
March 2008	Aircraft MSN 3762 LLC	1	January 2022
March 2008	APTREE Aviation Trading 2 Co. Ltd.	1	October 2021
	Wells Fargo Trust Company, N.A.	1	October 2023
July 2011	SMBC Aviation Capital Limited	2	March 2020
November 2017	JPA No. 78 Co., Ltd	1	August 2020
November 2017	JPA No. 79 Co., Ltd	1	October 2020
November 2017	JPA No. 80 Co., Ltd	1	January 2021
November 2017	JPA No. 81 Co., Ltd	1	February 2021
July 2018	JPA No. 117 Co. Ltd	1	September 2021
July 2018	JPA No. 118 Co. Ltd	1	December 2021
August 2018	JPA No. 119 Co. Ltd	1	June 2022

From 2007 to 2008, the Group entered into operating lease agreements with Celestial Aviation Trading 17/19/23 Limited for five (5) Airbus A320 which were delivered on various dates from 2007 to 2011. The lease agreements were later on amended to effect the novation of lease rights from the original lessors to current lessors: Inishcrean Leasing Limited for (1) Airbus A320, GY Aviation Lease 0905 Co. Limited for two (2) Airbus A320, APTREE Aviation Trading 2 Co. Limited for one (1) Airbus A320, and Wells Fargo Trust Company, N.A. for one (1) Airbus A320.

In July 2011, the Group entered into an operating lease agreement with RBS Aerospace Ltd. (RBS) for the lease of two (2) Airbus A320, which were delivered in March 2012. The lease agreement was amended to effect the novation of lease rights by the original lessor to current lessor, SMBC Aviation Capital Limited, as allowed under the existing lease agreements.

In 2015 to 2016, the Group extended the lease agreement with Inishcrean for three years and with GY Aviation Lease 0905 Co. Limited for two 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 (Note 12).

In 2018, the Group separately extended the lease agreements with APTREE Aviation Trading 2 Co. Ltd for two years, with Wells Fargo Trust Company, N.A for four years, and with GY Aviation Lease 0905 Co. Limited for another two years on one aircraft and three years on the other.

In July and August 2018, the Group entered into lease agreements with JPA No. 117/118/119 Co., Ltd for three (3) Airbus A320.

In May and August 2019, the lease agreements of the two aircraft under GY Aviation Lease 0905 Co. Limited were amended to effect the novation of lease rights to their current lessors, Aircraft MSN 3762 LLC and Lunar Aircraft Trading Company Limited.

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 A320NEO aircraft were amended to effect the novation of lease rights to their current lessor, Orix Aviation Systems Limited.

ATR 72-600 aircraft

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

A330CEO aircraft

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

Date of Lease Agreement	Lessors	No. of Units	Lease Term
February 2012	Wells Fargo Bank Northwest, N.A.	2	8 years
	(not in its individual capacity but solely as Owner Trustee)		
	CIT Aerospace International	1	
	Avolon Aerospace AOE 165 Limited	1	
July 2013	A330 MSN 1552 Limited and A330 MSN 1602 Limited	2	12 years with pre-termination option

In February 2012, the Group entered into operating lease agreements with Wells Fargo Bank Northwest, N.A. for the lease of four (4) Airbus A330. The lease agreements were later on amended to effect the novation of lease rights from the original lessor to their current lessors: Wells Fargo Trust Company, N.A. (not in its individual capacity but solely as Owner Trustee), CIT Aerospace International, and Avolon Aerospace AOE 165 Limited.

In July 2013, the Group entered into aircraft operating lease agreements with Intrepid Aviation Management Ireland Limited for the lease of two (2) Airbus A330. The lease agreements have been amended to effect the novation of lease rights by the original lessor to current lessors, A330 MSN 1552 Limited and A330 MSN 1602 Limited.

The first two (2) Airbus A330 aircraft were delivered in June 2013 and September 2013. Three (3) Airbus A330 aircraft were delivered in February 2014, May 2014, and September 2014 and one (1) Airbus A330 aircraft was delivered in March 2015. As of December 31, 2019, the Group has six (6) Airbus A330 aircraft under operating lease (Note 12)

Lease expenses relating to aircraft leases (included in 'Aircraft and engine lease' account in the consolidated statements of comprehensive income) amounted to ₱313.9 million, ₱5,650.9 million and ₱4,635.0 million in 2019, 2018 and 2017, respectively.

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

	2019		2018		2017	
	US Dollar	Philippine Peso Equivalent	US Dollar	Philippine Peso Equivalent	US Dollar	Philippine Peso Equivalent
Within one year	US\$116,225,507	₱5,886,821,930	US\$115,194,732	₱6,056,939,009	US\$104,064,795	₱5,195,955,222
After one year but not more than five years	179,328,322	9,082,979,509	399,664,595	21,014,364,405	353,043,295	17,627,451,745
Over five years	43,871,340	2,222,083,371	217,686,172	11,445,938,924	140,369,930	7,008,670,575
	US\$339,425,169	₱17,191,884,810	US\$732,545,499	₱38,517,242,338	US\$597,478,020	₱29,832,077,542



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:

	2019	2018	2017
Within one year	₱211,101,521	₱211,928,140	₱201,321,805
After one year but not more than five years	928,126,925	891,261,764	834,940,613
Over five years	4,514,028,565	4,318,073,237	3,876,023,510
	₱5,653,257,011	₱5,421,263,141	₱4,912,285,928

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 ₱702.1 million, ₱760.0 million and ₱731.0 million in 2019, 2018 and 2017, 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 Airbus A330 aircraft. Contract term shall be from delivery of the first A330 until the redelivery of the last Airbus A330.

