

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO
SECTION 17 OF THE SECURITIES REGULATION CODE

1. For the quarterly period ended June 30, 2021
2. SEC Identification Number PW- 94
3. BIR Tax Identification No. 000-707-922-000
4. Exact name of registration as specified in its charter PAL Holdings, Inc.
5. Metro Manila, Philippines
 (Province, country or other jurisdiction of incorporation or organization)
6. Industry Classification Code: (SEC Use Only)
7. 8th Floor, PNB Financial Center, President Diosdado Macapagal Ave., CCP Complex, Pasay City 1300
 Address of principal office including postal code Postal Code
8. (632) 8816-3451
 Registrant's telephone number, including area code
9. Not Applicable
 Former name, former address, former fiscal year, if changed since last report
10. Securities registered pursuant to Section 8 and 12 of the SRC
- | Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---------------------|---|
| Common Stock | 11,610,978,242 |
11. Are any or all of these securities listed on the Philippine Stock Exchange?
 Yes [] No []
Philippine Stock Exchange/Common Stock – 10,502,320,021 shares
12. Check whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
 Yes [] No []
- (b) has been subject to such filing requirements for the past 90 days.
 Yes [] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim consolidated financial statements of PAL Holdings, Inc. (the Company) and its subsidiaries as of and for the period ended June 30, 2021 (with comparative figures as of December 31, 2020 and for the period ended June 30, 2020) are filed as part of this form 17-Q as Annex "A".

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by Part IV, Paragraph a (2) (B) of SRC 12 is attached hereto as Annex "B"

PART II – OTHER INFORMATION

Not Applicable – There are no disclosures not made under SEC form 17-C

SIGNATURES

Pursuant to the requirements of the Securities and Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer/Registrant : **PAL HOLDINGS, INC.**

Signature and Title : 
MA. CECILIA L. PESAYCO
Corporate Secretary

Signature and Title : 
SUSAN T. LEE
Chief Finance Officer

Date : August 13, 2021

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Annex “A”

PAL HOLDINGS, INC. *(A Subsidiary of Trustmark Holdings Corporation)* **AND SUBSIDIARIES**

Interim Consolidated Financial Statements
As of June 30, 2021 and December 31, 2020
And for the Period Ended June 30, 2021 and 2020

PAL HOLDINGS, INC.
(A Subsidiary of Trustmark Holdings Corporation)
AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	June 30, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	P2,073,216	P2,357,647
Receivables (Note 4)	19,321,403	18,628,836
Expendable parts, fuel, materials and supplies (Note 5)	3,500,222	3,720,111
Other current assets (Note 6)	3,550,729	7,488,447
	28,445,570	32,195,041
Assets held for sale	43,920	115,255
Total Current Assets	28,489,490	32,310,296
Noncurrent Assets		
Property and equipment (Note 7)		
At cost	166,322,417	174,343,951
At appraised values	967,021	1,000,702
Investment properties (Note 8)	1,602,885	1,577,373
Other noncurrent assets (Note 10)	17,396,337	18,667,042
Total Noncurrent Assets	186,288,660	195,589,068
TOTAL ASSETS	P214,778,150	P227,899,364
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Note 11)	P16,985,474	P11,381,451
Accounts payable (Note 12)	19,504,670	18,293,324
Accrued expenses and other current liabilities (Note 13)	39,585,499	38,040,216
Unearned transportation revenue	9,724,975	8,717,088
Current portion of long-term obligations (Note 14)	121,881,270	119,900,330
Total Current Liabilities	207,681,888	196,332,409
Noncurrent Liabilities		
Long-term obligations - net of current portion (Note 14)	57,990,788	64,702,458
Accrued employee benefits	11,550,022	11,626,117
Deferred income tax liabilities	2,444,441	2,405,523
Reserves and other noncurrent liabilities (Note 15)	21,259,866	20,939,412
Total Noncurrent Liabilities	93,245,117	99,673,510
Total Liabilities	300,927,005	296,005,919
Equity		
Capital stock	9,799,753	9,799,753
Additional paid-in capital	3,010	3,010
Other equity reserves	1,629,881	1,629,881
Other components of equity	1,430,024	3,484,689
Deficit	(105,474,121)	(88,966,677)
Treasury stock - at cost	(25)	(25)
Equity (Capital Deficiency) Attributable to the Equity Holders of the		
Parent Company	(92,611,478)	(74,049,369)
Non-controlling Interests	6,462,623	5,942,814
Total Equity (Capital Deficiency)	(86,148,855)	(68,106,555)
TOTAL LIABILITIES AND EQUITY	P214,778,150	P227,899,364

PAL HOLDINGS, INC.
(A Subsidiary of Trustmark Holdings Corporation)
AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands, Except Earnings (Loss) Per Share)

	Six Months Ended June 30		For the Quarter Ended June 30	
	2021	2020	2021	2020
REVENUE				
Passenger	₱11,621,331	₱29,259,843	₱6,302,370	₱2,246,272
Cargo	5,535,808	4,217,309	3,051,753	2,323,886
Ancillary	879,263	3,337,910	384,322	175,226
Others	7,372	4,878	3,702	1,447
	18,043,774	36,819,940	9,742,147	4,746,831
EXPENSES				
Flying operations	13,757,306	31,878,137	7,083,403	8,500,899
Maintenance	4,654,288	6,725,472	2,248,820	2,078,679
Aircraft and traffic servicing	2,578,592	4,768,369	1,292,794	834,780
Passenger service	1,846,574	3,629,331	830,880	756,236
Reservation and sales	1,330,167	2,529,398	675,799	388,695
General and administrative	2,665,160	2,632,446	1,451,503	978,841
	26,832,087	52,163,153	13,583,199	13,538,130
OTHER CHARGES (INCOME)				
Financing charges	2,868,263	5,111,850	1,431,782	2,447,315
Other charges (income) - net	4,899,702	229,552	2,704,153	166,563
	7,767,965	5,341,402	4,135,935	2,613,878
LOSS BEFORE INCOME TAX	(16,556,278)	(20,684,615)	(7,976,987)	(11,405,177)
INCOME TAX EXPENSE	3,481	62,609	3,458	57,623
NET LOSS	(16,559,759)	(20,747,224)	(7,980,445)	(11,462,800)
OTHER COMPREHENSIVE INCOME (LOSS)				
Net changes in fair values of financial assets at FVTOCI	(194,744)	(1,137,907)	62,996	203,582
Effect of foreign exchange translation	(1,287,797)	(138,860)	(528,825)	(46,079)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(1,482,541)	(1,276,767)	(465,829)	157,503
TOTAL COMPREHENSIVE LOSS	(₱18,042,300)	(₱22,023,991)	(₱8,446,274)	(₱11,305,297)
Net income (loss) attributable to:				
Equity holders of the Parent Company	(₱16,551,837)	(₱20,932,297)	(₱7,955,961)	(₱11,548,590)
Non-controlling interests	(7,922)	185,073	(24,484)	85,790
	(₱16,559,759)	(₱20,747,224)	(₱7,980,445)	(₱11,462,800)
Total comprehensive income (loss) attributable to:				
Equity holders of the Parent Company	(₱18,562,109)	(₱22,064,171)	(₱8,669,303)	(₱11,239,944)
Non-controlling interests	519,809	40,180	223,029	(65,353)
	(₱18,042,300)	(₱22,023,991)	(₱8,446,274)	(₱11,305,297)
Basic/Diluted Earnings (Loss) Per Share*				
Computed based on Net Income (Loss)	(₱1.426)	(₱1.803)	(₱0.685)	(₱0.995)
Computed based on Total Comprehensive Income (Loss)	(₱1.599)	(₱1.900)	(₱0.747)	(₱0.968)

*Computed using the weighted average number of outstanding shares of stock of 11,610,978,242 for the period ended June 30, 2021 and 2020.

PAL HOLDINGS, INC.
(A Subsidiary of Trustmark Holdings Corporation)
AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED JUNE 30, 2021 AND 2020

(Amounts in Thousands)

	Other Components of Equity									Deficit	Treasury Stock	Total Equity (Capital Deficiency) Attributable to Equity Holders of the Parent	Non-Controlling Interest	Total
	Capital Stock	Additional Paid-In Capital	Other Equity Reserves	Effect of Change in Ownership Interest	Cumulative Translation Adjustment	Net Changes in Fair Values of Financial Assets at FVTOCI	Revaluation Increment	Remeasurement Gains (Losses) on Defined Benefit Plans	Subtotal					
BALANCES AT DECEMBER 31, 2019	₱9,799,753	₱3,010	₱1,629,881	(₱10,768)	₱573,969	₱1,714,381	₱678,884	(₱655,848)	₱2,300,618	(₱17,215,831)	(₱25)	(₱3,482,594)	₱8,380,185	₱4,897,591
Net loss for the period	-	-	-	-	-	-	-	-	-	(20,932,297)	-	(20,932,297)	185,073	(20,747,224)
Other comprehensive income (loss)	-	-	-	-	6,037	(1,137,911)	-	-	(1,131,874)	-	-	(1,131,874)	(144,893)	(1,276,767)
Total comprehensive income (loss) for the period	-	-	-	-	6,037	(1,137,911)	-	-	(1,131,874)	(20,932,297)	-	(22,064,171)	40,180	(22,023,991)
Transfer of portion of revaluation increment in property realized through depreciation, net of deferred income tax effect and foreign exchange adjustment	-	-	-	-	-	-	(42,706)	-	(42,706)	42,706	-	-	-	-
BALANCES AT JUNE 30, 2020	₱9,799,753	₱3,010	₱1,629,881	(₱10,768)	₱580,006	₱576,470	₱636,178	(₱655,848)	₱1,126,038	(₱38,105,422)	(₱25)	(₱25,546,765)	₱8,420,365	(₱17,126,400)
BALANCES AT DECEMBER 31, 2020	₱9,799,753	₱3,010	₱1,629,881	(₱10,768)	₱2,821,648	₱761,356	₱620,906	(₱708,453)	₱3,484,689	(₱88,966,677)	(₱25)	(₱74,049,369)	₱5,942,814	(₱68,106,555)
Net loss for the period	-	-	-	-	-	-	-	-	-	(16,551,837)	-	(16,551,837)	(7,922)	(16,559,759)
Other comprehensive income (loss)	-	-	-	-	(1,815,527)	(194,745)	-	-	(2,010,272)	-	-	(2,010,272)	527,731	(1,482,541)
Total comprehensive income (loss) for the period	-	-	-	-	(1,815,527)	(194,745)	-	-	(2,010,272)	(16,551,837)	-	(18,562,109)	519,809	(18,042,300)
Transfer of portion of revaluation increment in property realized through depreciation, net of deferred income tax effect and foreign exchange adjustment	-	-	-	-	-	-	(44,393)	-	(44,393)	44,393	-	-	-	-
BALANCES AT JUNE 30, 2021	₱9,799,753	₱3,010	₱1,629,881	(₱10,768)	₱1,006,121	₱566,611	₱576,513	(₱708,453)	₱1,430,024	(₱105,474,121)	(₱25)	(₱92,611,478)	₱6,462,623	(₱86,148,855)

