C O V E R   S H E E T

SEC Registration Number

P W – 9 4

COMPANY NAME

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

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

8th Floor, PNB Financial
Center, President Diosdado
Macapagal Ave., CCP Complex
Pasay City

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
palholdingsinc2015@gmail.com	(02) 8816-3451	09278375855

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
6,854 as of Dec. 31, 2022	Last Thursday of May	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Susan T. Lee	susan.lee@tanduay.com	(02) 8869-8336	N/A

CONTACT PERSON's ADDRESS

7/F Allied Bank Center, 6754 Ayala Avenue, Makati City

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A
ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the calendar year ended **December 31, 2022**

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. **Philippines**
(Province, country or other jurisdiction of incorporation or organization)

6. (SEC Use Only)
Industry Classification Code:

7. **8th Floor, PNB Financial Center, President Diosdado Macapagal Ave., CCP Complex, Pasay City** — **1300**
Address of principal office — 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 shares**

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

Yes **[✓]** No **[ ]**

Philippine Stock Exchange **Common Stock – 10,514,618,996 shares**

12. Check whether the registrant:

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

    Yes **[✓]**   No **[   ]**

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

    Yes **[✓]**   No **[   ]**

13. Aggregate market value of the voting stock held by non-affiliates:
    ₱13.57 Billion as of December 31, 2022

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the commission. **Not Applicable**

    Yes **[   ]**   No **[   ]**

DOCUMENTS INCORPORATED BY REFERENCE

15. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the document is incorporated:

    (a) Any annual report to security holders
    2022 Audited Consolidated Financial Statements of PAL Holdings, Inc. and Subsidiaries
    (Incorporated as reference for items 1 and 7 of SEC Form 17-A)

    (b) Any information statement filed pursuant to SRC Rule 20
    Not Applicable

    (c) Any prospectus filed pursuant to SRC Rule 8.1
    Not Applicable

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

a) Corporate History

PAL Holdings, Inc. (PHI, or the Company) was incorporated on May 10, 1930 as "Baguio Gold Mining Company". On September 23, 1996, the Philippine Securities and Exchange Commission (SEC) approved the change in the Company's name to "Baguio Gold Holdings Corporation" and the change in its primary purpose to that of a holding company. On January 19, 2007, the Philippine SEC approved the change in the Company's name from Baguio Gold Holdings Corporation to "PAL Holdings, Inc."

On August 13, 2007, the Company acquired directly from the Six Holding Companies 8,823,640,223 shares in Philippine Airlines, Inc. (PAL, or the Airline), which is equivalent to 81.57% of the issued and outstanding common shares in the Airline. At the same time, it acquired from the Six Holding Companies except Maxell Holdings Corporation 50,591,155 shares in PR Holdings, Inc. (PR), equivalent to 82.33% of the outstanding shares in PR. Both acquisitions were made by way of *dacion en pago*, whereby the total acquisition price of ₱12.55 billion for the shares in PAL and PR was satisfied by an equivalent reduction of the liability owing to the Company from the Six Holding Companies.

In April 2012, San Miguel Equity Investments Inc. (SMEII), a wholly owned subsidiary of San Miguel Corporation, acquired 49% equity interest in Trustmark Holdings Corporation (Trustmark). Trustmark then owns 97.71% of the Company, which in turn beneficially owns (directly and indirectly, thru PR) 84.67% of PAL. In May and June 2012, the proceeds from the investment of SMEII to Trustmark flowed down to PAL with the subscription by Trustmark of 17.00 billion shares in the Company for ₱17.00 billion and subsequently, the subscription by the Company of 85 billion shares in PAL for ₱17.00 billion.

On June 26 and September 28, 2012, the BOD, by majority vote, and the stockholders representing at least 2/3 of the outstanding capital stock, approved the increase in authorized capital stock from ₱20.0 billion divided into 20.00 billion shares with ₱1 par value per share to ₱23.00 billion divided into 23.00 billion shares with ₱1 par value per share. Out of the increase in the authorized capital stock, ₱2.42 billion have been subscribed and fully paid by way of cash infusion by Trustmark. Accordingly, as a result of the infusion, Trustmark's ownership in the Company increased from 97.71% to 99.45%. The increase in authorized capital stock was approved by the Philippine SEC on December 12, 2012.

On February 4 and March 15, 2013, the BOD, by majority vote, and the stockholders representing at least 2/3 of the outstanding capital stock, approved the increase in authorized capital stock from ₱23.00 billion divided into 23.00 billion shares with ₱1 par value per share to ₱30.00 billion divided into 30.00 billion shares with ₱1 par value per share. The increase in authorized capital stock was approved by the Philippine SEC on June 28, 2013. Out of the increase in the authorized capital stock, ₱2.42 billion have been subscribed, of which ₱603.75 million have been fully paid as of December 31, 2015. As a result of the additional issuance of shares, Trustmark's ownership in the Company decreased from 99.45% to 89.78%.

On February 4, 2013, the BOD, pursuant to the authority duly delegated to it by the stockholders on April 30, 1973, approved the Company's change in accounting period from fiscal year ending March 31 to calendar year ending December 31. The Amended By-Laws in connection with the change in accounting period was approved by the Philippine SEC on July 5, 2013. On October 31, 2013, the Bureau of Internal Revenue (BIR) approved the request for change in accounting period.

In October 2014, Buona Sorte Holdings, Inc. (BSHI) and Horizon Global Investments Limited (HGIL) acquired 9% and 40%, respectively, the 49% stake of SMEII in Trustmark. As of December 31, 2022 and 2021, Trustmark is 60% owned by BSHI and 40% owned by HGIL. 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.

On September 26, 2016, the Company's BOD approved and authorized the acquisition, in a share swap transaction, of PAL shares from 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 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 December 31, 2022 and 2021, PHI has effective ownership interest in PAL of 79.49%.

On November 28, 2016, the Company's BOD also approved the acquisition, through share swap transaction, of the shares of Zuma Holdings Management Corporation (ZUMA), the holding company of Air Philippines Corporation (APC), from its 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 Company issued 840.46 million new shares from its authorized but unissued capital stock valued at ₱5.00 per share in favor of Cosmic Holdings Corporation. Accordingly, as of December 31, 2022 and 2021, the Company owns 51% of ZUMA.

As a result of the share swap transactions, Trustmark's ownership in the Company decreased from 89.78% to 86.42% as of December 31, 2018.

In February 2019, ANA Holdings, Inc. (ANA HO), the parent company of All Nippon Airways (ANA), acquired 1,103,042,933 shares held by Trustmark in PHI equivalent to 9.5% of the current outstanding shares of PHI. As a result of this transaction, Trustmark's ownership in the Company decreased from 86.42% to 76.92% as of December 31, 2022 and 2021.

On September 27 and November 25, 2021, 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 Company, respectively, approved the increase in authorized capital stock from ₱13.50 billion divided into 13.50 billion common shares with par value of ₱1.00 per share to ₱30.00 billion divided into 30.00 billion common shares with a par value of ₱1.00 per share. On December 29, 2021, the Parent Company submitted to the Philippine SEC its application for increase in authorized capital stock. As of March 31,2023, the approval of the application remains outstanding.

In accordance with Plan of PAL, on December 31,2021, PAL issued common shares to the Supporting Creditors and PHI to settle the Tranche B DIP Facility and the general unsecured claims liabilities, respectively. Consequently, PHI's effective ownership in PAL was reduced to 79.49% as of December 31, 2021, from 98.92% as of December 31, 2020.

b) <u>Description of Subsidiaries</u>

<u>Philippine Airlines, Inc.</u>

PAL, a corporation organized and existing under the laws of the Republic of the Philippines, was incorporated on February 25, 1941. It is the national flag carrier of the Philippines, and its principal activity is to provide air transportation for passengers and cargo within and outside the Philippines.

PAL flies to the most popular domestic jet routes and international and regional points that are either most visited by Filipinos or provide a good source of visitors to the Philippines. As of December

31, 2022, PAL's route network covered 64 overseas and domestic destinations.

Domestic and international flights are operated at the NAIA Terminals 1 and 2. For the comfort and convenience to its passengers, transport services between terminals are regularly provided. PAL also operates both international and domestic flights in the Mactan-Cebu International Airport, and in the Clark International Airport in Pampanga.

PR Holdings, Inc.

PR was organized by a consortium of investors for the purpose of bidding for and acquiring the shares of stock of PAL in accordance with the single-buyer requirement of the bidding guidelines set by the seller, the National Government of the Republic of the Philippines. PR acquired on March 25, 1992, 67% of the outstanding capital stock of PAL.

PR was partially dissolved or liquidated on November 9, 1998 with a decrease in its authorized capital stock and retirement of some of its shares in exchange of PAL shares to retiring stockholders as return of capital.

As a holding company, PR's primary purpose is to purchase, subscribe, acquire, hold, use, manage, develop, sell, assign, exchange or dispose of real and personal property, including shares of stocks, debentures, notes and other securities of any domestic or foreign corporation.

Zuma Holdings and Management Corporation

ZUMA was incorporated and registered with the SEC on August 25, 1989. It was organized primarily to engage in the business of a holding company. It has an investment in Air Philippines Corporation (APC), a 99.97%-owned subsidiary. APC is primarily engaged in the business of air transportation for the carriage of passengers and cargo within and outside the Philippines. APC is currently doing business under the name and style of Philippine Airlines or PAL Express.

Principal products or services and their markets indicating their relative contributions to sales or revenues of each product or service:

(i) Percentage of sales or revenues and net income contributed by foreign sales

PAL
The significant events and the Airline's operating results for 2022 are described as follows:

PAL's successful emergence from voluntary Chapter 11 proceedings in December 2021. PAL started the new year with a strengthened balance sheet and was well-positioned for long term growth with reduced debt and additional liquidity. PAL stood ready to help grow back the Philippines' local and international air travel markets in ways that renew the tourism industry, serve the needs of global citizens including overseas Filipinos, and contribute actively to the recovery of the Philippine economy.

However, the new year started with a challenge, as the surge of COVID-19 cases due to the fast spreading Omicron Variant negatively affected a lot of passengers and front-line personnel in January. When the Omicron surge subsided and the border restrictions started easing up in most countries, the Philippines gradually opened as well, initially accepting fully vaccinated travelers from visa-free countries in February and opening up to all countries by April. The Philippine Government lifted its quarantine requirements for inbound travelers, which was favorable to stimulating business and leisure travel. PAL accordingly adjusted its ramp-up plans to add more frequencies to cater to the growing demand as the recovery progressed.

Net Revenues by Route

Based on the results of operations for the years ended December 31, 2022, 2021 and 2020, the comparative revenue contribution by route is shown below:

	2022	2021	2020
Transpacific	45.1%	41.3%	36.6%
Europe	0.2%	0.4%	2.4%
Middle East	13.1%	20.7%	13.3%
Asia and Australia	23.4%	21.4%	29.6%
Total International	81.8%	83.8%	81.9%
Total Domestic	18.2%	16.2%	18.1%
Total System	100.0%	100.0%	100.0%

International Passenger Services

As of December 31, 2022, PAL continued to operate international route network to 32 cities in 16 countries.

32 PAL on-line points: Los Angeles, San Francisco, New York, Honolulu, Guam, Vancouver, Toronto, Melbourne, Sydney, Brisbane, Port Moresby, Dubai, Doha, Riyadh, Dammam, Tokyo-Narita, Tokyo-Haneda, Osaka, Nagoya, Fukuoka, Seoul, Busan, Hong Kong, Taipei, Singapore, Bangkok, Jakarta, Bali, Ho Chi Minh City (Saigon), Hanoi, Kuala Lumpur, and Phnom Penh.

In addition, PAL was able to mount numerous charter flights to Abu Dhabi, Brussels, Delhi, Kuwait, Jeddah, Koror, Surakarta, Tinajin, Wuhan and Yangyang.

Transpacific

After the Omicron variant surged in the first two months of the year, PAL stabilized its ramp-up plans for the North American market, with most routes returning to pre-pandemic frequencies in April and June: In April, San Francisco was operated with daily flights; In June, Los Angeles was operated double daily; Vancouver, and Guam went back to daily; and Honolulu to 5x weekly.

On the ultra-long-haul routes to the Eat Coast, New York was operated 3x per week from March and Toronto 2x per week from April. From July, one additional weekly frequency was added to each route to satisfy increased market demand.

The Transpacific routes continue to utilize the B777-300ERs and A350-900s, with the latter being assigned primarily to the East Coast.

Europe

The London Heathrow route operated once weekly at the start of January. Airspace restrictions imposed because of the conflict between Russia Ukraine required some flights to make technical stopovers in Dubai while others had to be cancelled. This service was finally suspended in March at the end of the Winter Season.

Middle East

Throughout 2022, PAL served four destinations in three Middle East countries: Dubai (U.A.E.), Doha (Qatar), and both Riyadh and Dammam in Saudi Arabia. In July, PAL's Middle East operations went back to pre-pandemic levels utilizing A330-300 aircraft.

Asia and Oceania

Mainland China remained closed for the entire 2022 for leisure travel; only Hong Kong and Taipei remained in the PAL roster for Greater China. Hong Kong flights were initially served 3x a week but went on to operate daily by July and then up to 3x a day by December. Taipei's 3x weekly flights in January went up to 4x weekly and then to daily right before the end of the year.

Planned increases on PAL's routes to Japan routes were hampered by airport manpower constraints in various Japanese airports. Tokyo Haneda started with 5x weekly operation, increasing to daily daytime flights. Tokyo Haneda started with 5x weekly operation, increasing to daily daytime flights. Tokyo Narita started with daily and operated up to 10x weekly by April. Both Nagoya and Fukuoka started with 4 weekly flights and increased to daily in June and September, respectively. Osaka was more consistent with daily operations for the year. Cebu-Narita was the only route to be reinstated during the year with up to 3 weekly flights.

PAL ramped up frequencies on Southeast Asian routes, headed by those to Singapore and Bangkok. Singapore has been back to 2019 frequency levels at 4x daily since July while Bangkok operated 3x daily since October. Vietnam has been back to pre-pandemic levels of 8x weekly to Ho Chi Minh City (Saigon) and 4x weekly to Hanoi since mid-year. Phnom Penh has been back to 5x weekly since September. Kuala Lumpur recovered 10 of its 11 weekly flights in November. Jakarta recovered 7 of its 10 weekly flights while Bali went back to daily in October. PAL reopened the Cebu-Bangkok route in December to operate twice weekly using A321 aircraft.