On March 28, 2017, the Parent Company entered into a maintenance service contract with Societe Air France for the lease, repair and overhaul services of parts and components of its Airbus A319, Airbus A320 and Airbus A321 aircraft. These services include provision of access to inventories under lease basis, access to pooled components on a flat rate basis, and repairs of aircraft parts and components.

Aircraft and Spare Engine Purchase Commitments

In August 2011, the Group entered in a commitment with Airbus S.A.S. to purchase firm orders of 32 new Airbus A321NEO aircraft and ten additional option orders. These aircraft are scheduled to be delivered from 2019 to 2023.

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 optional A321NEO aircraft. The agreement also includes an engine maintenance services program for a period of ten years from the date of entry into service of each engine.

On October 20, 2015, the Group entered into a Sale and Purchase Contract with Avions Transport Regional G.I.E. to purchase 16 firm ATR 72-600 aircraft and up to ten additional option orders. These aircraft are scheduled for delivery from 2016 to 2022. Two (2) ATR 72-600 were delivered in 2016, six (6) in 2017, four (4) in 2018, and one (1) in 2019 totaling to 13 ATR 72-600 aircraft delivered as of December 31, 2019.



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 will be delivered within 2020.

On July 26, 2018, the Parent Company entered into operating lease agreements with Avolon Aerospace Leasing Limited for five (5) Airbus A320NEO aircraft, four of which were delivered on various dates within 2019.

On October 31, 2019 the Parent Company placed an order with Airbus S.A.S to purchase sixteen (16) Airbus A330 NEO aircraft. Consequently, on November 29, 2019, the Parent Company entered into agreements with Rolls-Royce PLC for the purchase of spare Trent 7000 engines and for the provision of TotalCare life services and other services required in connection with the sixteen (16) A330NEO aircraft.

On December 19, 2019, the Parent Company placed an additional order with Airbus S.A.S for fifteen (15) A320NEO family aircraft which includes up to ten (10) A321XLR.

As of December 31, 2019, the Group is set to take delivery of twenty-seven (27) Airbus A321 NEO, one (1) A320 NEO, three (3) ATR 72-600, one (1) ATR 72-500 freighter, , sixteen (16) A330 NEOs, and fifteen (15) A320NEO family aircraft from 2020 until 2026.

The above-indicated commitments relate to the Group's re-fleetings and expansion programs. These agreements remained in effect as of December 31, 2019.

Capital Expenditure Commitments

The Group's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱133,066.90 million and ₱130,822.98 million as of December 31, 2019 and 2018, respectively.

	2019		
	US Dollar	Japanese Yen	Philippine Peso Equivalent
Within one year	US\$386,807,413	¥1,506,555,004	₱20,294,256,870
After one year but not more than five years	2,168,887,176	6,259,259,135	112,772,640,221
	US\$2,555,694,589	¥7,765,814,139	₱133,066,897,091

	2018	
	US Dollar	Philippine Peso Equivalent
Within one year	US\$427,214,639	₱22,462,945,700
After one year but not more than five years	2,060,860,233	108,360,031,052
	US\$2,488,074,872	₱130,822,976,752



Contingencies

The Group has pending suits, claims and contingencies which are either pending decisions by the courts or being contested or under evaluation, the outcome of which are not presently determinable. The information required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed until final settlement, on the ground that it might prejudice the Group's position (see Note 16).

31. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The changes in liabilities arising from financing activities in 2019 and 2018 follow:

	January 1, 2019	Cash Flows	Foreign Exchange Movement	Others*	December 31, 2019
Current interest-bearing loans and borrowings	₱6,615,195,647	(₱9,133,438,560)	(₱139,387,282)	₱9,542,785,814	₱6,885,155,619
Noncurrent interest-bearing loans and borrowings	47,182,350,614	13,539,632,216	(919,831,359)	(9,542,785,814)	50,259,365,657
Lease liability	16,426,809,577	(6,680,508,048)	—	7,763,173,975	17,509,475,504
Dividends declared and paid	—	(4,206,416,900)	—	4,206,416,900	—
Total liabilities from financing activities	₱70,224,355,838	(₱6,480,731,292)	(₱1,059,218,641)	₱11,969,590,875	₱74,653,996,780

*Others consist of reclassification of loans and borrowings from noncurrent to current, declaration of cash dividend, additional lease liability and accretion of interest