PAL HOLDINGS, INC.
(A Subsidiary of Trustmark Holdings Corporation)
AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Six Months Ended June 30	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(₱16,556,278)	(₱20,684,615)
Adjustments for:		
Depreciation and amortization	7,990,908	12,209,818
Depreciation and financing charges of rejected aircraft	3,331,088	-
Financing charges	2,868,262	5,112,443
Interest income	(254,230)	(166,385)
Income on manufacturers' and suppliers' credits	-	(30,845)
Unrealized foreign exchange loss (gain)-net	(156,749)	163,316
Fair value changes on derivatives	(1,523,146)	3,569,472
Movement in accrued employee benefits payable	(219,921)	253,036
Gain on disposal of property and equipment and others	(49,156)	2,005
Other noncurrent liabilities-net	(170,123)	108,330
Operating income (loss) before changes in working capital	(4,739,345)	536,575
Decrease (increase) in:		
Receivables - net	(275,258)	(1,194,291)
Expendable parts, fuel, materials and supplies	273,783	566,995
Other current assets	248,986	709,477
Increase (decrease) in:		
Accounts payable	619,228	568,987
Accrued expenses and other current liabilities	(2,752,336)	2,015,585
Unearned transportation revenue	921,344	(710,974)
Net cash generated from operations	(5,703,598)	2,492,354
Financing charges paid	(1,334,192)	(1,921,644)
Interest received	17,510	67,821
Income taxes paid, including creditable withholding and final taxes	(133,948)	(97,419)
Net cash flows from (used in) operating activities	(7,154,228)	541,112
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment - net	(77,082)	(2,292,431)
Additions to security deposits - net	-	(3,325,654)
Return of various deposits	1,112,494	-
Return of predelivery for aircraft	-	1,062,077
Proceeds from sale of investment properties	632,253	-
Proceeds from sale of assets held for sale and others	73,319	12,521
Net cash flows from (used in) investing activities	1,740,984	(4,543,487)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Long-term obligations	(252,345)	(9,420,013)
Notes payable	(9,288,982)	(7,173,028)
Availments of:		
Long-term obligations	-	822,195
Notes payable	14,708,906	747,450
Advances from affiliate	-	6,099,391
Net cash flows from (used in) financing activities	5,167,579	(8,924,005)
EFFECT OF EXCHANGE RATE CHANGES		
ON CASH AND CASH EQUIVALENTS	(38,766)	(217,136)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(284,431)	(13,143,516)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,357,647	15,104,012
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱2,073,216	₱1,960,496

PAL HOLDINGS, INC.
(A Subsidiary of Trustmark Holdings Corporation)
AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

PAL Holdings, Inc. (the Parent Company or PHI) was incorporated in the Philippines on May 10, 1930 to engage in the business of a holding company. On October 5, 1979, the Parent Company applied and was granted an extension of its corporate life by the Philippine Securities and Exchange Commission (SEC) for another 50 years from May 1980.

The Parent Company and its subsidiaries (collectively referred to herein as “the Group”), is primarily engaged in air transport of passengers and cargo within the Philippines and between the Philippines and several international destinations. The Group operates through its major subsidiaries; Philippine Airlines, Inc. (PAL or the Airline), the Philippine national flag carrier, and Air Philippines Corporation (APC), a subsidiary under common control that was indirectly acquired by the Parent Company through Zuma Holdings Management Corporation (ZUMA) in 2017. The Parent Company is 76.92% owned by Trustmark Holdings Corporation (Trustmark) as of June 30, 2021 and December 31, 2020. As of June 30, 2021 and December 31, 2020, Trustmark is 60% owned by Buona Sorte Holdings, Inc. (BSHI) and 40% owned by Horizon Global Investments, Ltd. (HGIL). BSHI is the ultimate parent of the Group. BSHI and Trustmark were likewise incorporated in the Philippines and are part of the Lucio Tan Group of Companies, while HGIL was incorporated in British Virgin Islands.

The Parent Company’s registered office address is 8th Floor, PNB Financial Center, President Diosdado Macapagal Ave., CCP Complex, Pasay City, Metro Manila.

Group Reorganizations

Acquisition of additional interest in PAL

On September 26, 2016, the Parent Company’s BOD approved and authorized the acquisition, in a share swap transaction, of PAL shares from then existing PAL shareholders. Relative thereto, the BOD likewise approved the share swap ratio of 5:1 or equivalent to five PAL shares to one PHI share. On December 27, 2018 and December 18, 2017, the Philippine SEC approved the acquisition of 0.01% and 0.64% non-controlling interest in PAL, respectively. The Parent Company issued 0.75 million and 123.54 million new shares from its authorized but unissued capital stock in favor of PAL shareholders who have participated in the PAL share swap transaction. As of June 30, 2021 and December 31, 2020, PHI has effective ownership interest in PAL of 98.92%.

Acquisition of APC through ZUMA

On November 28, 2016, the Parent Company’s BOD approved the acquisition, through share swap transaction, of the shares of ZUMA, the holding company of APC, from its then existing shareholders, with a share swap exchange ratio of 19:1 corresponding to 19 PHI shares to one ZUMA share. On December 21, 2017, the Philippine SEC approved the acquisition of ZUMA through share swap transaction with its existing shareholders. The Parent Company issued 840.46 million new shares from its authorized but unissued capital stock valued at P5.00 per share in favor of Cosmic Holdings Corporation. Accordingly, as of June 30, 2021 and December 31, 2020, the Parent Company owns 51% of ZUMA.

Equity Restructuring

On March 28 and May 25, 2017, the BOD, by majority vote, and by the vote of the stockholders owning or representing at least 2/3 of the outstanding capital stock of the Parent Company, approved the decrease in authorized capital stock by changing the par value of the shares from

₱1.00 to ₱0.45 per share. Simultaneously, the BOD approved to increase the par value per share from ₱0.45 to ₱1.00 per share, without increasing the authorized capital, thus decreasing the number of shares corresponding to the authorized and subscribed capital stock. The decrease in the authorized capital by reducing the par value per share to ₱0.45 per share and the subsequent increase in the par value to ₱1.00 per share by reducing the number of shares corresponding to the authorized capital stock were approved by the Philippine SEC on December 22, 2017. Accordingly, authorized capital stock as of June 30, 2021 and December 31, 2020 is composed of 13.50 billion shares, with 10.52 billion shares issued and outstanding and 1.09 billion shares subscribed.

On August 23, 2018, the SEC approved the Parent Company's equity restructuring to partially wipe out the Parent Company's deficit amounting to ₱29.34 billion as of December 31, 2017 against the additional paid-in capital of ₱25.34 billion.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements have been prepared using the historical cost convention, except for buildings and improvements under property and equipment which are carried at revalued amounts, and financial assets at fair value through other comprehensive income (FVTOCI), which are classified as available-for-sale (AFS) investments in prior years, and derivative financial instruments which are carried at fair value through profit or loss (FVTPL). The consolidated financial statements are presented in Philippine Peso, the Parent Company's functional and presentation currency. All amounts are rounded to the nearest thousands, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2021. The new accounting pronouncements do not have significant impact to the consolidated financial statements, unless otherwise indicated:

- Amendments to PFRS 9, PFRS 7, PFRS 4, *Insurance Contracts* and PFRS 16, *Interest Rate Benchmark Reform - Phase 2*

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform;
- Relief from discontinuing hedging relationships; and
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Group shall also disclose information about:

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Group is not required to restate prior periods.

Effective beginning on or after January 1, 2022

- *Amendments to PFRS 3, Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- *Amendments to PAS 16, Property, Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the consolidated financial statements.

- *Amendments to PAS 37, Onerous Contracts - Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs 2018-2020 Cycle*

- *Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to PFRS. This amendment is also applied to an associate or

joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the consolidated financial statements.

- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the consolidated financial statements.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the consolidated financial statements.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- 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); and
- 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, 2023, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investment in Associates and Joint Venture, 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. 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.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at June 30, 2021 and December 31, 2020. The financial statements of the subsidiaries are prepared using consistent accounting policies as those of the Parent Company.

The subsidiaries and the related percentages of ownership of the Parent Company as at June 30, 2021 and December 31, 2020 are as follows:

	June 30, 2021		December 31, 2020	
	Direct	Indirect	Direct	Indirect
PAL	98.57%	0.35%	98.57%	0.35%
Sabre Travel Network (Philippines), Inc. (Sabre)	–	82.10%	–	82.10%
PAL Receivables Co. Ltd. (PRC)	–	–	–	–
Mabuhay Miles Inc. (MMI)	–	98.92%	–	98.92%
Mabuhay Maritime Express Transport Inc. (MMET)	–	98.92%	–	98.92%
Fortunate Star Limited (FSL)	–	64.30%	–	64.30%
PR Holdings, Inc. (PRI)	82.33%	–	82.33%	–
ZUMA	51.00%	–	51.00%	–
APC	–	50.98%	–	50.98%
GuidetothePhilippines Inc. (Guide)	–	28.04%	–	28.04%

The subsidiaries' operation and principal activity are as follows: PAL and APC are primarily engaged in air transport of passengers and cargo within the Philippines and between the Philippines and several international destinations; Sabre engages in development and marketing of computerized airline reservation system; PRC is a structured entity over which PAL has control; FSL is a holding company of various entities with whom PAL has lease agreements; MMI is intended to promote the frequent flyer program of PAL; PRI and ZUMA are holding companies; MMET is a company established in 2016 which will engage in water transportation of passengers and cargoes. Guide is a newly established entity intended to develop and operate an inbound business-to-consumer (B2C) online travel marketplace. PAL, Sabre, MMI, MMET, PRI, ZUMA, APC and Guide are domiciled in the Philippines while PRC and FSL are incorporated in Cayman Islands. MMI commenced its operations in 2018 and ceased its operations in 2019. MMET has started and ceased commercial operations in 2019.