PAL's flights to Australia started off with limited operations but increased frequency and capacity along with the easing of pandemic travel restrictions, particularly for Sydney and Melbourne which began with 5x weekly flights each using a mix of narrowbody and widebody aircraft. Catering to increased demand for seats and cargo space, Sydney operated daily widebodies while Melbourne operated 5 weekly widebodies before the year ended. On the other hand, frequencies to Port Moresby have remained mostly at twice per week since July due to the limited size of the Papua New Guinea market and the absence of mainland Chinese travelers providing feeder traffic to the route. PAL decided not to reopen regular services to Auckland, New Zealand, at this time.

Domestic Passenger Services

PAL's domestic network operations have 32 cities and towns in the Philippines (mostly under codeshare and operated by partner PAL Express under the Philippine Airlines brand). It served the following domestic destinations: Antique, Bacolod, Basco, Borongan, Butuan, Busuanga, Cagayan de Oro, Calbayog, Catarman, Caticlan, Cebu, Clark, Cotabato, Davao, Dipolog, Dumaguete, General Santos, Iloilo, Kalibo, Laoag, Legazpi, Manila, Ozamiz, Pagadian, Puerto Princesa, Roxas, Siargao, Tawi-Tawi, Tacloban, Tagbilaran, and Zamboanga.

With the ongoing steady recovery of the domestic air travel, PAL continues to ramp up its flight frequencies out of its hubs in both Manila and Cebu. In December 2022 PAL, opened 3 domestic routes previously unserved by any carrier: Cebu-Baguio, Cebu-Borongan, and Cebu-Cotabato.

APC
In 2022, APC operated 21,403.50 domestic roundtrip flights under the codeshare agreement with PAL.

Traffic revenue amounting to ₱5,780.5 million pertains to billings to PAL in accordance with the codeshare agreement which is recognized as revenue when the transportation service is rendered.

Joint Services and Code Share Agreements

PAL
Partnership agreements remain a vital complement to PAL’s network and in providing traffic feeds to PAL's online points. A total of fifteen (15) codeshare agreements with carriers across different regions have been renewed: APC, All Nippon Airways, Air Macau, Bangkok Airways, Cathay Pacific, China Airlines, Garuda Indonesia, Gulf Air, Hawaiian Airlines, Malaysia Airlines, Royal Brunei Airlines, Turkish Airlines, Vietnam Airlines, WestJet and Xiamen Airlines. These codeshare partnerships ass new countries to PAL’s network map (e.g., Turkey, Bahrain, Brunei Darussalam) along with various interior points in Japan, Canada, Hawaii, Thailand and Malaysia.

Further, as an official designated carrier of the Philippines, Philippine Airlines continues to work closely with Philippine Government authorities and specifically with the Philippine Air Panel on bilateral and multilateral air talks with foreign countries to negotiate air transport agreements that provide air traffic rights and other aeropolitical assets to support international airline operations.

PAL remains an active participant in the ASEAN Transport Working Group (ATWG), supporting the ASEAN Airlines Meeting (AAM), to provide airline inputs to the negotiation of ASEAN-wide multilateral aviation agreements. In 2022, after years of negotiations, ASEAN and the European Union (EU) achieved a milestone through the signing of a Comprehensive Air Transport Agreement (CATA), under which the 11 ASEAN nations and the 27 EU countries can now have Air Services Agreements amongst them that allow airlines of each bloc to operate liberally.

APC
APC codeshares mainly with PAL for the former’s use of the name Philippine Airlines in its marketing activities and operations. Under the codeshare agreement, PAL markets the codeshare flights while APC operates the flights. It also has joint services and endorsements of passengers to PAL during flight interruptions.

APC has an existing Special Re-Accommodation Agreement with Cebu Air, Inc. for the endorsements of passengers during flight interruptions, effective since October 25, 2011.

Frequent Flyer Programs

The PAL Mabuhay Miles program provides opportunities for travel rewards through the accumulation of mileage credits earned on flights with PAL and partner airlines. Members also earn miles through purchases and availment of services from partner establishments including credit cards, banks, telecommunications, hotels and resorts, tour operators, cruise services, insurance, car rentals, and other merchandise companies. PAL Mabuhay Miles has a website, www.mabuhaymiles.com, which provides members access to their account information, and details on promotions and incentives, now redirects to www.philippineairlines.com, effectively launching a single website for both the airline and the frequent flyer program. Customers may now use a single website to sign up for the Mabuhay Miles program as they purchase a flight and can easily conveniently view deals from both PAL and Mabuhay Miles.

The Mabuhay Miles Elite or Premier Elite members enjoy exclusive travel privileges including priority reservation waitlist, dedicated reservation telephone lines, priority check-in, additional free baggage allowance, priority luggage handling, priority airport standby, priority boarding, access to Mabuhay Lounges and participating VIP lounges, and additional discounts and amenities from program partners. The Mabuhay Million Milers enjoy the Premier Elite privileges plus other exclusive benefits for life as a token of appreciation to members who have flown one million cumulative flight miles.

The SportsPlus Card is a privilege card designed for sports enthusiasts, which grants members the benefit of extra free baggage allowance for sports equipment.

As of December 2022, the Mabuhay Miles program has over 5 million members, with the majority based in the Philippines and the US, and the rest spread across Asia, Australia, Middle East and Europe.

In June, PAL Mabuhay Miles signed a partnership with SMAC, the largest retail loyalty program in the Philippines.

(ii) Distribution Methods of Products or Services

PAL maintains a total of 11 sales and ticket offices in Manila, 26 in other cities in the Philippines, and 11 located in foreign stations. There are 34 general sales agents and over 24,000 Billing Settlement Plan agents worldwide; 13 domestic sales agents, and 1,094 agents under the domestic ticketing program who handle the promotions and sales of PAL's products and services.

The PAL website, www.philippineairlines.com, has a booking facility which provides interactive booking of flights and ticket purchases. It also contains additional web pages that feature detailed descriptions of PAL destinations and a calendar of destination festivities. Functionalities include fares and tour modules, online training registration, route maps, flight schedules, dropdown lists, and online cargo booking. Real time flight information of all PAL flights may also be accessed by logging on to the PAL website.

The PAL mobile app (application software) enables passengers to conveniently book and pay for their flights, track flight status, and check-in on-line using their mobile services such as smartphones and tablets.

PAL's official accounts on the social network sites Facebook, Instagram, and Twitter, are venues for communicating directly with the customers.

(iii) Status of any Publicly-announced New Product or Service

PAL has continued implementing Fly Safe "New Normal" practices from ground to inflight, redefining the travel experience by adding extra measures to focus on the passengers' health and well-being when flying.

Ticket Offices:
- Continuing use of thermal scans, and provision of hand sanitizer
- Maintain clear barriers installed at the counters
- Staff with face masks
- Frequent disinfection of high-touch areas such as the counters, clear barriers, seating areas, etc.

Airport:
- Intensified promotion of online check-in across all digital platforms
- Encouragement for passengers to arrive early at the airport to allocate extra time for safety procedures.
- Passengers are still required to bring their own face masks or facial coverings and to always wear them.

- Continuous availability of Hand sanitizers in strategic locations
- Staff with face masks

Inflight:
- Before the flight, intensified cleaning and disinfection of all aircraft cabin surfaces using high-grade eco-friendly disinfectant is observed
- Constant monitoring of health status of cabin crew
- Cabin crew members continue to wear masks and gloves, except on China flights where apron-type PPE (Personal Protective Equipment) is still required.
- PAL catering service providers strictly follow HACCP and World Food Safety Guidelines in food preparation and aircraft servicing.
- All PAL aircraft use high-technology systems to refresh cabin air flow as well as HEPA filters that trap viruses, bacteria and other contaminants with 99.99% efficiency.
- Periodic checks of all lavatories during the flight, including the use of disinfectant spray inflight.

PAL's Business Class offers full-flat seats, inflight entertainment, and other amenities on long-haul flights to the U.S., Canada and Australia.

The 'Premium Economy' class is offered in selected international flights. Aside from extra spacious seats in private Premium Economy cabins onboard PAL's Airbus A350 and A330 tri-class aircraft, the 'Premium Economy' service includes crafted meal choices, priority treatment on ground, accrual of miles, increased free baggage allowance, and flexibility in rebooking, refund, and ticket changes.

Last September, PAL rebranded the domestic premium economy service as Comfort Class, spotlighting the service's relaxing amenities – priority check-in and boarding, 25kg free baggage allowance, hot sandwiches and spacious legroom, among others.

Complimentary meals/beverages and in-flight amenities are provided in international and domestic flights. Special meals may be requested on all international flights to satisfy the dietary requirements of passengers. Business Class overnight kit is offered in long haul international flights.

The 'myPAL eSuite', PAL's inflight entertainment system which consists of a selection of choice movies, TV shows, music, games, and informative features can be accessed through the passenger in-seat video and audio facilities on many PAL aircraft. The 'myPAL Wi-Fi' provides on-line internet connection while onboard. The 'myPAL Mobile' allows calls or text messaging using mobile devices. The 'myPAL Player' streams movies, TV shows and music on personal devices such as smartphones or tablets on select flights.

The Sky Boutique is a selection of duty-free products, luxury brands, and PAL merchandise offered in all international flights. The service provides the convenience of shopping during the flight.

Economy class passengers can purchase choice seats positioned at the bulkhead and exit rows which provides the widest legroom or forward seats located in front rows for easy and priority embarkation.

The 'myPAL Upgrade' allows ticketed Economy Class passengers to bid for an upgrade to Business Class or Premium Business Class.

PAL's RHUSH (Rapid Handling of Urgent Shipments) is the airport-to-airport cargo service which provides the fastest way to ship cargo domestically or overseas. It offers high priority in cargo, guaranteed space, and quick acceptance and release times.

The PAL Boutique which covers ground, on-board, and on-line selling, offers exclusive PAL merchandise designed and produced in collaboration with retail icons in the Philippines. The products sold at special prices include leather goods, apparel, wi-fi service ('myPAL Roam'), food items, travel essentials, special souvenirs, and memorabilia items.

The Dear PAL E-Gift card is a virtual gift card denominated in Philippine Peso or US Dollar which can be used to purchase PAL tickets or Travel Extras (except for Travel Insurance and myPAL Upgrade) at the following channels: website, PAL mobile app, PAL Ticket Office, PAL Reservations Hotline.

Additionally, PAL has embarked on various initiatives to improve and enhance products and services this year:

- Improve the PAL digital experience with a new and more robust website dynamic waivers to ease the reissue process, and upgrade to 3D Secure processing for credit card protection.
- Reopened Mabuhay Lounges in Cebu, Davao, and Iloilo, and resumed access to partner lounges in foreign airports to support PAL's premium passengers.
- Offered paid-shuttle services to passengers travelling between Los Angeles airport and San Diego; and between New York JFK Airport and points in New Jersey and Philadelphia
- Collaborated with featured chefs to enhance menu offerings for North American routes.

(iv) Competitive business conditions and the registrant's competitive positions in the industry and methods of competition

PAL continues to maintain a strong market share in its international routes despite competition with legacy carriers and growing number of LCCs in the Asia Pacific region. Aside from point-to-point traffic, many competitor airlines also target passengers who fly between the Philippines and countries beyond airlines' home country, via their hub airports.

The following table shows the Airline's main competitors and PAL's total market share per route.

PAL's Market Share:
(January to October 2022)

	Market Share*	Airline Competitors
U.S./Canada	65%	Singapore Airlines, Cathay Pacific, All Nippon Airways, Qatar Airways, Emirates, Korean Air, Japan Airlines, etc.
Middle East	30%	Qatar Airways, Emirates, Cebu Pacific, Gulf Air, Singapore Airlines, Etihad Airways, Cathay Pacific, etc.
Asia and Australia	34%	Singapore Airlines, Cathay Pacific, Cebu Pacific, All Nippon Airways, Asiana Airlines, Korean Air, Japan Airlines, etc.

**includes online points only*

In the domestic market, PAL held a 33% market share in 2022. The biggest competitors are the Cebu Pacific group (Cebu Pacific and CebGo) (53%), and Air Asia PH (14%).

The continuous enhancement of products and services, creativity in fare structuring, and an excellent safety record enable PAL to hold its place in the market. In the transpacific market, PAL has the unique advantage of providing the only nonstop service from the Philippines to mainland USA, Hawaii and Canada. The nonstop attribute, together with the distinct Filipino flavor of the PAL inflight service, appeal strongly to Filipino passengers, and give PAL an edge over the non-Filipino carriers.

Digital Transformation

PAL embarked on a digital transformation program with NTT Data, SAP's leading partner worldwide, to integrate different SAP intelligent enterprise solutions to increase operational productivity. This would bolster inter-departmental collaboration, facilitate timely data-based decisions by enhancing enterprise decision-making capabilities, and aid adaptability in the changing business environment.

Sustainability

PAL tapped the advisory services of climate scientist, science diplomat, and UN Sasakawa awardee Glenn Banaguas to help the Company achieve net zero emissions (NZE) by 2050. The expert advice would help PAL assess its overall greenhouse gas emissions and formulate a roadmap for a comprehensive NZE strategy.

Employee Relations

PAL Management and the Flight Attendants and Stewards Association of the Philippines (FASAP) signed a new collective bargaining agreement that resolves longstanding concerns – a testament of the value of employee-management cooperation and collaboration in fostering industrial peace and supporting the full recovery of the national flag carrier.

(v) Sources and availability of raw materials and the names of principal suppliers

PAL's Jet fuel suppliers are: BP Singapore Pte Limited (AirBP), Petron Corporation, Pilipinas Shell Petroleum Corporation, Chevron Products Company, Chevron Philippines Inc., PT Pertamina Patra Niaga, World Fuel Services (Singapore) Pte. Ltd., Win Both International Corporation, PTT Oil and Retail Business Co. Ltd., China National Aviation Fuel Supply Co., Ltd., Shanghai Pudong International Airport Aviation Fuel Supply Co. Ltd., S-Oil Corporation, Singapore Petroleum Co. Ltd., Sinopec (HK) Aviation Co. Ltd., IP&E Holdings, LLC (dba. IP&E Guam), ENEOS Corporation, Safeair Corporation, Modern Consortium for Refueling Aircraft Co. Ltd. (MCRA), Phoenix Petroleum Philippines, Inc., Unioil Petroleum Phils., Inc., Kuwait Petroleum International Aviation Company Limited, Alshams National Global Energy Company, Idemitsu Kosan Co., Ltd., Z-Energy Limited, Island Energy Services Downstream LLC, Quanzhou Airport Fuel Co., Ltd., Cosmo Oil Marketing Co., Ltd., Pacific Energy Aviation (PNG) Limited, Vitol Aviation BV, Associated Energy Group, LLC, PTT Philippines Trading Corporation, Shell International Eastern Trading Company and PTT Philippines Corporation.