	January 1, 2018	Cash Flows	Foreign Exchange Movement	Others*	December 31, 2018
Current interest-bearing loans and borrowings	₱5,969,257,624	(₱21,237,489,536)	₱166,848,363	₱21,716,579,196	₱6,615,195,647
Noncurrent interest-bearing loans and borrowings	35,012,953,128	32,680,071,705	1,205,904,977	(21,716,579,196)	47,182,350,614
Dividends payable	—	(2,726,789,985)	—	2,726,789,985	—
Total liabilities from financing activities	₱40,982,210,752	₱8,715,792,184	₱1,372,753,340	₱2,726,789,985	₱53,797,546,261

*Others consist of reclassification of loans and borrowings from noncurrent to current and the declaration of cash dividend

The principal noncash operating, investing and financing activities of the Group include:

- Application of creditable withholding taxes against income tax payable amounting to ₱119.7 million, ₱119.0 million and ₱71.4 million in 2019, 2018 and 2017, respectively; and
- Acquisition and refinancing of aircraft through loan financing amounting to ₱16,816.1 million and ₱3,757.2 million in 2018 and 2017, respectively.

32. Registration with the BOI

The Parent Company is registered with the BOI as a new operator of air transport on a pioneer status on 2 Airbus A320 and non-pioneer status for 3 Airbus A320 aircraft, 4 Airbus A320 NEO, 7 Airbus A321 CEO, 5 Airbus A321 NEO and 2 Airbus A330 aircraft. Under the terms of the registration and subject to certain requirements, the Parent Company is entitled to the following fiscal and non-fiscal incentives (Notes 1, 12 and 25):

Date of Registration	Registration Number	ITH Period
February 11, 2013	2013-045	Feb 2013 - Feb 2019
April 11, 2013	2013-089	Apr 2013 - Apr 2019
September 13, 2013	2013-185	Sept 2013 - Sept 2019
September 13, 2013	2013-186	Sept 2013 - Sept 2019
January 17, 2014	2014-012	Jan 2014 - Jan 2020



Date of Registration	Registration Number	ITH Period
February 19, 2014	2014-037	Feb 2014 - Feb 2020
January 22, 2015	2015-011	Jan 2015 - Jan 2019
January 22, 2015	2015-012	Jan 2015 - Jan 2019
February 17, 2015	2015-039	Feb 2015 - Feb 2019
March 9, 2015	2015-061	Mar 2015 - Mar 2019
October 22, 2015	2015-225	Oct 2015 - Oct 2019
November 4, 2015	2015-238	Nov 2015 - Nov 2019
February 23, 2016	2016-040	Feb 2016 - Feb 2020
March 2, 2016	2016-045	Mar 2016 - Mar 2020
May 26, 2016	2016-100	May 2016 - May 2020
January 18, 2017	2017-022	Jan 2017 - Jan 2021
June 15, 2017	2017-179	June 2017 - June 2021
April 18, 2018	2018-087	April 2018 - April 2022
May 11, 2018	2018-109	May 2018 - May 2022
May 11, 2018	2018-110	May 2018 - May 2022
May 25, 2018	2018-124	May 2018 - May 2022
June 21, 2018	2018-131	June 2018 - June 2022
October 29, 2018	2018-222	Nov 2018 - Oct 2022
November 26, 2018	2018-251	Dec 2018 - Nov 2022
January 18, 2019	2019-008	Jan 2019-Jan 2022
June 27, 2019	2019-118	June 2019-June 2023
July 15, 2019	2019-128	July 2019-July 2021
August 23, 2019	2019-158	August 2019-August 2021
October 9, 2019	2019-194	October 2019-October 2021
October 30, 2019	2019-218	October 2019-October 2023
October 30, 2019	2019-219	October 2019-October 2021
December 9, 2019	2019-271	December 2019-December 2023
December 18, 2019	2019-281	December 2019-December 2023

- a. An ITH for a period of two to four years for non-pioneer status and six years for pioneer status.
- 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.
- 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 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, 2019 and 2018, the Parent Company has complied with capital requirements set by the BOI in order to avail the ITH incentives for aircraft of registered activity.

33. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorized for issue by the BOD on March 27, 2020.

34. 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 financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- 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.

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.

35. Events After the Reporting Period

The outbreak of COVID-19 in January 2020 will adversely affect the Group's financial performance, as certain countries, including the Philippines, imposed travel restrictions on both residents and visitors. In response to the resultant reduction in air travel demand, the Group has taken various measures including cessation of all flights to China, Hong Kong, Macau and South Korea in varying periods between February and April 2020. The cancelled flights although part of the lost capacity was subsequently redeployed into the domestic network. The Group has also proactively implemented various cost saving and cash preservation initiatives to supplement the aforementioned capacity management measures. However, with the rapid escalation of the situation surrounding COVID-19 and the government-imposed enhanced community quarantine over the entire Luzon, the Group decided to suspend all its flights from March 19 to April 14, 2020. While it is difficult to predict when operating conditions will improve, the Group believes that it remains a going concern, given the measures undertaken, its liquidity position, its access to short and long term funding, and the strong relationships it has with major suppliers.