The Parent Company or its subsidiaries control an investee if and only if the following criteria are met:

- Power over the investee (i.e., 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
- The ability to use its power over the investee to affect its returns

When the Parent Company or its subsidiaries have less than a majority of the voting or similar rights of an investee, the Parent Company or its subsidiaries consider all relevant facts and circumstances in assessing whether they have power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Parent Company or its subsidiaries' voting rights and potential voting rights

The Parent Company or its subsidiaries reassess whether or not they control 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 or its subsidiaries obtain control over the subsidiary and ceases when it ceases to have control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date control is lost.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent Company 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 period as the Parent Company. All intra-group balances, transactions, unrealized gains and losses, resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. When the Parent Company loses control of a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any noncontrolling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss

- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income (OCI) to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

Non-controlling interest represents the interest in the subsidiaries not held by the Parent Company and are presented separately in the consolidated statement of comprehensive income and consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separate from the equity attributable to the equity holders of the Parent Company.

Business Combination under Common Control

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent (i.e., Controlling Shareholders) before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value of the consideration received, is also accounted for as an equity transaction. The Group recorded the difference as other equity reserves and presented as separate component of equity in the consolidated statements of financial position. Comparatives shall be restated to include balances and transactions as if the entities had been acquired at the beginning of the earliest period presented as if the companies had always been combined.

Cash and Cash Equivalents

Cash includes 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 acquisition and that are subject to an insignificant risk of changes in value. Cash and cash equivalents exclude any restricted cash (presented under "Other current assets" and "Other noncurrent assets") that is not available for use by the Group and therefore is not considered highly liquid, such as cash set aside to collateralize various surety bonds.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist only of cash and cash equivalents as defined above.

Fair Value Measurement

The Group measures financial instruments, such as financial assets at FVTOCI (classified as AFS investments in 2017) and derivatives, and nonfinancial assets such as buildings and improvements carried at revalued amounts, at fair value at the end of reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly 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 a 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.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another

market participant that would use the asset in its highest and best use.

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 of 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 of input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets, recognition and de-recognition, as applicable, that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). With the exception of trade receivables or for which the Group has applied the practical expedient, the Group's initial measurement of financial instruments, except for those classified as FVTPL, includes transaction cost. Trade receivables or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

Financial assets

At initial recognition, the Group classifies its financial assets as follows:

- FVTPL
- FVTOCI
- Financial assets measured at amortized cost

The basis of the classification of the Group's financial instruments depends on the following:

- The Group's business model for managing its financial assets; and
- The contractual cash flow characteristics of the financial assets

A financial asset is classified to be measured at amortized cost if following conditions were met:

- The financial asset is held to collect the contractual cash flows; and
- Contractual terms of the financial asset give rise to cash flows that are solely payments of

principal and interest on the principal amount outstanding.

Financial assets are classified as FVTOCI if the following conditions were met:

- The financial asset is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the financial asset; and
- Contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets shall be classified as FVTPL unless it is measured at amortized cost or at FVTOCI. The Group may also irrevocably elect at the initial recognition of equity instruments that would otherwise be measured at FVTPL to be presented as FVTOCI.

Financial liabilities

Financial liabilities are classified as measured at amortized cost except for:

- Financial liabilities measured at FVTPL which include derivatives that liabilities measured at fair value;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate; and
- Contingent considerations recognized by an acquirer in a business combination to which PFRS 3 applies.

Subsequent measurement

Financial assets measured at amortized cost

After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by considering any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of profit or loss when the loans and receivables are derecognized and impaired, as well as through the amortization process. Loans and receivables are included under current assets if realizability or collectability is within twelve months after the reporting period. Otherwise, these are classified as noncurrent assets.

The Group's cash in banks and cash equivalents, receivables, security deposits, miscellaneous deposits and deposits on aircraft leases are classified under this category.

FVTOCI (equity instruments)

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its equity investments under this category.

Financial liabilities measured at amortized cost

After initial recognition, these financial liabilities are carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any direct attributable transaction cost. Gains or loss on financial liabilities are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

The Group's notes payable, accounts payable and accrued expenses, lease liabilities, long-term debt and deposits on subleased aircraft (included under "Reserves and other noncurrent liabilities" in the

consolidated statement of financial position) are classified under this category.

“Day 1” difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a “Day 1” difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used 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.

Derivatives and hedge accounting

Freestanding derivatives

For the purpose of hedge accounting, hedges are classified primarily either as: (a) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedge); (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) hedge of a net investment in a foreign operation. The Group did not designate its derivative transactions as cash flow or fair value hedge for the period ended June 30, 2021 and December 31, 2020.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

In cash flow hedges, changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are included in OCI, net of related deferred income tax. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, gains and losses initially recognized in equity are transferred from equity to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that has been reported directly in equity is recognized in profit or loss.

For derivatives that are not designated as effective accounting hedges, any gains or losses arising from changes in fair value of derivatives are recognized directly in profit or loss.

Embedded derivatives

Embedded derivatives are separated from the hybrid contracts and accounted for at fair value through profit or loss when the entire hybrid contracts (composed of the host contract and the embedded derivative) are not accounted for at fair value through profit or loss, the economic risks of the embedded derivatives are not closely related to those of their respective host contracts, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Changes in fair values are included in profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

Derecognition of Financial Assets and Financial Liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of ownership of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

If a transfer of financial asset does not result in derecognition since the Group has retained substantially all the risks and rewards of the ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a liability for the consideration received.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

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 modification is treated as the derecognition of the carrying value of the original liability and the recognition of a new liability at fair value, and any resulting difference is recognized in profit or loss.

Impairment of Financial Assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVTPL. 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 effective interest rate. 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 general 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.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is 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 of 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.

Expendable Parts, Fuel, Materials and Supplies

Expendable parts, fuel, materials and supplies are stated at the lower of cost and net realizable value. Cost, which includes the purchase price and other costs incurred in bringing these expendable parts, fuel, materials and supplies to their present location or condition, is determined using the moving weighted average method. Net realizable value represents replacement cost of these expendable parts, fuel, materials and supplies, considering factors such as age and physical condition of these assets.

Deposits and Prepayments

Prepayments include advance payments of various materials, various rentals and other services that are yet to be delivered and from which future economic benefits are expected to flow to the Group within the normal operating cycle or within 12 months from the reporting date. They are initially measured at the amount paid in advance by the Group for the purchase of goods and services and are subsequently decreased by the amount of expense incurred. Prepayments are included in "Other current assets" account in the consolidated statement of financial position.

Assets Held for Sale

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

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

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

Property and Equipment

Property and equipment (except buildings and improvements) are stated at cost less accumulated

depreciation and any impairment in value. Buildings and improvements are stated at revalued amounts less accumulated depreciation and any impairment in value. Revalued amounts were determined based on valuations performed by various qualified, independent and Philippine SEC-accredited appraisers. Revaluations are made with sufficient regularity.

For subsequent revaluations, the accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset. The amount of adjustment to accumulated depreciation forms part of the increase or decrease in the carrying amount. Any resulting increase in the asset's carrying amount as a result of the revaluation is recognized as OCI credited directly to equity as "Revaluation increment - net of deferred income tax effect". Any resulting decrease is directly charged against the related revaluation increment previously recognized in respect of the same asset and any excess is charged against profit or loss.

The portion of revaluation increment is transferred to deficit when these are realized through depreciation or upon the disposal or retirement of buildings and improvements.

The initial cost of property and equipment comprises its purchase price, any related capitalizable borrowing costs attributed to predelivery payments incurred on account of aircraft acquisition and other qualifying assets under construction, and other directly attributable costs of bringing the asset to its working condition and location for its intended use. Manufacturers' credits received from aircraft and engine manufacturers which were directly applied against the purchase price of the aircraft are recorded upon delivery of the related aircraft and engines as a reduction from the cost of the property and equipment (including those under finance lease). Manufacturer's credits that are not applied to aircraft and engines purchased, and whose risks and rewards are retained with the Group, are recognized as income as it is earned.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Expenditures for scheduled and mandatory heavy maintenance on aircraft's airframe and landing gear are capitalized at cost and depreciated over the estimated number of years until the next major overhaul. Generally, heavy maintenance visits are required every six to eight years for airframe and ten years for landing gear.

Depreciation, which commences when the asset is available for its intended use, is computed on a straight-line basis over the following estimated useful lives of the assets:

	<u>Number of Years</u>
Passenger aircraft	4 to 20
Engines	4 to 20
Vessels	20
Buildings and improvements	5 to 40
Rotable and repairable parts	3 to 18
Ground property and equipment	3 to 8
Leasehold improvements (whichever is shorter between the lease term or life of the improvements)	4 to 12

Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

Leasehold improvements are amortized over the term of the lease or life of the improvements, whichever is shorter. Assets under lease arrangements are depreciated over the term of the lease or the useful life of the asset, whichever is shorter, unless there is purchase option reasonably certain to be exercised by the Group. In which case, the asset is depreciated over its useful life.

The estimated useful lives, depreciation and amortization method and residual values are reviewed periodically to ensure that the periods, method of depreciation and amortization and residual values are consistent with the expected pattern of economic benefits from items of property and equipment. Any changes in the estimates arising from the review are accounted for prospectively.

When items of property and equipment are sold or retired, their costs, accumulated depreciation and amortization, any impairment in value and related revaluation increment are eliminated from the accounts. Any gain or loss resulting from their disposal is recognized in profit or loss.

“Construction in progress” represents aircraft, vessels, buildings and improvements and other ground property under construction, while “Predelivery payments” represent advance payments for aircraft acquisition. “Construction in progress” and “Predelivery payments” are not depreciated until such time when the construction of the relevant assets is completed and when assets are available for their intended use.

Leases

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The right-of-use assets are classified in the consolidated statement financial position as part of property and equipment. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

	<u>Number of Years</u>
Passenger aircraft	4 to 20
Engines	4 to 20
Ground property and equipment	3 to 8
Leasehold improvements (whichever is shorter between the lease term or life of the improvements)	4 to 12

If the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the right-of-use assets are depreciated based on the estimated useful life of the underlying assets.

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, which are classified as long-term obligations in the consolidated statement of financial position. 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 and leases of low-value assets

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 and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Group as Lessee

Finance leases, which transfer to the Group substantially all the risks and rewards 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. Obligations arising from aircraft under finance lease agreements are classified in the consolidated statement of financial position as part of “Long-term obligations”.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are charged directly against profit or loss.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease expense is recognized in profit or loss on a straight-line basis over the terms of the lease agreements. Contingent rents (e.g., lease payments that are based on market indices) are charged as expense in the period in which they are incurred. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expense over the lease term on a straight-line basis.