PAL's inflight catering requirements are provided by MacroAsia Sats Inflight Service (MSIS), for domestic flights with business class and premium economy services, and outgoing flights ex- Manila and for select Manila incoming flights originating from Hong Kong (HKG) and Phnom Penh (PNH), depending on the type of aircraft utilized. For other incoming flights, the major suppliers include Flying Food Group (SFO), HACOR Inc. (LAX), International In-Flight Catering Co. Ltd. (HNL), LSG Sky Chefs (JFK, AKL, GUM, BKK, PVG, YVR, YYZ), Dnata Catering (SYD, MEL, BNE), Air Niugini (POM), Saudia Arabian Airlines Catering (RUH & DMM), Emirates Flight Catering (DXB), Qatar Aircraft Catering Co. (DOH), AAS Catering Services (KIX), Nagoya Air Catering Co. Ltd. (NGO), Cosmo Enterprise Co. LTD. (NRT & HND), Korean Air Catering (ICN and PUS), Beijing Airport Inflight Kitchen Ltd. (PEK), China Pacific Catering Services Ltd. (HKG, TPE), Xiamen Fliport Catering Ltd. (XMN), SERVAIR Catering Services (MFM), Aerofood ACS (CGK, DPS), SATS Catering Pte. Ltd. (SIN), Brahims SATS Food Services (KUL), Vietnam Airlines Caterers (SGN), Vietnam Air Catering Services (HAN). For the outgoing international flight ex-Clark Global Catering (CRK, KLO).

(vi) Dependence on one or a few major customers and identify any such major customers

PAL has a large network of customers all over the world and is not dependent on one or a few major customers.

(vii) Transactions with and/or dependence on related parties

The Company's significant transactions with related parties are described in detail in Note 18 of the Notes to Consolidated Financial Statements.

(viii) Patents, trademarks, licenses, franchises, concessions, royalty, agreements or labor contracts, including duration;

PAL subcontracts the maintenance of its commercial fleet to competent Approved Maintenance Organizations (AMO) - Lufthansa Technik Philippines (LTP) in Manila for line, base, heavy maintenance, HAECO (Xiamen, China) for heavy maintenance of PAL A350 and B777 aircraft, GAMECO (Guangzhou, China) for heavy maintenance of PAL B777 aircraft, SIA Engineering Philippines (Clark, Philippines) for heavy maintenance of several PAL A330, A320/321 aircraft and JORAMCO (Amman, Jordan) for some B777 Periodic Maintenance. PAL's Technical Operations Department (TOD) undertakes planning, monitoring and control of all maintenance activities and technical compliance of aircraft, engines and accessories with airworthiness requirements and industry accepted standards for safety, reliability, and customer acceptability.

The PAL Fleet is maintained in accordance with the standards and mandated by the aviation authorities such as:

- Civil Aviation Authority of the Philippines (CAAP),
- US Federal Aviation Authority (US-FAA), and the
- European Aviation Safety Agency (EASA)

PAL complies with the International Civil Aviation Organization (ICAO) requirements and currently holds IATA Operational Safety Audit (IOSA) certification. The Continuous Airworthiness Maintenance Program (CAMP) of PAL is approved by the CAAP and is based on Aircraft Manufacturer's / Original Equipment Manufacturer's approved and recommended documents and Airworthiness Authorities' mandatory requirements. This ensures that PAL aircraft and equipment are always in an airworthy condition. TOD established the General Maintenance Manual (GMM) which describes the policies and processes required to achieve the intent of the CAMP, as required by the CAAP.

PAL commercial fleet of Boeing 777, Airbus A350, A330 and A320/A321 line maintenance in overseas destination stations is subcontracted to CAAP-Approved Maintenance Organizations such as Cathay Pacific (Japan stations, Bangkok, Dubai, Melbourne, Vancouver), Singapore Airlines Engineering (Singapore, Los Angeles, and San Francisco), KLM Engineering (Toronto, London) among many others located per station. LTP and the outstation service providers are mandated to comply with the requirements of PAL's Maintenance Schedule and General Maintenance Manual approved by the CAAP. TOD exercises oversight responsibilities to ensure compliance of the contracted maintenance providers to the established policies and procedures and contractual obligations.

Man-hour rates for maintenance requirements are negotiated with the respective contracted maintenance providers in accordance with the terms of the agreement. Maintenance materials and parts are sourced from approved suppliers (which include original equipment manufacturers such as Airbus Industrie, Boeing, General Electric, CFM International, International Aero Engines (IAE), Rolls-Royce, among others).

Shop maintenance and overhaul services of engines are provided by Lufthansa Technik AG (LHT), Air France Industries (AFI), IAE, Pratt & Whitney, and Rolls-Royce while the same services for the Auxiliary Power Units (APUs) are provided by Honeywell. Component pooling and repair services are handled by HAECO, LHT, Airbus among others.

Franchise

PAL Franchise
PAL operates under a franchise, which extends up to the year 2034, granted by the Philippine Government under Presidential Decree No. 1590. As provided for under the franchise, PAL is subject to:

a. corporate income tax based on net taxable income; or
b. franchise tax of 2% of the gross revenue derived from non-transport, domestic transport and outgoing international transport operations,

whichever is lower, in lieu of all other taxes, duties, royalties, registration licenses and other fees, and charges of any kind, nature, or description, imposed, levied, established, assessed, or collected by any municipal, city, provincial or national authority or government agency, except real property tax.

APC Franchise
APC operates under a franchise for a term of 25 years from August 8, 1997, the date of effectivity of Republic Act (RA) No. 8339, with some provisions amended under RA No. 9215 effective May 5, 2003. APC's franchise was renewed for a term of 25 years under RA No. 11682 when it lapsed into law on April 11, 2022. As provided for under the franchise, APC is subject to, among others:

a. corporate income tax based on net taxable income; or
b. franchise tax of 5% of the gross revenue derived from non-transport, domestic transport and outgoing international transport operations,

whichever is lower, in lieu of all other taxes, duties, fees, and licenses of any kind, nature, or description, imposed, levied, established, assessed, or collected by any municipal, city, provincial or national authority or government agency, except real property tax.

As further provided for under PAL's and APC's franchises, PAL and APC can carry forward as a deduction from taxable income, net loss incurred in any year up to five years following the year of such loss. In addition, the payment of the principal, interest, fees, and other charges on foreign loans obtained by PAL and APC, and all rentals, interest, fees and other charges paid by PAL and APC to their lessors for the lease of aircraft, engines, spares, other flight or ground equipment, and other personal property are exempt from all taxes, including withholding tax, provided that the liability for the payment of said taxes is assumed by the grantee (PAL or APC, as applicable). Under RA No. 9337 or the E-VAT Act of 2005 which took effect on November 1, 2005, the franchise tax of PAL and APC was abolished, and PAL and APC became subject to the corporate income tax. PAL and APC remain exempt from any taxes, duties, royalties, registration license, and other fees and charges, as may be provided under PAL's and APC's franchises.

(ix) Need of any government approval of principal products or services

Airline operations are regulated by the Philippine Government through the Civil Aeronautics Board (CAB) with regard to new routes, tariffs, schedules and passenger rights; through the Civil Aviation Authority of the Philippines (CAAP), formerly the Philippine Air Transport Office, for aircraft and operating standards; and through a slot coordinator for airport slots. PAL also conforms to the standards and requirements set by different foreign civil aviation authorities of countries where the airline operates. In coordination with the different government air transport agencies - the CAAP and the Department of Transportation (DOTr) - PAL initiates improvement programs for facilities in the country's domestic and international airports to conform with international standards and enhance safety of the Airline's operations. In particular, PAL is actively involved in and cooperating with ongoing efforts by the government to address congestion problems at the Ninoy Aquino International Airport with respect to passenger rights and protections, PAL assiduously complies with existing regulations on the matter and continues to cooperate in various efforts to better define and/or enhance the same.

(x) Effects of existing or probable government regulations on the business

Not Applicable

(xi) Estimate of the amount spent during each of the last three years on research and development activities, and if applicable the extent to which the cost of such activities are borne directly by customers;

Not Applicable

(xii) Cost and effects of compliance with environmental laws

PAL has fully complied with the following major environmental laws:

1. Republic Act (RA) 8749, "Philippine Clean Air Act of 1999" and its IRR

   Cost for Renewal of Permit to Operate Air Pollution Source Installation - ₱15,610.00

2. Republic Act (RA) 9275, "Philippine Clean Water Act of 2004" and its IRR

   Cost for Renewal of Discharge Permit- ₱48,682.80

3. Presidential Decree No. 1586, "Establishing an Environmental Impact Assessment System", DENR Administrative Order No. 96-37, Presidential Decree 813, Executive Order 927, LLDA Board Resolution 224 and 408

   No cost to PAL for 2022.

4. Republic Act No. 6969 "Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990 and its IRR.

   Cost for the proper transport, treatment, and disposal of hazardous waste: ₱121,147.32

   Income generated for the proper transport, treatment, and disposal of hazardous waste: ₱312,870.00

   Cost for application of Permit to Transport: ₱4,080.00

5. Presidential Decree No. 1067, "The Water Code of the Philippines"

   Cost for the renewal of Water Permit: ₱5,006.60

6. Republic Act 9003 "The Ecological Waste Management Act of 2000"

   Cost for the proper disposal of solid waste: ₱10,938,219.53

7. DENR Administrative Order 2014 – 12 Revised Guidelines for Pollution Control Officer Accreditation and LLDA Board Resolution 455 series of 2014 (PCO Accreditation and Training)

   Cost for the submission of reports- ₱8,700.00

   Cost to PAL for 2022 PCO accreditation and trainings - ₱7,500.00

8. ICAO Annex 16 Vol. 4 - Carbon Offsetting Reduction Scheme for International Aviation (CORSIA)

   Cost for the Verification of Emissions Report submitted to Civil Aviation Authority of the Philippines (CAAP)- ₱174,960.00

The effects of PAL’s compliance with environmental laws are as follows:

1. Improved environmental performance.
2. No incidents that resulted to liability.
3. Attracted new customers and enhanced market share.
4. Improved cost control, good public image, and community relations.

Cost and effects of compliance with other Philippine Government Regulations

1. Department of Health (DOH) Administrative Order 29, s. 2000 “ License to Operate an Industrial X-ray Facility”

   Cost of amendment of Certificate of Facility Registration of Manila and Cebu Cargo Facility - ₱5,860.00

   Cost of calibration of radiation survey meter - ₱11,100.00

   Cost of training of Radiation Safety Officers - ₱38,500.00

2. Code of PNRI Regulations Section 16 of RA 2067

   Cost of the proper disposal of radioactive material- ₱12,500.00

The effects of PAL’s compliance with other Philippine regulations are as follows:

1. No incidents that resulted to liability.
2. Improved cost control, good public image, and community relations.

(xiii) Total number of employees and number of full-time employees

The Company has three (3) compensated officers as of December 31, 2022. The Company does not have any plan of hiring additional employees within the ensuing 12 months.

PAL Employees:

As of December 31, 2022, PAL has a total workforce of 4,808 as follows:

Classification	**Number of Employees**
Ground Employees	
Philippine	1,762
Foreign	199

Flight Crew	
Pilots	757
Cabin Crew	2,090

PAL recognizes two local labor unions, Philippine Airlines Employees' Association (PALEA) for the rank-and-file ground employees and Flight Attendants' and Stewards' Association of the Philippines (FASAP) for the cabin crew. In addition, it also recognizes foreign labor unions in the United States, Singapore, and Japan.

PAL has 2,155 union members - PALEA (496), FASAP (1,627), U.S. (8), Singapore (8), and Japan (16).

The discussion on the economic provisions of the 2020-2025 PAL-FASAP Collective Bargaining Agreement (CBA) was concluded on June 1, 2022, with the signing of the CBA. The CBA with PALEA will expire on September 30, 2023.

CBA negotiation is ongoing with the US union, International Association of Machinists and Aerospace Workers (IAMAW) for the 2019-2025 CBA, while the agreement with the Singapore Manual and Mercantile Workers' Union (SMMWU) will expire on December 31, 2023. For Japan, the 2022-2023 CBA between PAL and PAL Labor Union-Japan was signed by the respective representatives on November 22, 2022.

PAL, as always, gives its employees all benefit entitlements in accordance with stipulations in the respective CBAs.

APC Employees:

As of December 31, 2022, APC has a total workforce of 1,102 as follows:

Classification	**Number of Employees**
Ground Employees	
Philippine	524
Flight Crew	
Pilots	187
Cabin Crew	391

Major risk/s involved in each of the businesses of the Company and subsidiaries and the procedures being undertaken to identify, assess and manage such risks.

Investment risk - the Company has financial assets at fair value through other comprehensive income which has unpredictable market prices.

Price risk - price fluctuations in cost of fuel which is based primarily in the international price of crude oil. Substantial increases in fuel costs or the unavailability of sufficient quantities of fuel is harmful to the business.

Regulatory risk - PAL is subject to extensive regulations which may restrict growth or operations or increase their costs.

Competition - PAL is exposed to increased competition with major international and regional airlines.

Safety and Health risk - the impact of terrorist attacks and pandemic severely affects the overall air travel of passengers in the airline industry.

Financial market risk - fluctuations of interest and currency rates.

Economic slowdown and lockdown- reduces the demand or need for air travel for both business and leisure.

Procedures undertaken to manage risks

- PAL continues to comply with applicable statutes, rules and regulations pertaining to the airline industry to maintain the required foreign and domestic governmental authorizations needed for their operations.

- Increase in fuel cost and shortage in fuel can sometimes be offset by increase in passenger fares or the curtailment of some scheduled services.

- Airlines have been required to adopt numerous additional security measures to prevent any future terrorist attacks and are required to comply with more rigorous security guidelines.