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is at fair value, any profit or loss is recognized immediately. If the sale price is below fair value, any profit or loss is recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used. If a sale and leaseback transaction results in a finance lease, any difference between the sales proceeds and the carrying amount is deferred and amortized over the lease term.

Group as Lessor

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Lease income is recognized on a straight-line basis over the lease term. 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.

Asset Restoration Obligation (ARO)

The Group is required under various aircraft lease agreements to restore the leased aircraft to their original condition and to bear the cost of dismantling and restoration 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), based on aircraft hours flown and engine cycles until the next scheduled checks. If the estimated cost of dismantling and restoration is expected to

exceed the cumulative MRF or where the lease agreement does not require contribution of MRF, an additional obligation is recognized over the remaining term of the leases. The amount of obligation is carried at amortized cost using the effective interest method.

Investment Properties

Investment properties include parcels of land, buildings and improvements that are not used in operations.

Investment properties are measured initially at cost, including any transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred (if the recognition criteria are met) and excludes the costs of day-to-day servicing of an investment property.

Investment properties (except land) are subsequently measured at cost less accumulated depreciation and any impairment in value. Land is subsequently carried at cost less any impairment in value.

Depreciation of depreciable investment properties, which commences when the asset is available for its intended use, is calculated on a straight-line basis over the estimated useful lives ranging from six to eight years.

Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the asset is derecognized.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by cessation of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

When an item of property and equipment previously carried at revalued amount is transferred to investment properties, the carrying value at the date of reclassification is retained as the new cost of the investment property. The related revaluation increment is closed to retained earnings or deficit.

Investment properties are derecognized when they are either disposed of or permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss.

Impairment of Property and Equipment and Investment Properties

The carrying values of property and equipment, including right-of-use assets, and investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash generating units (CGU) are written down to their recoverable amounts. The recoverable amount is the greater of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

Recovery of impairment losses recognized in prior periods is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recognized in profit or loss. However, the increased carrying amount of the asset due to reversal of an impairment loss is recognized only to the extent that it does not exceed the carrying amount (net of accumulated depreciation and amortization) that would have been determined had impairment loss not been recognized for that asset in prior years.

Compensation from third parties for the items of property and equipment that were impaired is included in profit or loss when the compensation becomes receivable (i.e., recovery becomes virtually certain). Impairment or losses of items of property and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are considered as separate economic events and are accounted for separately.

Provisions and Contingencies

Provisions are recognized when (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. 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 pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the consolidated statement of financial position. They are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated statement of financial position 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.

Deposit from Non-controlling Interest of a Subsidiary

Deposit from non-controlling interest of a subsidiary generally represent funds received by PAL which it records as such with a view to applying the same as payment for a future additional issuance of shares or increase in capital stock.

The Group classifies deposit from non-controlling interest of a subsidiary under non-controlling interest as a separate account from capital stock if, and only if, all of the following elements are present as of the end of the reporting period:

- The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- There is BOD's approval on the proposed increase in authorized capital stock (for which a deposit was received by PAL);
- There is stockholders' approval of said proposed increase; and
- The application for the approval of said proposed increase has been filed with the Philippine SEC.

If any of the foregoing elements are not present, the deposit is recognized as a liability.

Equity (Capital Deficiency)

Capital stock is measured at par value of all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account.

Deficit represents the cumulative balance of net income or loss, net of any dividend declaration.

Treasury Stock

Where the Parent Company purchases its own capital stock (treasury shares), the consideration paid,

including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effect, is included in equity attributable to the Parent Company's equity holders.

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when controls of goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for the goods and services. The specific recognition criteria for each type of revenue are as follows:

Passenger ticket, cargo way-bills and related fuel and insurance surcharges are recognized as revenue when the related services are rendered (e.g. over time as the passengers and cargo are flown or lifted). Customer payments for services which have not yet been rendered are classified as contract liabilities under "Unearned transportation revenue" account in the consolidated statement of financial position.

Revenue from charter, mail, excess baggage and other transport-related and ancillary services revenue are recognized when the related services have been rendered.

Revenue from inflight sales is recognized at the point in time when control of the asset is transferred to the customer, generally on the delivery and acceptance by the customers of the goods.

Revenue from estimated breakage (expiration) of unused passenger tickets are recognized based on the historical expiration experience of the Group on the unused passenger tickets.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section "Financial instruments - initial recognition and subsequent measurement."

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Contract Liability Under Frequent Flyer Program

PAL operates a frequent flyer program called "Mabuhay Miles". A portion of passenger revenue attributable to the award of frequent flyer miles, 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 relative fair value. The deferred revenue is included under "Reserves and other noncurrent liabilities" in the consolidated statement of financial position. Any remaining unutilized benefits are recognized as revenue upon redemption or expiry.

Interest and Dividend Income

Interest on cash, cash equivalents and other short-term and long-term cash investments is recognized as interest accrues using the effective interest method. Dividend income from financial assets at FVTOCI is recognized when the Group's right to receive payment is established.

Short-term Employee Benefits

Short-term employee benefits include items such as salaries and wages, social security contributions and nonmonetary benefits, if expected to be settled wholly within 12 months after the reporting date in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Group during the reporting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

Retirement Benefits Cost and Other Long-term Employee Benefits

Accrued employee benefits, as presented in the consolidated statement of financial position, consist of retirement benefits under defined benefit plans and other long-term employee benefits.

Retirement benefits - defined benefit plans

Accrued retirement benefits is the present value of the 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.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. The retirement benefits cost comprises of service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset.

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. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset at the beginning of the year, taking account of any changes in the net defined benefit liability or asset during the period as a result of contribution or benefit payment. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

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). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Other long-term employee benefits

Other long-term employee benefits such as vacation leave and sick leave commutation and retention programs are measured using the projected unit credit method. Actuarial gains and losses on these employee benefits are recognized in full in profit or loss.

Borrowing Costs

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.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs it incurred during that period. All other borrowing costs are expensed as incurred.

Expenses

Expenses are recognized when incurred. These are measured at the fair value of the consideration paid or payable.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss) of the Group includes gains and losses on changes in fair value of financial assets at FVTOCI, changes in revaluation increment of property and equipment, remeasurement gains or losses on defined benefit plans and effect of foreign exchange translation of the assets and liabilities of PAL and FSL from its functional currency into presentation currency of the Group.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted as of end of reporting period.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefits of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carry forward benefits of unused tax credits and unused NOLCO can be utilized. Deferred income tax, however, is 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 the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred income tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries. With respect to investments with other subsidiaries, deferred income tax liabilities are recognized except where the timing of reversal of the temporary differences can be controlled by the parent or investor and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply in 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 reporting date.

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

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

Creditable Withholding Taxes (CWTs)

CWTs, included in "Other current assets" account in the consolidated statement of financial position, are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rule on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve (12) months are classified as current assets, otherwise these are classified as noncurrent assets.

Foreign Currency-denominated Transactions and Translations

Transactions denominated in currencies other than the Philippine Peso are recorded using the exchange rate prevailing at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing rate of exchange at the end of the

reporting period. Any resulting foreign exchange gains or losses are taken to income or loss in the consolidated statement of comprehensive income.

The functional currency of PAL is the US Dollar (USD). As of the reporting date, the assets and liabilities of this subsidiary are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and its statement of comprehensive income accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity as “Cumulative translation adjustment”. On disposal of a foreign subsidiary, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in profit or loss. Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss.

Basic/Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated based on net income (loss) and total comprehensive income (loss) for the period. Earnings (loss) per share is calculated by dividing net income (loss) before other comprehensive income or total comprehensive income (loss) for the period by the weighted average number of issued and outstanding shares of stock during the period, after giving retroactive effect to any stock dividends declared or stock rights exercised. The Group has no dilutive potential common shares.

Events After the Reporting Date

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

3. Cash and Cash Equivalents

	June 30, 2021	December 31, 2020
Cash on hand and in banks	₱1,876,720	₱2,163,599
Cash equivalents	196,496	194,048
	₱2,073,216	₱2,357,647

4. Receivables

	June 30, 2021	December 31, 2020
General traffic	₱8,945,638	₱7,839,781
Related parties	9,235,421	8,285,136
Non-trade*	6,112,570	7,364,663
	24,293,629	23,489,580
Less: allowance for ECL	(4,972,226)	(4,860,744)
	₱19,321,403	₱18,628,836

*Non-trade receivables include, among others, accounts under litigation, receivables from employees and other receivables.

5. Expendable Parts, Fuel, Materials and Supplies

	June 30, 2021	December 31, 2020
At cost:		
Expendable parts	P1,503,030	P1,720,808
Fuel	565,592	609,695
Materials and supplies	379,162	401,332
	2,447,784	2,731,835
At net realizable value - expendable parts	1,052,438	988,276
	P3,500,222	P3,720,111

6. Other Current Assets

	June 30, 2021	December 31, 2020
Deposits and prepayments	P2,056,748	P2,262,398
Security deposits	687,313	691,137
Derivative assets	541,290	4,162,627
Others	265,378	372,285
	P3,550,729	P7,488,447

7. Property and Equipment

	June 30, 2021	December 31, 2020
At Cost		
Cost:		
Passenger aircraft, engines and improvements	P19,556,502	P22,663,584
Rotable and reparable parts	10,483,495	12,220,276
Ground property and equipment	12,781,891	12,659,843
Vessels	1,182,668	1,163,853
Right-of-use assets:		
Passenger aircraft, engines and leasehold improvements	246,732,303	245,540,051
Ground property and equipment	2,907,170	2,970,477
	293,644,029	297,218,084
Accumulated Depreciation:		
Passenger aircraft, engines and leasehold improvements	(10,281,965)	(12,961,942)
Rotable and reparable parts	(5,917,585)	(6,986,550)
Ground property and equipment	(11,114,883)	(10,875,008)
Vessels	(115,803)	(113,031)
Right-of-use assets:		
Passenger aircraft and engines	(74,380,483)	(64,736,314)
Ground property and equipment	(908,958)	(669,849)
	(102,719,677)	(96,342,694)
Accumulated Impairment:		
Passenger aircraft and engines	(30,299,090)	(31,763,233)
Vessels	(593,506)	(584,054)
Construction-in-progress	(237,998)	(234,210)
Rotable and reparable parts	(148,938)	(146,555)
	(31,279,532)	(32,728,052)
Net book value	159,644,820	168,147,338
Construction in progress	6,677,597	6,196,613
Total	P166,322,417	P174,343,951

	June 30, 2021	December 31, 2020
At Revalued Amount		
Buildings and improvements:		
Revalued amount	₱1,050,274	₱1,033,554
Accumulated depreciation and amortization	(83,253)	(32,852)
Net book value	₱967,021	₱1,000,702
Fleet		
	June 30, 2021	December 31, 2020
Owned:		
Airbus 320-200	9	9
Bombardier DHC 8-400	2	3
Bombardier DHC 8-300	4	4
Under lease:		
Boeing 777-300ER	10	10
Airbus 350-900	6	6
Airbus 330-300	15	15
Airbus 321-231	23	24
Airbus 321-271N	6	6
Airbus 321-271NX	2	2
Airbus 320-200	6	6
Bombardier DHC 8-400 NG	12	12
	95	97

8. Investment Properties

	June 30, 2021		
	Land	Buildings and Improvements	Total
Cost			
Beginning of year	₱1,540,914	₱248,519	₱1,789,433
Translation adjustment	24,932	4,021	28,953
End of period	1,565,846	252,540	1,818,386
Accumulated depreciation			
Beginning of year	(22,811)	(189,249)	(212,060)
Translation adjustment	(369)	(3,072)	(3,441)
End of period	(23,180)	(192,321)	(215,501)
Net book value	₱1,542,666	₱60,219	₱1,602,885

	December 31, 2020		
	Land	Buildings and Improvements	Total
Cost			
Beginning of year	₱3,474,128	₱262,018	₱3,736,146
Disposals	(1,753,992)	–	(1,753,992)
Translation adjustment	(179,222)	(13,499)	(192,721)
End of year	1,540,914	248,519	1,789,433
Accumulated depreciation			
Beginning of year	(24,049)	(199,559)	(223,608)
Translation adjustment	1,238	10,300	11,538
End of year	(22,811)	(189,249)	(212,060)
Net book value	₱1,518,103	₱59,270	₱1,577,373

9. Investments in Subsidiaries with Material Non-controlling Interest

APC and FSL are significant subsidiaries with material non-controlling interest. In 2017, PHI acquired 51% ownership in ZUMA (see Note 1), which in turn owns 99.97% interest in APC, giving PHI an effective interest of 50.98% in APC. The Group, through PAL, also obtained control in FSL, previously accounted for as investment in associate, by increasing PAL's ownership interest in FSL from 40% to 65%, giving PHI an effective interest of 64.29% in FSL. The acquisitions of ZUMA and FSL have been accounted for in the consolidated financial statements as business combination under common control using pooling of interest method of accounting. Accordingly, the Group presented as non-controlling interest the ownership interests which were not acquired by the Group. In 2018, PAL acquired 20% interest in FSL from a non-controlling shareholder, thereby increasing PAL's ownership interest to 85% and giving PHI an effective interest of 84.08% in FSL. The Group recognized ₱1.36 billion in equity under "Other equity reserves" as a result of change in ownership interest in 2018, which pertains to the excess of the net assets acquired over the consideration paid by the Group for the additional 20% ownership interest in FSL. In 2019, PAL sold its 20% ownership interest in FSL to Trustmark, thereby decreasing PAL's ownership interest in FSL to 65% and giving PHI an effective interest of 64.30% in FSL. The Group recognized ₱48.32 million in equity under "Other equity reserves" as a result of the change in ownership interest in 2019 which pertains to the excess of the consideration received over net assets disposed.

10. Other Noncurrent Assets

	June 30, 2021	December 31, 2020
Long-term security deposits	₱9,911,524	₱12,998,848
Deposits on aircraft leases	3,382,865	1,739,539
Creditable withholding taxes	3,037,800	2,871,723
Financial assets at FVTOCI	803,479	997,206
Manufacturers' credits	126,246	27,419
Others	134,423	32,307
	₱17,396,337	₱18,667,042

Financial assets at FVTOCI

The Group's financial assets at FVTOCI include investments in MacroAsia Corporation (MAC) amounting to ₱738.57 million and ₱933.50 million as of June 30, 2021 and December 31, 2020, respectively. This account also includes certain quoted equity investments and club shares amounting to ₱6.05 million and ₱5.76 million, and unquoted equity investments amounting to ₱58.86 million and ₱57.94 million as of June 30, 2021 and December 31, 2020, respectively.

The fair value of quoted equity investments and club shares is determined by reference to quoted market prices as of the end of each reporting period.

The fair values of investment in share of stock of MAC were determined based on published prices in the active market while other quoted equity investments were determined by reference to quoted market prices as of the end of each reporting period. As of June 30, 2021 and December 31, 2020, the unquoted equity investments are carried at fair value, which is based on significant unobservable inputs.

11. Notes Payable

Notes payable as of June 30, 2021 and December 31, 2020 include unsecured short-term loans from local banks totalling ₱16.99 billion and ₱11.38 billion, respectively.

12. Accounts Payable

	June 30, 2021	December 31, 2020
Accounts Payable - General	₱10,047,116	₱9,070,527
Collections as Agent	2,966,210	2,877,010
Payables to Related Parties	2,694,167	3,257,290
Others	3,797,177	3,088,496
	₱19,504,670	₱18,293,323

Other accounts payable include passenger and freight deposits.

13. Accrued Expenses and Other Current Liabilities

	June 30, 2021	December 31, 2020
Accrued expenses:		
Lease charges	₱17,294,329	₱11,904,691
Maintenance	15,340,008	13,792,423
Salaries and wages	2,138,776	2,669,728
Ground handling charges	905,647	1,006,284
Landing and take-off fees	806,154	814,923
Passenger food and supplies	190,827	238,320
Income taxes	173,511	221,341
Foreign station	174,119	252,939
Others	1,312,604	781,062
Derivative liabilities	299,827	4,364,590
Premium payable	949,697	1,993,915
	₱39,585,499	₱38,040,216

Other accrued expenses pertain to accruals for interest expense and other operating expenses.

In order to hedge against adverse market condition, PAL purchased put options in which unpaid amounts are included as part of "Premium payable".

Lease charges is composed of the unpaid portion of the lease liabilities that are due as of June 30, 2021 and December 31, 2020.

14. Long-term Obligations

	June 30, 2021	December 31, 2020
Lease liabilities	₱146,762,185	₱152,031,907
Long-term debt	33,109,873	32,570,881
	179,872,058	184,602,788
Less: current portion	121,881,270	119,900,330
	₱57,990,788	₱64,702,458

15. Reserves and Other Noncurrent Liabilities

	June 30, 2021	December 31, 2020
Due to a stockholder	₱17,484,406	₱17,205,998
Deferred revenue under frequent flyer program	3,724,513	3,610,705
Provisions	50,947	76,665
Other noncurrent liabilities	-	46,044
	₱21,259,866	₱20,939,412

Due to a Stockholder and Deposit from Non-controlling Interest of a Subsidiary

In 2019, PAL received deposits amounting to ₱11.41 billion from BSHI which was initially planned to be used for subscription of capital stock of PAL and was presented as “Deposit from non-controlling interest of a subsidiary” under noncurrent liabilities in the consolidated statement of financial position as of December 31, 2019. In 2020, additional cash amounting to ₱6.38 billion was received by PAL. On October 26, 2020, BOD approved the withdrawal the application for the increase in authorized capital stock with the Philippine SEC. Accordingly, the entire balance of ₱17.21 billion as of December 31, 2020 was reclassified as “Due to a stockholder” under “Reserves and Other Noncurrent Liabilities”.

Provisions

Provisions consist substantially of probable claims and other litigations involving the Group. The timing of the cash outflows of these provisions is uncertain as it depends upon the outcome of the Group’s negotiations and/or legal proceedings, which are currently ongoing with the parties involved.

Disclosure of additional details beyond the present disclosures may seriously prejudice the Group’s position. Thus, as allowed by PAS 37, only general descriptions were provided.

16. Expenses

The significant components of expenses by nature are as follows:

	Six Months Ended June 30	
	2021	2020
Depreciation, amortization and obsolescence	₱8,588,577	₱12,125,902
Repairs and maintenance	4,420,597	6,455,899
Crew and staff costs	4,299,796	5,726,117
Fuel and oil	4,245,939	15,632,469
Ground handling charges	1,241,497	2,497,527
Landing and take-off fees	873,171	1,719,903
Professional fees	611,906	199,894
Utilities	499,553	734,597
Reservation and selling costs	333,711	806,538
Flight amenities	252,582	528,427
Outside services	243,658	508,296
Passenger food	188,613	831,851
Aircraft lease rentals	69,925	133,162

17. Financial Risk Management Objectives and Policies

Risk Management Structure

BOD

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and policies of the Group.

Treasury Risk Committee

The Treasury Risk Committee has the overall responsibility for the development of financial risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group’s approach to financial risk issues (fuel price and foreign exchange risk, in particular) in order to make relevant decisions.

Treasury Risk Office

The Treasury Risk Office is responsible for the comprehensive monitoring, evaluation and analysis of the Group’s financial risks in line with the policies and limits set by the Treasury Risk Committee.

The Treasury Risk Office conducts mark-to-market of derivative positions and daily calculation and reporting of Value-at-Risk (VaR) amounts.

Financial Risk Management

The Group's principal financial instruments, other than derivatives, consist of loans and borrowings and cash and cash equivalent. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has various other financial assets and financial liabilities such as receivables, short-term investments, accounts payable, accrued expenses and deposits which arise directly from its operations. The main risks arising from the use of financial instruments are market risks (consisting of foreign exchange risk, cash flow interest rate risk and fuel price risk), liquidity risk, counterparty risk and credit risk.

The Group uses derivative instruments to manage its exposures to foreign exchange and fuel price risks arising from the Group's operations and its sources of financing. The details of PAL's derivative transactions, including the risk management objectives and the accounting results, are discussed in this note.

Market risks

The Group's operating, investing and financing activities are directly affected by changes in foreign exchange rates, interest rates and fuel prices. Increasing market fluctuations in these variables may result in significant equity, cash flow and profit volatility risks for the Group. For this reason, the Group seeks to manage and control these risks primarily through its regular operating and financing activities, and through the execution of a documented hedging strategy. Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in assessing and monitoring its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk and fuel price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

Foreign exchange risk

The Group is exposed to foreign exchange rate fluctuations arising from its revenue, expenses and borrowings in currencies other than its functional currency. The Group manages this exposure by matching its receipts and payments for each individual currency. Any surplus is sold as soon as practicable. PAL also uses foreign currency forward contracts and options to economically hedge a portion of its exposure.