- PAL sees to it that it has remain competitive in the areas of pricing, scheduling (frequency and flight times), on-time performance, frequent flyer programs and other services.

- Material assessment on various risks have become part of the Company's Annual Sustainability Report.

- Proper fund management and monitoring is being done to avoid the adverse effects in the results of operations of the Group. Cash flows and financial risks are managed to provide adequate liquidity to the Group.

Item 2. Properties

The Company does not own any properties and equipment and has no plans of acquiring any property in the next 12 months. The Company leases space from an entity under common control. In 2022, the Company was billed at a monthly rate of ₱63,000.00.

PAL's properties and equipment include its aircraft fleet, various parcels of land, and buildings.

The Group's fleet as of December 31, 2022, consists of:

Owned:	
Airbus 320-200	9
Bombardier DHC 8-400	3
Bombardier DHC 8-300	4
Under Lease:	
Boeing 777-300ER	9
Airbus 350-900	2
Airbus 330-300	9
Airbus 321-231	21
Airbus 321-271N	6
Airbus 321-271NX	2
Airbus 320-200	6
Bombardier DHC 8-400 NG	10
Total	81

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There are four (4) A321-231 aircraft, fifteen (15) A320-200 aircraft, four (4) Bombardier DHC 8- 300, and eleven (11) Bombardier DHC 8-400 aircraft that are leased/subleased to PAL Express with lease terms ranging from 24 to 144 months. Four (4) Bombardier DHC 8-300 are non-operational and held available for sale. One (1) Bombardier DHC 8-400 aircraft is owned by PAL Express.

Generally, PAL experiences a peak in holiday travel during the months of January, April, May, June and December.

PAL owns land and buildings located at various domestic and foreign stations:

A. Domestic Properties

1. Bacoor, Cavite	126 sq.m. (house and lot) and 212 sq.m. (parcel of land)
2. Maasin, Iloilo City	3,310 sq.m. and 9,504 sq.m. (parcels of land)
3. Somerset Millennium Makati City	39 sq.m. (condominium unit)
4. Malate	266 sq.m.(lot)
5. Ozamiz City	10,000 sq.m. (parcel of land)
6. Quezon City	627 sq.m. (parcel of land)
7. Bacolod City	200,042 sq.m. (parcel of land)
8. Mandurriao, Iloilo City	1,300 sq.m. and 1,700 sq.m. (parcels of land)
9. Paranaque City	375 sq.m. (parcel of land)
10. Lapu-Lapu City, Cebu	4,114 sq.m. (parcel of land with building)
11. Carmona, Cavite	328 sq.m., 341 sq.m., 357 sq.m. and 433 sq.m. (parcels of land) for transfer to PAL under legal process

B. Foreign Properties

1. Hongkong	977 sq.ft. and 3,701 sq.ft. (condominium units)
2. San Mateo, Daly City, California	1,760 sq.m. and 1,193 sq.m. (condominium units)
3. Singapore	85 sq.m., 126 sq.m., and 68 sq.m. (office units)
4, Singapore	65 sq.m. (shop unit)
5. Sydney, Australia	177 sq.m. and 229 sq.m. (office units)

In addition, PAL owns cargo buildings located at the following domestic stations:

1. Zamboanga	300 sq.m.
2. Cebu	1,215 sq.m.
3. Puerto Princesa	192 sq.m.
4. Butuan	192 sq.m.
5. Kalibo	192 sq.m.
6. Legazpi	192 sq.m.

PAL's existing ground facilities service the Airline's own requirements. These major ground facilities as of December 31, 2022 are as follows:

The **PAL Inflight Center (IFC)** along MIAA Road corner Baltao St., Pasay houses PAL's inflight kitchen which is capable of producing more than 4.06 million meals annually to service PAL's catering requirements. PAL's inflight catering requirements are provided by MACROASIA SATS Inflight Services Corps., for all domestic flights and outgoing flights ex- Manila.

PAL IFC has a total land area of 22,093.00 sq.m. of which 68% is allocated to Catering Services and the remaining 32% for Cabin Services, warehouse and other offices. The land and the buildings are leased from the Manila International Airport Authority (MIAA).

The modern **NAIA Centennial Terminal 2** in Pasay is where the Airline's international flights with domestic connectivity as well as domestic flights with international connectivity is housed in one terminal. This gives PAL a genuine hub for its operations where passengers from domestic flights can connect seamlessly unto international flights and vice versa. The terminal boasts of complete facilities for PAL's passenger' comfort and convenience; two Mabuhay Lounges – one each for domestic and international passengers, a big-ticket office and spacious check-in and pre-departure areas. It is also the home of the Airport Operation Department and other support offices, i.e., Fleet Control Center, Fuels, Ticket Office, Treasury and Medical office. The areas are leased from MIAA.

The **PAL Cargo Terminal (PCT)** near NAIA 1 in Pasay which houses PAL's domestic and international cargo operations and sales offices at the NAIA measures 5,727.55 sq.m. (warehouse) and 1,050.88 sq.m. (office space). The land on which it stands is leased from the MIAA.

PAL's **Data Center Building (DCB)** along Airport Road, Pasay is the center of applications development and support. It is where 180 technical staff are located managing the equipment, business analysis and developer for providing application support. It also houses the oversight group for the passenger services system. The DCB, comprising 3,588.35 sq.m. open area and 3,806.69 sq.m. covered area is likewise leased from the MIAA.

Other major ground facilities include a **Maintenance Base Complex (MBC)** in Nichols, Pasay City. It is composed of the North and South sectors which refer to the areas north and south of Andrews Avenue, respectively. It covers an area of 104,531.87 sq.m. (open) and 1,768.01 sq.m. (covered) leased from MIAA. It also covers a Local Area Network (LAN) and Wide Area Network (WAN) that links together all of PAL's domestic on-line and office stations as well as the other major offices in Metro Manila.

MBC houses the Operations Group. **MBC-NORTH SIDE: PAL GATE 5 -** PAL Operations Accounting, PALEX Accounting; Corporate Logistics & Services, Corporate Logistics & Services (General Materials & Inflight Purchasing Sub-Department,/Aircraft Operations Support Sub-Department/Warehouse Management Sub-Department/Ground Handling & Inflight Contracts Management); Medical (Medical/Flight Surgeon/Dental/Medical Laboratory); PAL Dependents Medical Plan; Sports Center (Employees Welfare & Communications/Basketball Courts/Tennis Court); Inflight Training Services Division Training Facility; **PAL GATE 3 Area**–Warehousing Compound – Construction & Facilities Management Sub-Dept. (Construction Engineering Division and Facilities Management Division - MBC); General Materials Warehousing Division; Material Sales Management Division; COMAT Handling Division; Aviation School (Flying School); Inflight Services Training Division (Cabin Services/Door Training Room); Redbird Flight Simulator; K9 Facility; Records Warehouses (Financial Services Warehouse/Treasury Records Warehouse/AED-TPR Warehouse); **PAL GATE 4 Area** – ISD/Technology Infrastructure Management (Network Management/Desktop Management); PATC/Ground/Flight Training; Integrated Operations Control Center (Cabin Crew Scheduling/Flight Dispatch/PALEX IOCC); **MBC SOUTH SIDE: PAL GATE 1** – Flight Operations Building (SVP-Airline Operations/VP-Flight Operations/Planning, Research Evaluation & Flight and Fuel Analysis//Flight Technical Division/Flight Operations Sub- Department- A350/A340/A320/ Office of the Chairman); Security Department (Pass Control/Briefing Room); Pilot Lounge-Flight Operations Dept.; Flight Simulator Building-PAL Aviation Training Center (OAVP-PAL Aviation Training Center/Flight Training Division/Ground Training Division/Flight Simulator – B320/B321);; Quality Department; Safety Department; Employee Benefits Services-HCD; Funds Management & Cash Operations (Cashier)/PALEX Central Flight Dispatch; Fuel Management Department; Aircraft Material Warehouse; **PAL GATE 2** – Security Department (OVP); MBC Canteen; PAL Foundation; Ground Equipment - ULD Maintenance Sub-Department.

PAL entered into a lease agreement with MIAA in December 2013 for 8.1 hectares of land situated at Nayong Pilipino Foundation Pasay property (subsequently renamed as Aviation Support Industrial Area 2 or ASIA2) for PAL's aircraft parking facility.

PAL's **head office** is located at the PNB Financial Center along President Macapagal Avenue, Pasay City. It houses the Office of the President and Office of the Chairman, Commercial Group, Finance Group, Supply Chain Management Group, Legal, Corporate Secretary's Office, Human Capital Department, Corporate Audit, Corporate Communications and Security Office. The total area being leased from the Philippine National Bank is 10,394.90 square meters.

Item 3. Legal Proceedings

PAL

PAL is a petitioner in various cases pending before the Court of Tax Appeals (CTA) for the refund of excise taxes paid by PAL under protest in connection with its importation of commissary items used for operation in the aggregate amount of ₱247.77 million. Total amount of refund granted by the CTA is ₱ 13.82 million and up to date, the Supreme Court has affirmed with finality a grant of tax refund in a total amount of ₱31.50 million. All other cases are either ongoing trial with the CTA – Division or under appeal with the CTA – *En Banc* and the Supreme Court.

Aside from the importation of commissary items, PAL is also seeking refund of excise taxes paid under protest on its importation of aviation fuel. PAL filed various cases with the CTA in the aggregate amount of ₱3.26 billion and hearings are now ongoing with the CTA. As of this writing, the Supreme Court (SC) has affirmed with finality a grant of tax refund for aviation fuel in a total amount of ₱3.21 billion.

In line with its claims for refund of the foregoing taxes on fuel importation for its domestic operations, PAL has likewise filed for the Declaration of Nullity of a 2002 Department of Energy (DOE) Certification, a one-liner summation stating "there is locally available jet fuel in reasonable quantity, quality and price", thereby effectively overriding PAL's exemption under its franchise which states that tax exemption is enjoyed by PAL if there is no locally available aviation fuel in "reasonable quantity, quality or price." On July 12, 2010, PAL obtained a Preliminary Injunction issued by the Regional Trial Court (RTC) against the Department of Finance (DOF) and DOE, enjoining the latter from implementing the 2002 DOE Certification. On February 27, 2014, PAL obtained a decision from the RTC declaring the aforementioned 2002 DOE certification as null and void and further declaring permanent the preliminary injunction previously issued. In a Decision dated January 27, 2017, the Court of Appeals (CA) denied the appeal of DOF and DOE and affirmed the decision of the RTC. DOF and DOE then elevated the case to the Supreme Court, However, as of date, the same is still pending action.

Other than the foregoing refund cases for the excise taxes paid on PAL's importations of commissary items and aviation fuel, PAL has likewise been granted by the Supreme Court (SC) a total amount of ₱ 2.70 million for refund of other taxes, such as 5% withholding tax made by OWWA, 10% overseas Communication Tax made by PLDT, 20% and 7 ½% final tax withheld by depositary banks on PAL's interest income, and 20% final withholding tax on PAL's bank deposits.

PAL is also a petitioner in a case filed with the Commission on Audit ("COA") for a money claim against Manila International Airport Authority (MIAA) where PAL requested for the refund of a total amount of ₱2.09 billion representing the overpayment of rentals made by PAL to MIAA from June 1999 up until October 2016. The basis of this case is the nullification of MIAA's Resolution Nos. 98-30 and 99-11 which unilaterally increased the airport rental rates and MIAA's approval of PAL's claim as shown in its Board Resolution No. 2010-026. Up to date, PAL is awaiting action from the COA.

Except for the foregoing, PAL or any of its subsidiaries or affiliates is not involved in, nor any of its properties the subject, of any legal proceeding and has no knowledge of any contemplated proceeding by any government authority involving an amount exceeding ₱7.42 billion (10% of its total current assets) for the year ended December 31, 2022.

APC
APC has ongoing claims for refund filed with the Court of Tax Appeals (CTA) pertaining to excise taxes paid on the Company's importation of Jet A-1 Aviation Fuel used for its domestic operations in the amount of ₱725 million.

Up to date, the CTA has granted APC a refund of a total amount of ₱697.4 million representing the excise tax paid on its importation of jet fuel for use in APC's domestic operations. The Commissioner of Internal Revenue and the Commissioner of Customs, however, assailed the CTA's decisions which are now pending with the Supreme Court.

APC likewise has an appeal with the Court of Tax Appeals against the Bureau of Customs – NAIA. The case arose from the Resolution of Bureau of Customs – NAIA finding APC liable to ₱129.22 million which represents the penal amount for the alleged unliquidated bonds of APC for its importations for the period 2016 to 2017, pursuant to Customs Administrative Order No. (CAO) 5-91, on its failure to receive or its belated receipt of the required Tax Exemption Certificate (TEC) endorsements from the Department of Finance (DOF). APC filed its position paper which was denied by the BOC – NAIA. The case is still currently pending trial with the Court of Tax Appeals.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year ended December 31, 2022.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

A. Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters

1. Market Information

   The market for the registrant's common equity is the Philippine Stock Exchange. The high, low and closing prices for each quarter for the past three years are as follows:

	HIGH	**LOW**	**CLOSE**
	Php	Php	Php
2023			
First Quarter	5.44	5.41	5.41
2022			
Fourth Quarter	5.95	5.35	5.90
Third Quarter	6.10	5.01	5.41
Second Quarter	6.64	5.00	5.50
First Quarter	6.96	6.05	6.64
2021			
Second Quarter	6.24	5.30	6.05[1]
First Quarter	7.20	5.85	6.20
2020			
Fourth Quarter	8.50	5.00	6.55
Third Quarter	6.80	5.70	5.85
Second Quarter	7.40	5.99	6.80
First Quarter	7.98	5.00	6.60

1 *Shares were suspended on June 16, 2021, the latest practicable trading date for 2021 and was lifted on March 28, 2022.*

As of April 3, 2023, the latest practicable trading date, the Company's shares were traded at ₱5.50 per share.

2. Holders

The number of shareholders of record as of December 31, 2022 is 6,854 and common shares outstanding as of the same date were 11,610,978,242. The Company has no preferred shares.