The Group's significant foreign currency-denominated monetary assets and liabilities (in Philippine Peso equivalent) are as follows:

	June 30, 2021	December 31, 2020
Financial Assets and Financial Liabilities		
Financial assets:		
Cash	₱1,300,320	₱1,633,747
Receivables	16,094,903	18,757,982
Others*	1,187,063	1,356,725
	18,582,286	21,748,454
Financial liabilities:		
Accounts payable and accrued expenses	(7,975,162)	(8,464,111)
Others**	(1,563,942)	(1,604,881)
	(9,539,104)	(10,068,992)
Net foreign currency-denominated financial assets	9,043,182	11,679,462
Nonfinancial Liabilities		
Accrued employee benefits	(11,364,251)	(11,452,573)
Provisions	(50,947)	(76,645)

	June 30, 2021	December 31, 2020
	(11,415,198)	(11,529,218)
Net Foreign Currency-denominated Monetary Assets (Liabilities)	(P2,372,016)	P150,244

* Includes miscellaneous deposits and security deposits.

** Substantially pertaining to passenger taxes.

The Group recognized net foreign exchange gain (loss) amounting to P210.75 million for the period ended June 30, 2021 and (P1.43) billion for the year ended December 31, 2020, included under “Other income (charges) - net” in the consolidated statements of comprehensive income arising from the translation and settlement of these foreign currency-denominated financial and nonfinancial instruments. The Group’s foreign currency-denominated exposures comprise primarily of Philippine peso (PHP) and Japanese Yen (JPY). Other foreign currency exposures include Canadian dollar (CAD), Euro (EUR), Australian dollar (AUD), Singaporean dollar (SGD), Chinese Yuan (CNY), Thai Baht (THB) and Hong Kong dollar (HKD), Saudi riyal (SAR) and Emirati dirham (AED).

Cash flow interest rate risk

The Group’s exposure to cash flow interest rate risk arises from the regular repricing of interest on its floating-rate loans. The Group’s policy on interest rate risk is designed to limit the Group’s exposure to fluctuating interest rates. The ratio of floating-rate long-term loans to the total borrowings is 0.84:1 as of June 30, 2021 and December 31, 2020, respectively.

Fuel price risk

The Group is exposed to price risk on jet fuel purchases. This risk is managed by a combination of strategies with the objective of managing price levels within an acceptable band through various types of derivatives and hedging instruments. The Group implements such strategies to manage and minimize the risks within acceptable risk parameters.

The Group’s fuel derivatives are viewed as economic hedges and are not held for speculative purposes. The Group uses a VaR computation to estimate the potential three-day loss in the fair value of its fuel derivatives. The VaR computation is a risk analysis tool designed to statistically estimate the maximum potential loss at a given confidence interval from adverse movement in fuel prices.

Assumptions and limitations of VaR

The VaR methodology employed by PAL uses a three-day period due to the assumption that not all positions could be undone in a single day given the size of the positions. The VaR computation makes use of Monte Carlo simulation with multi-factor models. Multi-factor models ensure that the simulation process takes into account mean reversion tendency and seasonality of fuel prices. It captures the complex dynamics of the term structure of commodity markets, such as contango and backwardation. The VaR estimates are made assuming normal market conditions using a 95% confidence interval and are determined by observing market data movements over a 90-day period.

The estimated potential three-day losses on its fuel derivative transactions, as calculated in the VaR model, amounted to P83.45 million and P83.18 million as of June 30, 2021 and December 31, 2020, respectively.

The high, average and low VaR amounts are as follows:

	High	Average	Low
January 1, 2021 to June 30, 2021	P94,304	P65,699	(P105,157)
January 1, 2020 to December 31, 2020	921,607	104,561	(1,282,115)

Liquidity risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments (e.g., long-term obligations) or that a market for derivatives may not exist in some circumstances.

The Group's objectives to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The tables below summarize the maturity analysis of the Group's financial liabilities based on contractual undiscounted payments (principal and interest):

	June 30, 2021						Total
	<1 Year	>1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	>5 Years	
Notes payable*	₱17,119,479	₱-	₱-	₱-	₱-	₱-	₱17,119,479
Accounts payable and accrued expenses**	54,868,345	-	-	-	-	-	54,868,345
	71,987,824	-	-	-	-	-	71,987,824
Lease Liabilities***	111,241,351	17,008,114	16,535,441	15,547,778	9,992,581	-	170,325,265
Long-term debt****	25,604,970	2,417,113	2,361,822	2,301,066	2,688,294	259,226	35,632,491
Derivative instruments:							
Fuel derivatives	(241,462)	-	-	-	-	-	(241,462)
Premium liability	949,697	-	-	-	-	-	949,697
	137,554,556	19,425,227	18,897,263	17,848,844	12,680,875	259,226	206,665,991
	₱209,542,380	₱19,425,227	₱18,897,263	₱17,848,844	₱12,680,875	₱259,226	₱278,653,815

*Includes interest amounting to ₱134,005.

**Excludes nonfinancial liabilities amounting to ₱3,917,678.

***Includes interest amounting to ₱23,564,574.

****Includes interest amounting to ₱2,522,618.

	December 31, 2020						Total
	<1 Year	>1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	>5 Years	
Notes payable*	₱11,415,403	₱-	₱-	₱-	₱-	₱-	₱11,415,403
Accounts payable and accrued expenses**	48,771,276	-	-	-	-	-	48,771,276
	60,186,679	-	-	-	-	-	60,186,679
Lease liabilities***	96,699,472	21,577,187	20,800,155	19,310,907	20,527,867	1,966,379	180,881,967
Long-term debt****	23,499,239	2,723,384	2,567,886	2,901,165	3,264,940	260,141	35,216,755
Derivative instruments:							
Fuel derivatives	201,936	-	-	-	-	-	201,936
Premium liability	1,993,915	-	-	-	-	-	1,993,915
	122,394,562	24,300,571	23,368,041	22,212,072	23,792,807	2,226,520	218,294,573
	₱182,581,241	₱24,300,571	₱23,368,041	₱22,212,072	₱23,792,807	₱2,226,520	₱278,481,252

*Includes interest amounting to ₱33,952

**Excludes nonfinancial liabilities amounting to ₱7,562,264

***Includes interest amounting to ₱25,850,059

****Includes interest amounting to ₱2,645,874

The Group's total financial liabilities to be settled currently amounting to ₱209.54 billion and ₱182.58 billion as of June 30, 2021 and December 31, 2020, include liabilities aggregating to ₱71.99 billion and ₱60.19 billion, respectively that management considers as working capital. Accounts payable and accrued expenses of ₱54.87 billion and ₱48.77 billion as of June 30, 2021 and December 31, 2020, respectively, include liabilities that are payable on demand but are expected to be renegotiated in the future. For the other liabilities amounting to ₱137.55 billion and ₱122.39 billion as of June 30, 2021 and December 31, 2020, respectively, management expects to settle these from the Group's cash to be generated from operations.

The following are the Group's financial assets as of June 30, 2021 and December 31, 2020 used to manage liquidity risk, particularly those financial liabilities that will mature in less than a year:

	June 30, 2021						Total
	<1 Year	>1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	>5 Years	
Cash	P1,876,720	P-	P-	P-	P-	P-	P1,876,720
Loans and receivables:							
Cash equivalents	196,496	-	-	-	-	-	196,496
Receivables – net*	14,380,598	-	-	-	-	-	14,380,598
	P16,453,814	P-	P-	P-	P-	P-	P16,453,814

*Excludes receivables arising from statutory requirements, net of allowance, amounting to P4,940,805.

	December 31, 2020						Total
	<1 Year	>1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	>5 Years	
Cash	P2,116,753	P-	P-	P-	P-	P-	P2,116,753
Loans and receivables:							
Cash equivalents	194,049	-	-	-	-	-	194,049
Short-term equivalents	55,862	-	-	-	-	-	55,862
Receivables – net*	19,336,119	-	-	-	-	-	19,336,119
	P21,702,783	P-	P-	P-	P-	P-	P21,702,783

*Excludes receivables arising from statutory requirements, net of allowance, amounting to P4,153,461.

Counterparty risk

The Group's counterparty risk encompasses issuer risk on investment securities, credit risk on cash in banks, time deposits and security deposits and settlement risk on derivatives. The Group manages its counterparty risk by transacting with counterparties of good financial condition and selecting investment grade securities. Settlement risk on derivatives is managed by limiting aggregate exposure on all outstanding derivatives to any individual counterparty, taking into account its credit rating. The Group also enters into master netting arrangements and implements counterparty and transaction limits to avoid concentration of counterparty risk.

The tables below show the maximum counterparty exposure after taking into account information about rights of offset and related arrangements for financial instruments subject to master netting agreements:

	June 30, 2021					
	Gross Maximum Exposure	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position	Master netting agreement	Fair value of financial collateral	Net exposure
Financial Assets						
Cash in banks and cash equivalents	P1,897,192	P-	P1,897,192	P-	P-	P1,897,192
Receivables – net	14,380,598	-	14,380,598	-	1,758,086	12,622,512
Derivative assets	541,290	-	541,290	299,827	-	241,463
Margin deposits, lease deposits and others	12,624,688	-	12,624,688	-	-	12,624,688
	29,443,768	P-	29,443,768	P299,827	P1,758,086	P27,385,855
Financial Liabilities						
Derivative liabilities	P299,827	P-	P299,827	P299,827	P-	P-

	December 31, 2020					
	Gross Maximum Exposure	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position	Master netting agreement	Fair value of financial collateral	Net exposure
Financial Assets						
Cash in banks and cash equivalents	P2,310,802	P-	P2,310,802	P-	P-	P2,310,802
Receivables – net	23,489,580	-	23,489,580	-	1,826,027	21,663,553
Derivative assets	4,162,634	-	4,162,634	4,162,634	-	-
Margin deposits, lease deposits and others	20,485,256	-	20,485,256	-	-	20,485,256
	P50,448,272	P-	P50,448,272	P4,162,634	P1,826,027	P44,459,611

Financial Liabilities					
Derivative liabilities	P4,364,570	P-	P4,364,570	P-	P-
					P4,364,570

Credit risk

The Group's exposure to credit risk arises from the possibility that agents, financial institutions and other counterparties may fail to fulfill their agreed obligations and that the collaterals held may not be sufficient to cover the Group's claims. To manage such risk, the Group, through its Credit and Collection Department, employs a credit evaluation process prior to the accreditation or re-accreditation of its travel and cargo agents. The Group considers, among other factors, the size, paying habits and the financial condition of the agents. To further mitigate the risk, the Group requires from its agents financial guarantees in the form of cash bonds, letters of credit and assignment of time deposits.

The Group, to the best of its knowledge, has no significant concentration of credit risk with any counterparty.

18. Fair Value Measurement

Fair Values

The table below presents the Group's financial instruments measured at fair value and financial instruments for which fair values are disclosed:

	June 30, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial assets at amortized cost- margin deposit, lease deposits and others	P12,624,688	P12,624,688	P20,485,256	P20,485,256
Financial assets at FVTOCI	803,479	803,479	997,206	997,206
Derivative asset - fair value through profit or loss	541,290	541,290	4,162,634	4,162,634
Financial Liabilities				
Derivative liabilities - fair value through profit or loss	299,827	299,827	4,364,570	4,364,570
Financial liabilities carried at amortized cost:				
Lease liabilities	146,762,185	168,074,024	152,032,626	175,580,732
Long-term debt	33,109,873	33,614,123	32,570,882	34,150,404

The carrying amounts of cash and cash equivalents, receivables, notes payable, accounts payable and accrued expenses approximate their fair value due to the short-term nature of these accounts.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments that is different from their carrying amount:

Financial assets at FVTOCI

The fair values of quoted equity investments are based on market prices in active markets.

As of June 30, 2021 and December 31, 2020, the fair value of unquoted equity investments is based on Level 3. Significant inputs in determining the fair value are the market prices of the shares of comparable companies.

Margin deposits, lease deposits and others

The fair value of margin deposits, lease deposits and others is determined using discounted cash flow techniques based on prevailing market rates.

Long-term obligations

The fair value of long-term obligations (whether fixed or floating) is generally based on the present value of expected cash flows with discount rates that are based on risk-adjusted benchmark rates (in the case of floating rate liabilities with quarterly repricing, the carrying value approximates the fair value in view of the recent and regular repricing based on current market rates). The discount rates used for USD-denominated loans ranged from 1.13% to 3.06% and 1.19% to 3.06% as of June 30, 2021 and December 31, 2020, respectively.

Derivatives

The fair values of derivatives is determined by the use of either present value methods or standard option valuation models. The valuation inputs on these fuel derivatives are based on assumptions developed from observable information, including, but not limited to, the forward curve derived from published or futures prices adjusted for factors such as seasonality considerations and the volatilities that take into account the impact of spot prices and the long-term price outlook of the underlying commodity and currency.

Fair Value Hierarchy

As of June 30, 2021

	Fair value measurement using			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets and liabilities measured at fair value:				
Financial assets at FVTOCI:				
Quoted equity shares	₱744,617	₱744,617	₱–	₱–
Unquoted equity shares	58,862	–	–	58,862
Derivative financial assets:				
Fuel derivatives	541,290	–	541,290	–
Derivative financial liabilities:				
Fuel derivatives	299,827	–	299,827	–
Property and equipment	967,021	–	–	967,021
Assets held for sale	43,920	–	–	43,920
Assets and liabilities for which fair values are disclosed:				
Margin deposits, lease deposits and others	12,624,688	–	12,624,688	–
Lease liabilities	168,074,024	–	168,074,024	–
Long-term debt	33,614,123	–	33,614,123	–
Investment properties	2,672,532	–	–	2,672,532

As of December 31, 2020

	Fair value measurement using			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets and liabilities measured at fair value:				
Financial assets at FVTOCI:				
Quoted equity shares	₱939,267	₱939,267	₱–	₱–
Unquoted equity shares	57,939	–	–	61,664
Derivative financial assets:				
Fuel derivatives	4,162,634	–	4,162,634	–
Derivative financial liabilities:				
Fuel derivatives	4,364,570	–	4,364,570	–
Property and equipment	1,000,702	–	–	1,000,702
Assets held for sale	115,255	–	–	115,255
Assets and liabilities for which fair values are disclosed:				
Margin deposits, lease deposits and others	20,485,256	–	20,485,256	–
Lease liabilities	175,580,732	–	175,580,732	–
Long-term debt	34,150,404	–	34,150,404	–
Investment properties	2,629,980	–	–	2,629,980

There were no transfers between hierarchy levels during the six months ended June 30, 2021 and year ended December 31, 2020.

Derivative Financial Instruments

The derivative financial instruments set out in this section have been entered into to achieve PAL's risk management objectives. PAL's derivative financial instruments are accounted for at fair value through profit or loss.

As of June 30, 2021 and December 31, 2020, outstanding fuel derivative asset amounted to ₱541.29 million and ₱4.16 billion, respectively and outstanding fuel derivative liability amounted to ₱299.83 million and ₱4.36 billion, respectively.

As of June 30, 2021 and December 31, 2020, the positive and negative fair values of derivative positions that will be settled in 12 months or less are classified under "Other current assets" (₱541.29 million as of June 30, 2021 and ₱4.16 billion as of December 31, 2020) and "Accrued expenses" (₱299.83 million as of June 30, 2021 and ₱4.36 billion as of December 31, 2020). The positive and negative fair values of derivative positions that will be settled in more than 12 months are classified under "Other Non-current assets" (nil as of June 30, 2021 and December 31, 2020) and "Other Non-current liabilities" (nil as of June 30, 2021 and December 31, 2020).

Fuel derivatives

PAL is dependent on jet fuel to run its operations. PAL's jet fuel consumption is approximately 17.12% and 20.61% of its operating expenses for the period ended June 30, 2021 and for the year ended December 31, 2020, respectively. In order to hedge against adverse market condition and to be able to acquire jet fuel at the lowest possible cost, PAL enters into fuel derivatives. PAL does not purchase or hold any derivative financial instruments for trading purposes.

There are no outstanding fuel derivatives accounted for as cash flow hedges as of June 30, 2021 and December 31, 2020.

PAL's fuel derivatives not accounted for as cash flow hedges still provide economic hedges against jet fuel price risk. These fuel derivatives are carried at fair values in the consolidated statements of financial position, with fair value changes reported immediately in profit or loss.

Structured currency derivatives

PAL enters into structured currency derivatives consisting of option structures with combination of calls and puts. These contracts are carried at fair value in the consolidated statements of financial position and the fair value changes from these derivatives are recognized directly in profit or loss. There are no outstanding structured currency derivatives as of June 30, 2021 and December 31, 2020.

PAL HOLDINGS, INC. AND SUBSIDIARIES

SELECTED EXPLANATORY NOTES

As of June 30, 2021 and December 31, 2020

And for the Six Months Ended June 30, 2021 and 2020

(As required under Par. 7 (d) Selected Explanatory Notes Required Under SRC Rule 68, as Amended 2011)

- a. The Company's interim consolidated financial reports are in compliance with generally accepted accounting principles in the Philippines as set forth in the Philippine Financial Reporting Standards (PFRS). The financial statements of Philippine Airlines, Inc (PAL) were originally presented in United States dollars, which is their functional currency were restated to Philippine peso for purposes of combination of financial statements in accordance with PFRS 10, Consolidated Financial Statements.

- b. Explanatory comments on the seasonality or cyclicity of interim operations.

PAL and APC normally experience a peak in holiday travel during the months of January, April, May, June and December. With the COVID-19 pandemic, this has not been the normal course of business during the period.

- c. The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows which are unusual because of their nature, size, or incidents.

Not applicable. There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.

- d. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.

Not applicable. There were no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

- e. Issuances, repurchases, and repayments of debt and equity securities.

There were no issuances, repurchases, and repayments of debt and equity securities during the interim period.

- f. Dividends paid (aggregate or per share) separately for ordinary shares and other shares.

Not applicable. There were no dividends paid during the interim period.

- g. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting.

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 chief operating decision-maker, who is responsible for allocating resources, assessing performance and making operating decisions.

The revenues of the operating segment are mainly derived from rendering transportation services and all sales are made to external customers.

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

	Six Months Ended June 2021	Six Months Ended June 2020
Revenue	₱18,043,774	₱36,819,940
Interest income	254,230	166,385
Financing charges	2,868,263	5,111,850
Depreciation, amortization and obsolescence	11,321,996	12,209,818
Net loss	(16,559,759)	(20,747,224)

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:

	Six Months Ended June 2021	Six Months Ended June 2020
Total segment revenue of reportable operating segments	₱18,036,402	₱36,815,062
Other revenue	7,372	4,878
Total revenue	18,043,774	36,819,940

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

	Six Months Ended June 2021	Six Months Ended June 2020
Total segment income (loss) of reportable segments	(₱9,910,196)	(₱18,195,963)
Add (deduct) unallocated items:		
Other revenue	7,372	4,878
Non-transport expenses and other charges	(6,653,454)	(2,493,530)
Income tax benefit (expense)	(3,481)	(62,609)
Net income (loss)	(16,559,759)	(20,747,224)
Other comprehensive income (loss)	(1,482,541)	(1,276,767)
Total comprehensive income (loss)	(₱18,042,300)	(₱22,023,991)

The Group's major revenue-producing asset is the fleet owned by Group, which is employed across its route network.

Disaggregation of Revenue

The disaggregation of the total segment revenue is presented in the consolidated statements of comprehensive income.

- h. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

Not applicable. The Company has no material event subsequent to the end of the interim period that has not been reflected in the financial statements for the interim period.

- i. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

Not applicable. There were no changes in the composition of the Company during the interim period.

- j. Changes in contingent liabilities or contingent assets since the last annual balance sheet date.

Not applicable. The Company has no contingent liabilities or assets.

- k. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.

Not applicable. There were no contingencies and any other events or transactions that are material to an understanding of the current interim period.

Annex “B”

PAL HOLDINGS, INC. *(A Subsidiary of Trustmark Holdings Corporation)* **AND SUBSIDIARIES**

Management’s Discussion and Analysis of
Financial Condition and Results of Operations

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Six Months Ended June 30, 2021 versus June 30, 2020

The Company reported a total comprehensive loss of ₱18.04 billion for the period ended June 30, 2021, ₱3.98 billion lower than last year's same period total comprehensive loss of ₱22.02 billion.

Consolidated revenues for the first half of 2021 declined to ₱18.04 billion or 51.0% lower than last year's same period total of ₱36.82 billion due to the effect of continuing COVID-19 pandemic which started in mid-March of 2020.