The top 20 stockholders as of December 31, 2022, are as follows:

	Stockholders' Name	No. of Shares Held	% to Total
1	Trustmark Holdings Corporation	8,930,733,170.00	76.9161%
2	ANA Holdings, Inc.	1,103,042,933.00	9.5000%
3	Top Direct Investments Ltd. [1]	460,507,500.00	3.9661%
4	Cosmic Holdings Corporation	378,206,590.00	3.2573%
5	Fast Accurate Investments Ltd.	206,842,500.00	1.7814%
6	City Trade Investments Ltd.	176,400,000.00	1.5192%
7	Corporate Supreme Ltd.	171,000,000.00	1.4727%
8	PCD Nominee Corporation (Filipino)	42,701,299.00	0.3678%
9	Principal Grand Tours International Inc. [2]	36,000,000.00	0.3101%
9	One Corporate Grand Tours Inc. [2]	36,000,000.00	0.3101%
10	Pan-Asia Securities Corp.	16,240,359.00	0.1399%
11	Government of the Republic of the Philippines	9,450,000.00	0.0814%
12	Aeropartners, Inc	5,023,783.00	0.0433%
13	Wonderoad Corporation	4,613,255.00	0.0397%
14	Philippine National Bank	4,532,980.00	0.0390%
15	Development Bank of the Philippines	4,472,695.00	0.0385%
16	AFP Retirement and Separation Benefit System	2,981,797.00	0.0257%
17	PCD Nominee Corporation (Non – Filipino)	2,126,220.00	0.0183%
18	Tan Lucio C.	1,993,726.00	0.0172%
19	Tan Harry C.	1,959,209.00	0.0169%
20	Chua Joseph T.	1,800,225.00	0.0155%

[1] *Subscription rights were assigned to Videlo Holdings, Inc. (VHI) on October 23, 2014. The application for clearance to register the subscription rights under the name of VHI is still pending approval with the BIR.*

[2] *Subscription rights were assigned to Emelar Holdco, Inc. (EHI) on October 23, 2014. The application for clearance to register the subscription rights under the name of EHI is still pending approval with the BIR.*

3. Dividends

a. The Company did not declare any cash dividends during the past 3 years. The Board of Directors may declare dividends only from the surplus profits arising from the business of the Company and in accordance with the preferences constituted in favor of preferred stock when and if such preferred stock be issued and outstanding.

b. There are no other restrictions that limit the ability to pay dividends on common equity or that are likely to do so in the future.

4. Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction (for the past 3 years).

There was no recorded sale of unregistered securities during the past 3 years.

Item 6. Management's Discussion and Analysis (MDA)

Restatement to Philippine Peso

In line with the adoption of PAS 21, *The Effects of Changes in Foreign Currency Rates*, PAL determined that its functional currency is the US Dollar. On May 20, 2005, the Philippine SEC approved PAL's use of its functional currency, the US Dollar, as its presentation currency. Accordingly, effective April 1, 2005, PAL proceeded in measuring its results of operations and financial position in US Dollar.

Since the functional and presentation currency of the Company is in Philippine Peso, for purposes of combination of the financial statements in accordance with PFRS 10, *Consolidated Financial Statements,* there is a need for PAL and its subsidiaries to restate its financial statements to the Philippine Peso.

Consolidation

The consolidated financial statements referred to consist of the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared using consistent accounting policies as those of the Company. Companies included in the consolidation are PAL and PR and ZUMA. The Company owns 79.49% of PAL, through a direct and indirect ownership in 0.002% of PAL's shares through an 82.33% direct ownership in PR. In turn, PR owns 0.003% of PAL. The Company acquired 51% ownership interest in ZUMA in 2017, and thereby obtaining control over ZUMA, the holding company of APC. Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. All intercompany accounts and transactions with subsidiaries are eliminated in full.

As of December 31, 2022 and 2021, PHI has an effective ownership interest in PAL of 79.49% respectively.

Results of Operations

2022 vs 2021

The Company reported a total comprehensive income of ₱11.12 billion for the year ended December 31, 2022, 80.3% lower from the last year's total comprehensive income of ₱56.49 billion.

Consolidated revenues for the year ended December 31, 2022 amounted to ₱139.24 billion, 137.2% higher than the ₱58.70 billion reported in 2021. The significant increase in revenues was mainly brought about by the resumption of commercial operations due to the rising demand for air travel.

Consolidated operating expenses increased by 94.2% from ₱62.80 billion in 2021 to ₱121.93 billion in 2022 mainly due to rising fuel prices and increase in number of flights operated.

Flying operations expenses increased by ₱38.61 billion, 116.0% higher versus last year's balance of ₱33.28 billion mainly due to increase in fuel costs which represents the biggest expense of the Company.

Maintenance expenses increased by 58.3% to ₱15.91 billion from last year's ₱10.06 billion driven by higher utilization of aircraft.

Aircraft and traffic servicing expenses particularly ground handling and landing take-off charges likewise increased to ₱11.63 billion or 90.2% higher than the ₱6.11 billion year ago level as a result of increase in number of flights operated.

Passenger service expenses increased by 107.1% from ₱4.0 billion to ₱8.28 billion due to increase in number of passengers which resulted in higher passenger food and inflight provisions.

General and administrative expenses decreased to ₱6.11 billion in 2022, 1.3% lower than 2021 balance of ₱6.18 billion which included restructuring expenses such as legal and professional fees.

Other income-net substantially dropped from ₱64.39 billion in 2021 to ₱0.61 billion in 2022. The higher income in 2021 was mainly due to recognized gain from debt settlement and condonation of debt.

The movements of deferred tax assets and liabilities on all deductible temporary differences in accordance with PAS 12, *Income Taxes* resulted an income tax expense of ₱ 0.21 billion for the current year.

The Company recognized other comprehensive income of ₱0.77 billion in 2022 versus other comprehensive loss of ₱4.12 million in 2021. This was mainly due to the favorable impact of foreign exchange translation in 2022 as against the significant losses recognized in 2021.

2021 vs 2020

The Company reported a total comprehensive income of ₱56.49 billion for the year ended December 31, 2021, significantly turnaround from last year's total comprehensive loss of ₱73.00 billion.

Consolidated revenues for the year ended December 31, 2021 amounted to ₱58.70 billion, 6.2% higher than the ₱55.26 billion reported in 2020. The significant increase in revenues was mainly due to the increase in cargo revenues as air cargo has been a vital partner in delivering essential goods since the COVID-19 pandemic.

Consolidated operating expenses were reduced by 23.3% from ₱81.84 billion in 2020 to ₱62.80 billion in 2021 mainly due to expenses related to grounded aircraft which were recognized under "Other Charges"

Flying operations expenses dropped by ₱15.14 billion, 31.3% lower versus last year's balance of ₱48.43 billion mainly due to fleet costs such as depreciation expenses and lease charges related to grounded aircraft which were recorded under "Other Charges" and fuel expenses due to decrease in number of flights operated.

Aircraft and traffic servicing expenses likewise decreased to ₱6.11 billion or 14.8% lower than the ₱ 7.18 billion year ago level balance mainly due to lower ground handling and landing and take-off charges.

Passenger service expenses decreased by 21.3% from ₱5.08 billion to ₱4 billion due to decrease in number of passengers which resulted in lower passenger food and inflight.

Maintenance expenses dropped by 19.1% to ₱10.06 billion from last year's ₱12.44 billion driven by grounded aircraft and lower utilization of aircraft.

Reservation and sales were lower at ₱3.16 billion in 2021 as compared to ₱3.20 billion in 2020 mainly due to the significant decrease in sales due to travel restrictions.

General and administrative expenses increased to ₱6.18 billion or 11.9% higher than last year's balance of ₱5.53 billion as due to restructuring expenses such as legal and professional fees.

Other income of ₱64.39 billion recognized in the current year was mainly attributable to gain from debt settlement and condonation of debt while the other charges-net was ₱29.45 billion last year was due to the impairment loss recognized for some of the Group's operating fleets.

The movements of deferred tax assets and liabilities on all deductible temporary differences in accordance with PAS 12, *Income Taxes* particularly the derecognition of prior year's NOLCO of PAL as of December 31, 2021, resulted an income tax benefit of ₱ 6.90 billion for the current period.

The Company recognized other comprehensive loss of ₱4.12 billion in 2021 versus other comprehensive income of ₱79.98 million in 2020. This was mainly brought about by the unfavorable effect of foreign exchange translation and losses on fair value adjustments of the Company's quoted investments.

2020 vs 2019

The Company reported a total comprehensive loss of ₱73.00 billion for the year ended December 31, 2020, significantly higher by ₱62.80 billion from last year's total comprehensive loss of ₱10.20 billion, as the Group's operations were severely affected by the worldwide travel restrictions due to COVID-19 pandemic.

Consolidated revenues for the year ended December 31, 2020 amounted to ₱55.26 billion, 64.2% lower than the ₱154.54 billion recognized in 2019. The significant decline in revenues was mainly due to the drop in passenger and ancillary revenues as a result of flight cancellations starting March 2020 due to COVID-19 pandemic.

Consolidated operating expenses were reduced by 46.0% from ₱151.66 billion in 2019 to ₱81.84 billion in 2020 mostly driven by the Group's operations in a limited capacity.

Flying operations expenses dropped by ₱33.75 billion, 41.1% lower versus last year's balance of ₱82.18 billion mainly due to lower fuel expenses. The significant decrease in number of flights operated resulted in the reduction of fuel consumption by 61.0%.

Aircraft and traffic servicing likewise decreased to ₱7.18 billion or 63.6% lower than the ₱19.73 billion year ago level balance mainly due to lower ground handling and landing and take-off charges.

Passenger service expenses decreased by 61.1% from ₱13.07 billion to ₱5.08 billion due to lower passenger food and cabin crew costs.

Maintenance expenses dropped by 40.4% to ₱12.44 billion from last year's ₱20.85 billion driven by lower utilization of aircraft.

Reservation and sales were lower at ₱3.20 billion in 2020 as compared to ₱10.94 billion in 2019 mainly due to the significant decrease in sales due to travel restrictions.

General and administrative expenses increased to ₱5.53 billion or 12.8% higher than last year's balance of ₱4.90 billion as a result of the centralized charging of some overhead expenses to general and administrative. This was offset in part by savings in manpower costs due to the mandatory leave without pay as allowed by the Department of Labor & Employment and reduction in management pay.

Other charges-net increased to ₱29.45 billion from the ₱2.04 billion last year's total mainly due to impairment loss recognized for some of the Group's operating fleets. This was slightly offset by the decrease in financing charges by ₱2.19 billion or 18.2%.

The movements of deferred tax assets and liabilities on all deductible temporary differences in accordance with PAS 12, *Income Taxes* particularly the derecognition of prior year's NOLCO of PAL as of December 31, 2020, resulted an income tax expense of ₱7.21 billion for the current period.

The Company recognized other comprehensive income of ₱79.98 million in 2020 versus other comprehensive loss of ₱496.24 million in 2019. This was mainly brought about by the favorable effect of foreign exchange translation partly offset by the losses on fair value adjustments of the Company's quoted investments.

Financial Condition

2022

The Company's consolidated total assets as of December 31, 2022 amounted to ₱206.04 billion; 6.3% higher than the December 31, 2021 balance of ₱193.85 billion. This was mainly brought about by the increase in current assets particularly short-term investments, receivables, and other current assets.

Total current assets increased by 22.0% from ₱59.32 billion as of December 31, 2021 to ₱72.38 billion as of December 31, 2022, driven mainly by the short-term investments of ₱11.19 billion booked in 2022. Receivables likewise increased by ₱4.57 billion or 16.6% due to increase in general traffic. Other current assets increased by 76.6% due to increase in deposits and prepayments which pertains to advance payments for material and supplies, prepaid rentals, and miscellaneous payments. Expendable parts, fuel, materials and supplies account increased by 16.8%

Total noncurrent assets decreased by 0.6% or ₱0.86 billion from ₱134.52 billion as of December 31, 2021 to ₱133.66 billion as of December 31, 2022, mainly attributable to the decrease in property and equipment and investment properties. Property and equipment- at cost decreased by ₱1.97 billion mainly due to reduced number of PAL's aircraft fleet as surplus aircraft were returned to lessors. Investment properties likewise decreased by 85.2% as settlement of outstanding notes payable.

Consolidated total liabilities increased by ₱1.06 billion from ₱192.16 billion as of December 31, 2021 to ₱193.21 billion as of December 31, 2022 due to payments of long-term obligations.

Current liabilities increased by ₱12.16 billion mainly due to the increase in unearned transport revenues by 85.8% or ₱10.21 billion which resulted from growth in passenger ticket sales.

Noncurrent liabilities decreased by ₱11.11 billion as a result of the payments of long-term obligations.

Consolidated total equity amounted to ₱12.82 billion as of December 31, 2022, increased by ₱11.13 billion from last year's balance of ₱1.69 billion. This was mainly brought about by the consolidated net income earned during the year which reduced deficit by 27.7%

2021

The Company's consolidated total assets as of December 31, 2021 amounted to ₱193.85 billion, 14.9% lower than the December 31, 2020 balance of ₱227.90 billion. This was primarily brought about by the decrease in property and equipment by 34.7%.

Total current assets increased by 83.6% from ₱32.31 billion as of December 31, 2020 to ₱59.32 billion as of December 31, 2021, driven mainly by the cash proceeds from the Debtor-In-Possession (DIP) loan facility obtained as part of the Chapter 11 Plan. Receivables likewise increased by 47.7% as well as assets held for sale by 366.3%. On the other hand, expendable parts, fuel, materials and supplies account decreased by 16.7% as well as other current assets decreased by 46.2%.

Total noncurrent assets decreased by 31.2% or ₱61.07 billion from ₱195.59 billion as of December 31, 2020 to ₱134.52 billion as of December 31, 2021 mainly attributable to property and equipment, and other noncurrent assets. Part of the recovery plan is reducing PAL's fleet size by returning surplus aircraft to lessors which resulted in decreasing the balance of property and equipment-at cost by ₱60.55 billion or 34.7%. Other noncurrent assets decreased by 26.7% or ₱4.98 billion mainly due to the application of security deposits for leased aircraft as lease payments.

Consolidated total liabilities decreased by 35.1% or ₱103.85 billion from ₱296.00 billion as of December 31, 2020 to ₱192.16 billion as of December 31, 2021. The unsecured debts were converted to equity and aircraft lease modifications were executed according to the U.S. Court's approval of the restructuring plan.