Consolidated operating expenses decreased to ₱26.83 billion or 48.6% lower than last year's same period total of ₱52.16 billion mainly due to significant reduction in the number of flights operated. Manpower costs also declined as a result of PAL's retrenchment program in mid-March of the current year as well as expenses related to grounded aircraft which were recognized this year under other charges also contributed to the decrease in operating expenses.

Other charges-net increased by ₱4.67 billion from ₱0.23 billion for the six months ended June 30, 2020 to ₱4.90 billion in the same period of 2021 mainly due to expenses related to grounded aircraft partially offset by the reduction in financing charges.

The Company recognized other comprehensive loss of ₱1.48 billion for the first half of 2021, higher than the ₱1.28 billion loss recognized in 2020. This was mainly due to unfavorable effect of foreign exchange translation, offset in part by lower losses from fair value adjustments of the Company's quoted investments.

Financial Condition

The Company's consolidated total assets as of June 30, 2021 amounted to ₱214.78 billion, 5.8% lower than the December 31, 2020 balance of ₱227.90 billion. The decrease was primarily brought about by the reduction in property and equipment, other current assets and other noncurrent assets.

Total current assets declined by 11.8% from ₱32.31 billion as of December 31, 2020 to ₱28.49 billion as of June 30, 2021, driven mainly by the decrease in other current assets by 52.6% due to mark-to-market valuation of outstanding fuel derivative contracts.

Total noncurrent assets decreased by 4.8% or ₱9.30 billion mainly property and equipment and other noncurrent assets due to depreciation and security deposits, respectively.

Consolidated total liabilities increased to ₱300.93 billion, 1.7% or ₱4.92 billion higher largely due to the increase in notes payable as a result of additional short-term loans, offset by the decrease in long-term obligations due to reduction of lease liabilities.

Total capital deficiency was at ₱86.15 billion as of June 30, 2021, up by 26.5% primarily due to the increase in deficit by 18.6% brought about by the consolidated total comprehensive loss for the first half of 2021.

The Company's key performance indicators are the following:

1. Total Comprehensive Income/Loss Attributable to Equity Holders

The Company's consolidated total comprehensive loss attributable to equity holders of the parent for the six months ended June 30, 2021 and 2020 amounted to ₱18.56 billion and ₱22.06 billion, respectively.

2. Current Ratio

The Company has a current ratio of 0.14:1 and 0.16:1 as of June 30, 2021 and December 31, 2020.

3. Debt to Equity Ratio

Debt to equity ratio as of June 30, 2021 was at (2.29) compared to (2.88) as of December 31, 2020.

4. Basic Earnings/Loss Per Share

The Company's earnings (loss) per share based on total net loss attributable to equity holders of the parent were (₱1.426) and (₱1.803) for the six months ended June 30, 2021 and 2020, respectively. The Company's earnings (loss) per share based on total comprehensive loss attributable to equity holders of the parent were (₱1.599) and (₱1.900) for the six months ended June 30, 2021 and 2020, respectively.

The manner by which the Company calculates the above indicators are as follows:

Current Ratio = Current Assets / Current Liabilities

Debt to Equity Ratio = Notes Payable + Current and Noncurrent Long-term Obligations / Total Equity (Capital Deficiency)

Earnings (Loss) Per Share = Net Income (Loss) or Total Comprehensive Income (Loss) Attributable to Holders of Parent Company / Common Shares Outstanding

TOP FIVE KEY PERFORMANCE INDICATORS OF PAL

Mission Statement	Key Performance Indicator	Measurement Methodology
To maintain aircraft with the highest degree of airworthiness, reliability and presentability in the most cost and effective manner	Aircraft Maintenance Check Completion	Number of checks performed less number of maintenance delays over number of checks performed
To conduct and maintain safe, reliable, cost and effective flight operations	Number of aircraft related accidents/incidents	By occurrence and monitoring by Flight Operations Safety Office
To achieve On-Time Performance on all flights operated	Percentage Deviation from Industry Standards (OTP Participation)	Number of flights operated less number of flights delayed over total flights operated
To provide safe, on time, quality and cost effective inflight service for total passenger satisfaction	Number of safety violations incurred by cabin crew	Number of incidents of safety violation incurred by cabin crew per month

Mission Statement	Key Performance Indicator	Measurement Methodology
To maximize revenue generation in passenger and cargo sales through increased yields by diversifying market segments and efficient management of seat inventory and cargo space	Net Revenues generated from passengers and cargoes carried	Percentage Deviation from Budget/Forecasted Revenues

Trends, Uncertainties or Contingencies That May Affect Group’s Liquidity in the Next Twelve Months:

- i. The Group’s liquidity situation became more critical in 2020 and 2021 due to severely weak passenger sales and revenue as an adverse effect of the COVID-19 pandemic. The COVID-19 outbreak and the measures taken by the Philippine and foreign governments have caused disruptions to PAL’s passenger operations, resulting to temporary suspension and limited operations of its flights both for domestic and international routes. Consequently, the decline in revenue and cash inflows has put significant strain on the Group’s liquidity position and on its compliance with certain loan covenants.

Due to the difficulty in sourcing additional financing, the Group is embarking on a financial restructuring plan to ensure the Group’s business continuity.

PAL has drawn on bridge funding from its major shareholder, deferred payments through the forbearance of lessors, lenders and suppliers, carried out a retrenchment program, and implemented cost-cutting measures.

Other than those that have already been disclosed, there are no known trends, demands, commitments, events or uncertainties that may have a material impact on the Group’s liquidity.

- ii. Other than those that have already been disclosed, there are no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.
- iii. There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- iv. Commitments for capital expenditures

PAL's aircraft delivery schedule was revised to align with the forecasted recovery of travel demand. 2020 and 2021 aircraft deliveries were postponed and rescheduled for delivery in 2026-2030.

In July 2021, two aircraft were returned to its lessor.

- v. The Philippine government has set a travel ban from ten countries including Indonesia, Malaysia, Thailand, India and United Arab Emirates to prevent the spread of the highly transmissible Delta coronavirus variant that first emerged in India. The restrictions imposed by the Philippine and foreign authorities compelled PAL to make further adjustments, including flight cancellations, to its limited operations. National Capital Region (NCR) was put under enhanced community quarantine (ECQ) until August 20, 2021.

Other than this, there are no known trends, events or uncertainties that have had or that are reasonably expected to have material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

- vi. There are no significant elements of income or loss that will arise from continuing operations.
- vii. The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item:

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes:

1. Cash and cash equivalents- H- (12.1%)
2. Expendable parts, fuel, materials and supplies- H- (5.9%)
3. Other current assets- H- (52.6%)
4. Assets held for sale- H- (61.9%)
5. Other noncurrent assets- H- (6.8%)
6. Notes payable- H- 49.2%
7. Accounts payable- H- 6.6%
8. Unearned transportation revenue- H-11.6%
9. Long-term obligations-net of current portion- H- (10.4%)
10. Other components of equity- H- (59.0%)
11. Deficit- H- 18.6%; V- (10.1%)
12. Non-controlling interests-H- 8.7%
13. Passenger- H- (60.3%); V- (15.1%)
14. Cargo- H- 31.3%; V- 19.2%
15. Ancillary- H- (73.7%)
16. Other revenue- H- 51.1%
17. Flying operations- H- (56.8%); V- (10.3%)
18. Maintenance- H- (30.8%); V- 7.5%
19. Aircraft and traffic servicing- H- (45.9%)
20. Passenger service- H- (49.1%)
21. Reservation and sales- H- (47.4%)
22. General and administrative- V- 7.6%
23. Financing charges- H- (43.9%)
24. Other charges-net- H- 2034.5%; V- 26.5%
25. Income tax expense- H- (94.4%)
26. Net loss - H- (20.2%); V- (35.4%)
27. Total other comprehensive loss - H- 16.1%
28. Total comprehensive loss - H- (18.1%); V- (40.2%)

The causes for these material changes are explained in the management's discussion and analysis of results of operations and financial condition stated above.

- viii. PAL and APC normally experience a peak in holiday travel during the months of January, April, May, June and December. With the COVID-19 pandemic, this has not been the normal course of business during the period.

PAL HOLDINGS, INC.
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AND SUBSIDIARIES

AGING OF ACCOUNTS RECEIVABLE

As of June 30, 2021

(Amounts in Thousands)

(Unaudited)

	<u>Outstanding Amount</u>	<u>Current</u>	<u>Over 30 Days</u>	<u>Over 60 Days</u>	<u>Over 90 Days</u>	<u>Over 120 Days</u>	<u>Over 180 Days</u>	<u>Over 1 Year</u>	<u>Items under Litigation</u>
TRADE RECEIVABLES	₱9,105,425	₱3,943,065	₱399,965	₱337,550	₱981,573	₱301,352	₱1,693,827	₱1,448,093	₱ -
NON-TRADE RECEIVABLES	15,188,204	481,949	198,393	82,953	110,535	178,236	202,444	13,151,284	782,410
TOTAL	₱24,293,629	₱4,425,014	₱598,358	₱420,503	₱1,092,108	₱479,588	₱1,896,271	₱14,599,377	₱782,410
ALLOWANCE FOR D.A.	4,972,226								
RECEIVABLES - NET	₱19,321,403								

PAL HOLDINGS, INC.
(A Subsidiary of Trustmark Holdings Corporation)
AND SUBSIDIARIES

FINANCIAL SOUNDNESS INDICATORS

Ratio	Formula	Jun-21	Dec-20
Current Ratio	Current Assets / Current Liabilities	0.14	0.16
Quick Asset Ratio	(Cash and Cash Equivalents + Receivables) / Current Liabilities	0.10	0.11
Debt-to-Equity Ratio	Total Debt* / Total Equity	(2.29)	(2.88)
Asset-to-Equity Ratio	Total Assets / Total Equity	(2.49)	(3.35)
Ratio	Formula	Jun-21	Jun-20
Interest Rate Coverage Ratio	EBIT / Interest Expense	(4.77)	(3.05)
Solvency Ratio	Net Income (Loss) + Depreciation / Total Debt*	(0.03)	(0.04)
Profitability Ratios:			
Profit Margin	Net Income (Loss) / Revenues	(0.92)	(0.56)
Return on Assets	Net Income (Loss) / Total Assets	(0.08)	(0.07)
Return on Equity	Net Income (Loss) / Total Equity	(0.19)	(1.21)

* Total debt includes notes payable, current portion and noncurrent portion of long-term obligations.