Current liabilities decreased by ₱125.87 billion mainly due to the decrease in the current portion of long-term obligations, accrued expenses and other current liabilities, and notes payable as a result of lease modifications and debt settlement. Current portion of long-term obligations decreased to ₱17.58 billion or 85.3% higher than last year's balance ₱119.90 billion. Accrued expenses and other current liabilities decreased by 41.2% mainly due to lease charges which is composed of the unpaid portion of the lease liabilities that are due as of December 31, 2021. Notes payable decreased by ₱9.99 billion or 87.8% due to payments made. Unearned transportation revenue increased by ₱3.19 billion or 36.6% due to refunded tickets.

Noncurrent liabilities increased by ₱22.02 billion as a result of the amendment of lease agreements.

Consolidated total equity amounted to ₱1.69 billion, an increase by ₱69.80 billion from last year's capital deficiency of ₱68.11 billion. This is due to an improvement in consolidated net income which amounted to ₱60.61 billion in the current year against a consolidated net loss of ₱73.08 billion in 2020. The company also filed an increase in authorized capital on December 29, 2021 which led to the increase in Deposits for Future Subscriptions by ₱12.91 billion as a capital infusion of Buona Sorte Holdings Inc (BSHI).

2020

The Company's consolidated total assets as of December 31, 2020 amounted to ₱227.90 billion, 28.3% lower than the December 31, 2019 balance of ₱317.83 billion. This was primarily brought about by the decrease in property and equipment and cash and cash equivalents.

Total current assets dropped by 32.4% from ₱47.81 billion as of December 31, 2019 to ₱32.31 billion as of December 31, 2020, driven mainly by the decrease in cash and cash equivalents by 84.4%. The Group's cash was depleted due to large volume of refunded tickets coupled by enormous drop in sales due to COVID-19. Receivables likewise decreased by 7.0% as well as expendable parts, fuel, materials and supplies account by 27.4%. Assets held for sale decreased by 93.3% due to reclassification of certain aircraft back to property and equipment-at cost. On the other hand, other current assets increased by 28.5% on account of higher derivative assets.

Total noncurrent assets decreased by 27.6% or ₱74.43 billion from ₱270.02 billion as of December 31, 2019 to ₱195.59 billion as of December 31, 2020 mainly attributable to the decrease in property and equipment, deferred tax assets and investment properties. The impairment of some aircraft as well as depreciation reduced the balance of property and equipment-at cost by ₱61.98 billion or 26.2%. Deferred tax assets was zeroed out as a result of the derecognition of PAL's NOLCO pertaining to prior years. Investment properties decreased by 55.1% due to disposal made during the year. Other noncurrent assets decreased by 22.2% or ₱5.34 billion mainly due to reclassification of derivative assets to current assets and lower long-term security deposits.

Consolidated total liabilities decreased by 5.4% or ₱16.93 billion from ₱312.93 billion as of December 31, 2019 to ₱296.00 billion as of December 31, 2020. This was due to the decrease in total noncurrent liabilities by 52.6% or ₱110.66 billion partly offset by the increase in total current liabilities by 91.4% or ₱93.74 billion.

Current liabilities increased by ₱93.74 billion mainly due to the increase in current portion of long-term obligations and accrued expenses and other current liabilities. Current portion of long-term obligations increased to ₱119.90 billion or 303.5% higher than last year's balance ₱29.71 billion. The Group was unable to fulfill the debt servicing agreements for most of its long-term obligations during the current

year, thus, the entire balance for these loans were reclassified as current liabilities. Accrued expenses and other current liabilities increased by 65.2% mainly due to lease charges which is composed of the unpaid portion of the lease liabilities that are due as of December 31, 2020. Notes payable decreased by ₱7.15 billion or 38.6% due to payments made. Unearned transportation revenue decreased by ₱7.45 billion or 46.1% due to refunded tickets.
Noncurrent liabilities decreased by ₱110.66 billion as a result of the reclassification of long-term obligations to current liabilities.

The consolidated total comprehensive loss for the year ended December 31, 2020 increased the deficit to ₱88.97 billion and resulted to total capital deficiency of ₱68.11 billion as of December 31, 2020.

KEY PERFORMANCE INDICATORS

The Company uses the following major performance measures. Analyses are employed by comparisons and measurements on a consolidated basis based on the financial data as of and for the years ended December 31, 2022, 2021 and 2020.

Key Performance Indicators	**2022**	**2021**	**2020**
Total Comprehensive Income (Loss) Attributable to Equity Holders	₱8.77 B	₱53.63 B	(₱70.52 B)
Current Ratio	0.88	0.84	0.16
Debt to Equity Ratio	8.78	73.82	(2.88)
Basic Earnings (Loss) Per Share:			
Computed based on Net Income (Loss)	₱0.703	₱5.089	(₱6.185)
Computed based on Total Comprehensive Income (Loss)	₱0.756	₱4.619	(₱6.074)

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
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**	**December 31, 2022**	**December 31, 2021**
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	98.5%	97.5%
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	105	60

Mission Statement	Key Performance Indicator	Measurement Methodology	December 31, 2022	December 31, 2021
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	78.9%	87.1%
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	6	3
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	17.00%	-66.80%

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.

i. Due to the difficulty in sourcing additional financing, on September 3, 2021, PAL proceeded with the filing of voluntary petition for relief under Chapter 11 (Chapter 11 Filing) of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the US Court). The petition is for PAL to be authorized to continue to operate its business and manage its operations as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code and pursue confirmation of a pre-arranged plan of reorganization to effect the restructuring contemplated by various Restructuring Support Agreements (RSAs) with the lessors, creditors, and primary original equipment manufacturers (OEM) and maintenance, repair and overhaul service providers (MRO) (collectively the "Supporting Creditors"). The Chapter 11 Filing is part of the Group's overall plan to position itself for the post-pandemic environment. Apart from protection from the US Court, the Group's plan included resizing and reshaping its operations, permanent restructuring of its obligations and broad recapitalization.

   Please refer to Note 2 of the Notes to Consolidated Financial Statements for more detailed explanation on the Company's liquidity status.

ii. 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.

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

   As of December 31, 2022, the remaining aircraft that are for delivery in the future include: (i) thirteen (13) Airbus 321-231 NEO aircraft to be delivered between 2026 and 2029.

v. 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 that did not 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 as of and for the years ended December 31, 2022 and 2021:

1. Cash and cash equivalents- H- (23.9%)
2. Short-term investments – H – 100%
3. Receivables- H- 16.6%
4. Expendable parts, fuel, materials and supplies- H- 16.8%
5. Other current assets- H- 76.6%
6. Assets held for sale- H- (100%)
7. Investment properties – H – (85.2%)
8. Deferred income tax assets – H – 10%
9. Other noncurrent assets- H- 13.1%
10. Notes payable- H- (100%)
11. Accounts payable- H- (11.1%)
12. Accrued expenses and other current liabilities- H- (9.9%)
13. Unearned transportation revenue- H- 85.8%
14. Current portion of long-term obligations- H- 17.2%
15. Long-term obligations-net of current portion- H- (13%); V- (9.9%)
16. Accrued employee benefits- H- 9.7%
17. Deferred income tax liabilities – H-(100%)
18. Reserves and other noncurrent liabilities- H- 37%
19. Other components of equity- H- (41.6%)
20. Deficit- H- (27.7%)
21. Non-controlling interests - H- 27%
22. Passenger- H- 208.9%; V- 19.2%
23. Cargo- H- (14.5%); V- (16.4%)
24. Ancillary- H- 76%
25. Other revenue- H- 35%
26. Flying operations- H- 116%; V- (5.1%)
27. Maintenance- H- 58.3%; V- (5.7%)
28. Aircraft and traffic servicing- H- 90.2%
29. Passenger service- H- 107%
30. Reservation and sales – H – 156.6%
31. General and administrative- V- (6.1%)
32. Financing charges- H- 11.7%; V- (5.9%)
33. Other charges (income)-net – H- (99%); V- 109.2%
34. Income tax expense (benefit)- H- (103.1%); V- 11.9%
35. Net income - H- (82.9%); V- (95.8%)
36. Total other comprehensive income- H- 118.6%; V – 7.6%
37. Total comprehensive income - H- (80.3%); V- (88.2%)

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.

<u>Information on Independent Accountant and other Related Matters</u>

(1) External Audit Fees and Services

a. Audit and Audit-Related Fees

The audit of the Company's annual financial statements or services is normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2022 and 2021.

Year Ended	Audit Fee
December 31, 2022	₱500,000 professional fee plus out-of-pocket expenses
December 31, 2021	₱500,000 professional fee and ₱45,133 out-of-pocket expenses

b. Tax Fees

The Company made no payments to its external auditors in tax fees for 2022 and 2021.

c. All Other Fees

Year Ended	Consultancy Services Engagement Fee
December 31, 2022	None
December 31, 2021	₱370,000 professional fee and ₱7,770 out-of-pocket expenses

Year Ended	Agreed-Upon Procedures (AUP)
December 31, 2022	None
December 31, 2021	₱110,000 professional fee and ₱8,967 out-of-pocket expenses

d. The Audit Committee's approval policies and procedures for the above services:

Upon recommendation and approval of the Audit Committee, the appointment of the external auditor is being confirmed in the Annual Stockholders' Meeting. On the other hand, financial statements should be approved by the Board of Directors before its release.

Item 7. Financial Statements

See accompanying Index to Consolidated Financial Statements and Supplementary Schedules.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in, and disagreements with the Company's accountants on any accounting and financial disclosure during the past two years ended December 31, 2022 or during any subsequent interim period.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

1. Directors and Executive Officers

   At present, the Company has eight (8) directors. Hereunder are the Company's incumbent directors and executive officers, their names, ages, citizenship, positions held, term of office as director/officer, period served as director/officer, business experience for the past five years, and other directorships held in other companies:

Name/ Position	Age	Citizenship	Current Affiliations and Business Experience in the last 5 years	Term of Office /Period Served
Lucio C. Tan/ *Chairman, President and Chief Executive Officer (CEO)*	88	Filipino	Chairman of Absolut Distillers, Inc., Alliedbankers Insurance Corporation, Allianz PNB Life Insurance, Air Philippines Corporation, Asia Brewery, Inc., Asian Alcohol Corporation, Basic Holdings Corporation, Buona Sorte Holdings, Inc., Eton Properties Philippines, Inc., Fortune Tobacco Corporation, Foremost Farms, Inc., Grandspan Development Corporation, Himmel Industries, Inc., **LT Group, Inc., MacroAsia Corporation**, Philippine Airlines, Inc., PMFTC Inc., Progressive Farms, Inc., Tanduay Distillers, Inc., Tanduay Brands International, Inc., Tangent Holdings Corporation, The Charter House, Inc., Trustmark Holdings Corporation, University of the East, Zuma Holdings and Management Corporation. He is also a Director of **Philippine National Bank.**	1 year/ Served as Chairman since 30 October 2000
Carmen K. Tan/ *Director*	82	Filipino	Vice Chairman of Philippine Airlines, Inc., and Director of Air Philippines Corporation, Asia Brewery, Inc., Buona Sorte Holdings, Inc., Foremost Farms, Inc., Dynamic Holdings, Ltd, Eton City, Inc., Fortune Tobacco Corporation, Himmel Industries, Inc., **LT Group, Inc., MacroAsia Corporation, Philippine National Bank,** PMFTC Inc., Progressive Farms, Inc., Tanduay Distillers, Inc., Manufacturing Services and Trade Corporation, Sipalay Trading Corporation, Saturn Holdings, Inc., Tangent Holdings Corporation, Trustmark Holdings Corporation	1 year/ Served as Director since 23 October 2014

Name/ Position	Age	Citizenship	Current Affiliations and Business Experience in the last 5 years	Term of Office /Period Served
			and Zuma Holdings and Management Corporation.	
Lucio C. Tan III/ *Director and Vice President*	30	Filipino	Director, President and Chief Operating Officer of Tanduay Distillers, Inc.; Vice Chairman and Chief Operating Officer of **LT Group, Inc.**; Vice Chairman and President of Sabre Travel Network Phils. Inc.; Vice President of Dunmore Development Corporation; Director of Ali-Eton Property Development Corp, Air Philippines Corporation, Allied Club, Inc., Allied Water Services, Inc., Asia's Emerging Dragon Corporation, Belton Communities, Inc., Eton City, Inc., First Homes, Inc., Fortune Landequities and Resources, Inc., Lufthansa Technik Philippines, MacroAsia Airport Services Corp., **MacroAsia Corporation**, MacroAsia Catering Services, Inc., MacroAsia SATS Food Industries, MacroAsia SATS Inflight Services Corp., PMFTC, Philippine Airlines, Inc., PNB Holdings Corporation, **Philippine National Bank**, and Prior Holdings Corp.; and former Director of Victorias Milling Company, Inc.	1 year/ Served as Director since 17 December 2019 1 year/ Served as Vice President since 26 May 2021
Sheila T. Pascual/ *Director*	60	Filipino	Director of Allied Commercial Bank, Buona Sorte Holdings, Inc., Philippine Airlines, Inc., **Philippine National Bank**, Saturn Holdings, Inc., Tangent Holdings Corporation, Trustmark Holdings Corporation, Zuma Holdings and Management Corporation; and Executive Officer – Business Development Manager, Allied Banking Corporation (HK) Ltd.	1 year/ Served as Director since 25 November 2021
Stanley K. Ng/ *Director*	43	Filipino	Director, President and Chief Operating Officer of Philippine Airlines, Inc.	1 year/ Served as Director since 31 January 2022
Junichiro Miyagawa/ *Director*	61	Japanese	Executive Vice President and Member of the Board - Alliances & International Affair of All Nippon Airways Co., Ltd. (ANA)	1 year/ served as Director since 26 April 2021
Johnip G. Cua/ *Independent Director*	66	Filipino	Former President of Procter & Gamble Philippines, Inc., currently the Chairman of the Board of Trustees of the P&Gers Fund, Inc.	1 year/ served as Independent Director since 23 October 2014

Name/ Position	Age	Citizenship	Current Affiliations and Business Experience in the last 5 years	Term of Office /Period Served
			and Xavier School, Inc., and the Chairman & President of Taibrews Corporation. He is an Independent Director of Asia Brewery, Inc., Century Pacific Food, Inc., First Aviation Academy**, LT Group, Inc., MacroAsia Corporation**, MacroAsia Catering Services, Inc., MacroAsia Airport Services Corporation, MacroAsia SATS Food Industries Corporation, MacroAsia SATS Inflight Services Corporation, and Philippine Airlines, Inc., PhilPlans First, Inc., and Tanduay Distillers, Inc. He is also a member of the Board of Directors of Interbake Marketing Corporation, Teambake Marketing Corporation, Bakerson Corporation, Lartizan Corporation, Allied Botanical Corporation, and Zenori Corporation. He is also a member of the Board of Trustees of MGCC Foundation and Xavier School Educational & Trust Fund.	
Jerome S. Tan/ Independent Director	59	Singaporean	President and Director of Integrated Micro-Electronics, Inc.	1 year/ Served as Director since 25 November 2021
Ma. Cecilia L. Pesayco/ *Corporate Secretary*	70	Filipino	Corporate Secretary of Asia Brewery, Inc., Buona Sorte Holdings, Inc., **LT Group, Inc.**, Trustmark Holdings Corporation, Zuma Holdings and Management Corporation. She is likewise the Chief Legal Counsel of the Tan Yan Kee Foundation.	1 year/ served as Corporate Secretary since 11 February 2015
Susan T. Lee/ *Chief Finance Officer*	52	Filipino	Chief Finance Officer of Trustmark Holdings Corporation and Zuma Holdings and Management Corporation; VP-Assistant Chief Finance Officer of Tanduay Distillers, Inc., and VP Finance for **LT Group, Inc.**	1 year/ served as Chief Finance Officer since 11 February 2015

*(*Note: Unless otherwise indicated or qualified, the term "Director" refers to a regular director of the Corporation. Corporations in* ***bold*** *font style are Listed Companies.)*

2. Significant Employees

The Company is not dependent on the services of any one key personnel. It values all of its employees and expects them to contribute significantly to its business.

3. Family Relationships

Family relationships exist among the directors and Management of the Company in the following instances:

The Company's Chairman, President, and Chief Executive Officer (CEO), Dr. Lucio C. Tan, married to Mrs. Carmen K. Tan, is the father of Ms. Sheila T. Pascual, grandfather of Mr. Lucio C. Tan III and the father-in-law of Mr. Stanley K. Ng.

Except for the foregoing, there are no other family relationships among the board members and Management known to the registrant.

4. Pending Legal Proceedings (last 5 years)

None of the directors nor any of the executive officers of the Company has been, for a period covering the past five (5) years, involved in any bankruptcy petition by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses other than cases which arose out of the ordinary course of business in which they may have been impleaded in their official capacity; being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Item 10. Executive Compensation

i. CEO and Top Four (4) Compensated Executive Officers

A fixed basic monthly salary is provided for the Company's Chairman and CEO, President and other officers of the Company and shall continue to be given in 2023. The Company has no contract with any of its executive officers.

ii. Directors and Executive Officers

The directors of the Company are entitled to a per diem of ₱25,000.00 for their attendance in every board meeting and stockholders' meeting. Additionally, the Independent Directors are provided monthly transportation and representation allowances of ₱30,000.00 while other directors are given the monthly directors' allowance of ₱30,000.00. Moreover, attendance at a Board Committee meeting, of which he is a member, entitles the director to a per diem of ₱15,000.00.

Apart from the foregoing, the directors and executive officers of the Company receive no other remuneration in cash or in kind. None of the directors and executive officers holds any outstanding warrant or option.

<u>Summary Compensation Table</u>

	Year	**Salary**	**Bonus**	**Others***
CEO and two (2) compensated officers (see below)	Projected 2023	1,920,000	N/A	810,000
	Actual 2022	1,920,000	N/A	785,000
	Actual 2021	1,920,000	N/A	760,000
	Year	**Salary**	**Bonus**	**Others****
All other directors as a group unnamed	Projected 2023	N/A	N/A	5,035,000
	Actual 2022	N/A	N/A	5,325,000
	Actual 2021	N/A	N/A	4,665,000

** Consisting of the 13th month pay and per diem received by the CEO and two (2) compensated officers for attendance in meetings.*
*** Consisting of the director's fee and per diem received by the directors for attendance in meetings.*

The following constitute the Company's CEO and the two compensated executive officers as of December 31, 2022 (on a consolidated basis):

1. Mr. Lucio C. Tan is the Chairman of the Board of Directors, President and CEO.
2. Ms. Susan T. Lee is the Chief Finance Officer.
3. Atty. Ma. Cecilia L. Pesayco is the Corporate Secretary.

a.) Standard Arrangements - Other than the stated salaries and wages and per diem of the directors, there are no other standard arrangements to which the directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director, including any additional amounts payable for committee participation or special assignments, for the last completed fiscal year and the ensuing year.

b.) Other Arrangements - None

c.) Employment contract or compensatory plan or arrangement - None

Warrants and Options Outstanding: Repricing

a.) There are no outstanding warrants or options held by the Company's CEO, the named executive officers, and all officers and directors as a group.
b.) This is not applicable since there are no outstanding warrants or options held by the Company's CEO, executive officers and all officers and directors as a group.

Item 11. Security Ownership of Certain Beneficial Owners and Management as of December 31, 2022

1. Security Ownership of Certain Record and Beneficial Owners of more than 5%

Title of class	Name, address of record owner and relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	**Trustmark Holdings Corporation*** SMI Compound, C. Raymundo Ave., Maybunga, Pasig City (Stockholder)	N/A	Filipino	8,930,733,710	76.92%

Common	**ANA Holdings, Inc.** Shiodome City Centre, 1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo, Japan, 105-7140 (Stockholder)	N/A	Japanese	1,103,042,933	9.5%

* *Trustmark Holdings Corporation (Trustmark) is 60% owned by Buona Sorte Holdings, Inc. (BSHI) and 40% by Horizon Global Investments, Ltd. (HGIL). BSHI is a domestic company while HGIL is a BVI company. The right to vote or direct the voting or disposition of PHI's shares held by Trustmark is lodged in the latter's Board of Directors, the members of which are Dr. Lucio C. Tan, Mrs. Carmen K. Tan, Ms. Sheila T. Pascual and Michael G. Tan. Dr. Lucio C. Tan is expected to be given the proxy to vote the shares of Trustmark.*

2. Security Ownership of Management as of December 31, 2022

Title of Class	Name of Beneficial Owner	Position	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Lucio C. Tan	Chairman, President and CEO	1,993,726 R (direct)	Filipino	Nil
Common	Carmen K. Tan	Director	450 R (direct)	Filipino	Nil
Common	Lucio C. Tan III	Director and Vice President	450 R (direct)	Filipino	Nil
Common	Sheila T. Pascual	Director	100 R (direct)	Filipino	Nil
Common	Stanley K. Ng	Director	1 R (direct)	Filipino	Nil
Common	Junichiro Miyagawa	Director	1 R (direct)	Filipino	Nil
Common	Johnip G. Cua	Independent Director	225 R (direct)	Filipino	Nil
Common	Jerome S. Tan	Independent Director	100 R (direct)	Filipino	Nil
Total			**1,995,053**		

Security ownership of all directors and officers as a group is 1,995,053 representing 0% of the Company's total outstanding capital stock.

3. Voting Trust Holders of 5% or More

The Company has no recorded stockholder holding more than 5% of the Company's common stock under a voting trust agreement.

4. Changes in Control

There are no arrangements which may result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions

In addition to Note 18 of the Notes to the Consolidated Financial Statements, the following are additional relevant related party disclosures:

The Company's cash and cash equivalents are deposited/placed with Philippine National Bank (the "Bank"), an affiliate, at competitive interest rates. The Company stock transfer agency agreement with the Bank at prevailing rates and has a contract of lease of space with PNB Holdings Corporation. There is no preferential treatment in any of its transactions with the Bank. There are no special risks or contingencies involved since the transactions are done under normal business practice.

a) Business purpose of the arrangements:

   The Company does business with related parties due to stronger ties based on trust and confidence and easier coordination.

b) Identification of the related parties transaction business and nature of relationship:

Philippine National Bank	Bank Deposits, Rental, Stock Transfer Services
PNB Holdings Corporation	Rental
MacroAsia Corporation	Investments

c) Transaction prices are based on prevailing market rates.

d) Transactions have been fairly evaluated since the Company adheres to industry standards and practices.

e) There are no any ongoing contractual or other commitments as a result of the arrangements.

   There are no parties that fall outside the definition of "related parties" with whom the Company or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis.

   The Company has no transactions with promoters.

PART IV - CORPORATE GOVERNANCE

Item 13. Corporate Governance

This will be filed separately.

Item 14. Sustainability Report

Please refer to the attached Sustainability Report.

PART V - EXHIBITS AND SCHEDULES

Item 15. Exhibits and Reports on SEC Form 17-C

(a) Exhibits - The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

(b) Reports on SEC Form 17-C

SEC Form 17-C (Current Reports) which have been filed during the year are no longer filed as part of the exhibits.

LIST OF ITEMS REPORTED UNDER SEC FORM 17-C
(from January 2022 to December 2022)

Date of Report	Subject Matter Disclosed
January 3, 2022	Press Release: "Philippine Airlines Emerges from Chapter 11 Reinvigorated for the Future"
January 31, 2022	Material Information/Transaction: Resignation and Election of Various Directors and Officers
January 31, 2022	Change in Directors (Election of Mr. Stanley K. Ng as Director of the PHI and Resignation of Mr. Gilbert Gabriel F. Santa Maria)
January 31, 2022	Material Information/Transaction: Re-approval of the 2020 Audited Financial Statements of the Company to be re-issued to the Securities and Exchange Commission
February 23, 2022	Reply to Exchange's Query: "Philippine Airlines Emerges from Chapter 11 Reinvigorated for the Future"
February 24, 2022	Notice of Annual Stockholders' Meeting
March 17, 2022	Material Information/Transaction: Re-issuance of the Audited Consolidated Financial Statements as at 31 December 2020 and 2019 and for the three years in the period ended 31 December 2020 and the Audited Parent Company Financial Statements as at and for the years ended 31 December 2020 and 2019
May 13, 2022	Press Release:"PAL Posts P1.2B Net Income in Q1 Breakthrough."
May 26, 2022	Results of the Annual Stockholders' Meeting
May 26, 2022	Results of the Organizational Meeting of the Company
May 26, 2022	Press Release: " PAL 2022 Annual Stockholders' Meeting"
August 3, 2022	Press Release: "PAL First Half of 2022 Financials"
November 11, 2022	Press Release: "Philippine Airlines Continues to Log Profits for 3rd Quarter 2022"

The major resolutions approved by the Board in 2022 to the present are as follows:

Date/ Type of Meeting	Action/s Taken
January 31, 2022	Resignation of Mr. Gilbert Gabriel F. Santa Maria as Director of the Company
January 31, 2022	Election of Mr. Stanley K. Ng as Director of the Company
March 28, 2022	Approval of the 2021 Sustainability Report
April 25, 2022	Approval of the 2021 Integrated Annual Corporate Governance Report
April 25, 2022	Appointment of SGV & Co. as the External Auditor of the Company for 2022-2023

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized in the City of Makati on APR 03 2023.

By:

Lucio C. Tan
Chairman of the Board
President and Chief Executive Officer

Susan T. Lee
Chief Finance Officer and
Compliance Officer

Ma. Cecilia L. Pesayco
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 03 2023 MAKATI CITY affiants exhibiting to me their Passport numbers/SSS ID, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Lucio C. Tan	P8176878B	16-Nov-21	Manila, Philippines
Susan T. Lee	P3633584B	25-Oct-19	NCR West, Philippines
Ma. Cecilia L. Pesayco	SSS ID: 03-5684103-6		

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Series of 2023

Julie O. Cua
Notary Public for Makati City
Roll of Attorneys No. 35358
PTR No. 9566504 /1-3-2023 /Makati City
IBP Lifetime Member No. 00104
6/F 6754 Ayala Avenue, Makati City
MCLE Compliance No. VI-0017668 /01-31-2019
Commission No. M-149 until 31 December 2024

PAL HOLDINGS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
SEC FORM 17-A

* These schedules, which are required by Part IV(e) of SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Group's financial statements.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PAL Holdings, Inc.** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signed under oath by the following:

Lucio C. Tan
Chairman of the Board,
President and Chief Executive Officer

Susan T. Lee
Chief Financial Officer

Signed this 31st day of March 2023

8th Floor PNB Financial Center, Pres. Diosdado Macapagal Ave., CCP Complex, Pasay City, Philippines • Tel. +63(2) 816-3451 local 3453

REPUBLIC OF THE PHILIPPINES
MAKATI CITY)

BEFORE ME, personally appeared the following persons on MAR 3 1 2023.

Name	Passport No.	Date of Issue	Place of Issue
Lucio C. Tan	P8176878B	16-Nov-21	Manila, Philippines
Susan T. Lee	P3633584B	25-Oct-19	NCR West, Philippines

Known to me and known to be the same persons who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed for the use and purpose hereinabove set forth.

This instrument consisting of two (2) pages, including this whereon the acknowledgement is written, has been signed by the party on each and every page thereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of MAR 3 1 2023 at MAKATI CITY, Philippines.

Julie O. Cua
Notary Public for Makati City
Roll of Attorneys No. 35358
PTR No. 9566504 /1-3-2023 /Makati City
IBP Lifetime Member No. 00104
6/F 6754 Ayala Avenue, Makati City
MCLE Compliance No. VI-0017668 /01-31-2019
Commission No. M-149 until 31 December 2024

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Series of 2023

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

PW – 94

COMPANY NAME

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

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

8th Floor, PNB Financial
Center, President Diosdado
Macapagal Ave., CCP Complex,
Pasay City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
palholdingsinc2015@gmail.com	(02) 8816-3451	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
6,854	Last Thursday of May	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Susan T. Lee	susan.lee@tanduay.com	(02) 8816-3451	N/A

CONTACT PERSON's ADDRESS

7/F Allied Bank Center, 6754 Ayala Avenue, Makati City

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

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

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
PAL Holdings, Inc.
8F PNB Financial Center
Pres. Diosdado Macapagal Ave.
CCP Complex, Pasay City

Opinion

We have audited the consolidated financial statements of PAL Holdings, Inc., a subsidiary of Trustmark Holdings Corporation, and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2022 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recognition and measurement of earned and unearned transportation revenue

For the year ended December 31, 2022, the earned transportation revenue from passenger and cargo sales amounted to ₱115.09 billion and ₱12.85 billion, respectively, while the unearned transportation revenue amounted to ₱22.12 billion as of December 31, 2022.

We considered the recognition and measurement of earned and unearned transportation revenue as a key audit matter because of the significant amounts involved, large volumes of data being processed and complexity in determining the amount of revenue to be recognized for flown flights. The Group also uses complex information technology system to process large volumes of data and determine the timing and the amount of revenue to be recognized for each flight, which involves exchanges of information with the industry systems and partner airlines, and to track the issuance and subsequent redemption of the awards under the Group's frequent flyer program. Also, the determination of the timing for recognition of revenue related to unused tickets and quantification of revenue allocable to the frequent flyer program requires significant judgment and estimation.

Refer to Notes 3 and 4 to the consolidated financial statements for the relevant accounting policies and a discussion of significant judgments and estimates.

Audit response

With the involvement of our internal specialist, we obtained an understanding of the Group's revenue recognition process and tested its information technology system general controls, such as user access and program change, and the application controls over the recognition and measurement process for the Group's earned and unearned transportation revenue. We selected sample journal entries related to revenue recognition and inspected the underlying documentation. We also performed analytical procedures on the Group's passenger and cargo earned and unearned transportation revenue.

For the estimate of the deferred revenue pertaining to the frequent flyer program, we compared the expected redemption rates with the actual redemption rates in prior years and tested the allocated unit fair values of the miles by comparing these with the prices for third-party frequent flyer miles sales and flight redemption values.

Accounting for aircraft and related equipment

The Group has aircraft and related equipment, including right-of-use assets, as at December 31, 2022 with a carrying amount of ₱105.72 billion. In accounting for these assets, the Group estimated their useful lives, residual values and any potential impairment, based on the fair value of the assets and the cash flows they generate.

The lower market values of certain aircraft assets as compared with their respective carrying amounts, and the continuing earnings volatility have exposed the Group to potential asset impairment.

We considered the accounting for aircraft and related equipment, including right-of-use assets, subsequent to initial recognition as a key audit matter because the changes to the estimated useful lives and/or residual values of the Group's fleet and potential recognition of impairment loss could have a material impact on the consolidated financial position and consolidated financial performance of the

Group for the year. Further, there is significant judgment and estimation involved in the determination of the recoverable amounts of the individual assets or cash generating units (CGU) to which these assets belong, the useful lives and residual values, and the assumptions used for the impairment assessment.

Refer to Notes 3 and 4 to the consolidated financial statements for the relevant accounting policies and a discussion of significant judgment and estimates, and Note 10 for the detailed disclosures about the carrying amounts of the aircraft and related equipment, including right-of-use assets.

Audit response

We obtained an understanding of the Group's process and controls over estimation of the useful lives of aircraft, including right-of-use assets. We assessed management's estimates of the useful lives and residual values considering the Group's fleet plan, recent aircraft transactions, and contractual rights. We also considered the developments in the airline industry and compared the estimated useful lives used by the Group with comparable airlines.

We evaluated the potential indicators of impairment that would require the impairment testing of the individual assets and the cash generating units (CGUs). With the involvement of our internal specialist, we evaluated the key assumptions used to estimate the discounted cash flows of the CGU based on our understanding of the Group's business plan. We compared key assumptions used which include the forecasted revenues, operating costs, and discount rates with the relevant market data and historical results, as applicable.

Classification and measurement of aircraft repairs, maintenance and overhaul costs

Total aircraft-related repairs and maintenance costs recognized in profit or loss for the year ended December 31, 2022 amounted to ₱14.79 billion, while the accrued repairs and maintenance costs as at December 31, 2022 amounted to ₱16.38 billion.

We considered the classification and measurement of aircraft repairs and maintenance costs as a key audit matter because of the significant judgment involved in assessing whether a particular repair should be capitalized or expensed, and the inherent risks in assessing the variable factors in order to estimate the repairs and maintenance costs at the cut-off date.

Refer to Notes 3 and 4 to the consolidated financial statements for the relevant accounting policies and a discussion of significant estimates, and Notes 10, 14 and 20 for the detailed disclosures on the aircraft repairs, maintenance and overhaul costs and related accrual.

Audit response

We obtained an understanding of the Group's aircraft repairs and maintenance program and tested the relevant key controls over the related processes. We selected sample transactions related to aircraft repairs, maintenance and overhauls, and inspected the underlying documentation. We evaluated the classification of aircraft repairs, maintenance and overhaul costs based on their nature and by considering the Company's capitalization and expensing policy. We obtained the maintenance agreements with key aircraft maintenance service providers and compared the amounts accrued with the related open work orders.

Recognition of deferred income tax assets

The Group recognized deferred income tax assets amounting to ₱15.67 billion arising from certain deductible temporary differences.

We considered the recognition of deferred income tax assets as a key audit matter because of the significant judgment and estimation involved in assessing the probability and level of future taxable profits that will allow the deferred income tax assets to be utilized.

Refer to Notes 3 and 4 to the consolidated financial statements for the relevant accounting policies and a discussion of significant judgment and estimates, and Note 22 for the detailed disclosures on deferred income tax assets.

Audit Response

We evaluated management's assessment on the availability of future taxable income in reference to the Group's financial forecast and tax strategies. We evaluated management's assumptions and estimates, which include the forecasted revenues and operating costs in relation to the likelihood of generating sufficient future taxable profits based on our understanding of the Group's business plan, and compared these assumptions with the relevant market data and historical results, as applicable. We also assessed the timing of the reversal of future taxable and deductible temporary differences. Further, we assessed the amount of recognized deferred tax asset against the amount that should be recognized based on the estimated future taxable income at the applicable income tax rates.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Albert R. Bon.

SYCIP GORRES VELAYO & CO.

Albert R. Bon

Albert R. Bon
Partner
CPA Certificate No. 0121479
Tax Identification No. 255-491-830
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 121479-SEC (Group A)
Valid to cover audit of 2019 to 2023 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-135-2023, January 25, 2023, valid until January 24, 2026
PTR No. 9369785, January 3, 2023, Makati City

March 31, 2023

PAL HOLDINGS, INC.
(A Subsidiary of Trustmark Holdings Corporation)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 18)	**₱18,383,928**	₱24,154,660
Short-term investments (Notes 5 and 18)	**11,186,683**	–
Receivables (Notes 4, 6, 15 and 18)	**32,075,447**	27,506,369
Expendable parts, fuel, materials and supplies (Notes 4 and 7)	**3,618,432**	3,098,213
Other current assets (Notes 5, 8 and 27)	**7,111,778**	4,026,132
	72,376,268	58,785,374
Assets held for sale (Notes 4 and 10)	**–**	537,425
Total Current Assets	**72,376,268**	59,322,799
Noncurrent Assets		
Property and equipment (Notes 4, 10, 15, 18, 23 and 24):		
At cost	**111,826,588**	113,794,471
At appraised values	**1,191,206**	958,493
Investment properties (Notes 4 and 11)	**237,851**	1,604,451
Deferred income tax assets - net (Notes 4 and 22)	**4,926,512**	4,478,067
Other noncurrent assets (Notes 5, 12, 18, 24 and 27)	**15,478,498**	13,688,273
Total Noncurrent Assets	**133,660,655**	134,523,755
TOTAL ASSETS	**₱206,036,923**	₱193,846,554
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 13 and 18)	**₱–**	₱1,386,879
Accounts payable (Note 18)	**15,311,168**	17,213,174
Accrued expenses and other current liabilities (Notes 4, 13, 14, 18 and 27)	**24,594,926**	22,383,273
Unearned transportation revenue (Note 4)	**22,116,125**	11,903,788
Current portion of long-term obligations (Notes 4, 15, 18 and 24)	**20,606,398**	17,578,376
Total Current Liabilities	**82,628,617**	70,465,490
Noncurrent Liabilities		
Long-term obligations - net of current portion (Notes 4, 15, 18 and 24)	**92,025,118**	105,766,896
Accrued employee benefits (Notes 4 and 21)	**13,061,747**	11,911,777
Reserves and other noncurrent liabilities (Notes 4, 10, 16, 18 and 27)	**5,498,558**	4,012,672
Deferred income tax liabilities - net (Note 22)	**–**	93
Total Noncurrent Liabilities	**110,585,423**	121,691,438
Total Liabilities	**193,214,040**	192,156,928
Equity (Capital Deficiency)		
Capital stock (Notes 1 and 17)	**9,799,753**	9,799,753
Additional paid-in capital (Note 17)	**3,010**	3,010
Deposit for future stock subscriptions (Notes 17 and 18)	**12,907,210**	12,907,210
Other equity reserves (Note 9)	**1,354,054**	1,354,054
Other components of equity (Note 19)	**(764,274)**	(1,308,488)
Deficit (Note 17)	**(21,551,143)**	(29,788,307)
Treasury stock - at cost (Note 17)	**(25)**	(25)
Equity (Capital Deficiency) Attributable to Equity Holders of the Parent Company	**1,748,585**	(7,032,793)
Non-controlling Interests (Note 9)	**11,074,298**	8,722,419
Total Equity	**12,822,883**	1,689,626
TOTAL LIABILITIES AND EQUITY	**₱206,036,923**	₱193,846,554

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
[(Amounts in Thousands, Except Earnings (Loss) Per Share)]

	Years Ended December 31		
	2022	2021	2020
REVENUE			
Passenger (Note 4)	**₱115,092,778**	₱37,255,668	₱41,860,117
Cargo (Note 4)	**12,848,243**	15,021,441	9,413,430
Ancillary (Note 4)	**11,261,991**	6,397,614	3,979,952
Others (Note 18)	**35,073**	25,988	10,467
	139,238,085	58,700,711	55,263,966
EXPENSES (Note 20)			
Flying operations (Note 18)	**71,896,029**	33,284,132	48,427,882
Maintenance (Notes 4 and 18)	**15,913,362**	10,055,531	12,435,836
Aircraft and traffic servicing (Note 18)	**11,629,774**	6,114,971	7,176,579
Passenger service (Note 18)	**8,276,980**	3,997,620	5,077,056
Reservation and sales	**8,112,326**	3,161,387	3,195,859
General and administrative (Note 6)	**6,106,447**	6,184,175	5,527,292
	121,934,918	62,797,816	81,840,504
OTHER INCOME (CHARGES) - Net			
Financing charges (Notes 13, 15, 16 and 18)	**(7,345,650)**	(6,574,970)	(9,843,926)
Other income (charges) - net (Notes 5, 7, 10, 12, 16, 18, 20, 24 and 26)	**614,683**	64,385,168	(29,449,659)
	(6,730,967)	57,810,198	(39,293,585)
INCOME (LOSS) BEFORE INCOME TAX	**10,572,200**	53,713,093	(65,870,123)
INCOME TAX BENEFIT (EXPENSE) (Note 22)	**(213,436)**	6,898,382	(7,213,637)
NET INCOME (LOSS)	**10,358,764**	60,611,475	(73,083,760)
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19)			
Other comprehensive income (loss), net of deferred income tax effect	**765,230**	(4,120,347)	79,981
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱11,123,994**	₱56,491,128	(₱73,003,779)
Net income (loss) attributable to:			
Equity holders of the Parent Company	**₱8,164,471**	₱59,089,967	(₱71,809,963)
Non-controlling Interests (Note 9)	**2,194,293**	1,521,508	(1,273,797)
	₱10,358,764	₱60,611,475	(₱73,083,760)
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**₱8,774,014**	₱53,633,232	(₱70,521,898)
Non-controlling Interests (Note 9)	**2,349,980**	2,857,896	(2,481,881)
	₱11,123,994	₱56,491,128	(₱73,003,779)
Basic/Diluted Earnings (Loss) Per Share*			
Computed based on Net Income (Loss)	**₱0.7032**	₱5.0891	(₱6.1847)
Computed based on Total Comprehensive Income (Loss)	**₱0.7557**	₱4.6192	(₱6.0737)

**Computed using the weighted average number of issued and outstanding shares of stock of 11,610,978,242, for the years ended December 31, 2022, 2021 and 2020. The Parent Company does not have potentially dilutive common stock equivalents.*

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Thousands)

	Capital Stock (Note 17)	Additional Paid-in Capital (Notes 17 and 18)	Other Equity Reserves (Note 9)	Other Components of Equity: Effect of Change in Ownership Interest	Cumulative Translation Adjustment (Note 27)	Net Changes in Fair Values of Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI) - Net of Deferred Income Tax Effect (Notes 12 and 19)	Revaluation Increment - Net of Deferred Income Tax Effect (Notes 10 and 19)	Remeasurement Gains (Losses) on Defined Benefit Plan - Net of Deferred Income Tax Effect (Notes 19 and 21)	Subtotal	Deficit (Note 17)	Treasury Stock - At Cost (Note 17)	Total Equity (Capital Deficiency) Attributable to the Equity Holders of the Parent	Non-Controlling Interest (Note 9)	Total
BALANCES AT JANUARY 1, 2020	**₱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 year	–	–	–	–	–	–	–	–	–	(71,809,963)	–	(71,809,963)	(1,273,797)	(73,083,760)
Other comprehensive income (loss) (Note 19)	–	–	–	–	2,247,679	(953,025)	46,016	(52,605)	1,288,065	–	–	1,288,065	(1,208,084)	79,981
Total comprehensive income (loss) for the year	–	–	–	–	2,247,679	(953,025)	46,016	(52,605)	1,288,065	(71,809,963)	–	(70,521,898)	(2,481,881)	(73,003,779)
Disposal of partial interest in a subsidiary (Note 9)	–	–	–	–	–	–	–	–	–	–	–	–	45,000	45,000
Net effect of transfer of portion of revaluation increment in property realized through sale and depreciation, net of deferred income tax and foreign exchange adjustment	–	–	–	–	–	–	(103,994)	–	(103,994)	59,117	–	(44,877)	(490)	(45,367)
	–	–	–	–	–	–	(103,994)	–	(103,994)	59,117	–	(44,877)	44,510	(367)
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)**

	Capital Stock (Note 17)	Additional Paid-in Capital (Notes 17 and 18)	Deposit for Future Stock Subscription (Note 17)	Other Equity Reserves (Note 9)	Other Components of Equity: Effect of Change in Ownership Interest	Other Components of Equity: Cumulative Translation Adjustment (Note 27)	Other Components of Equity: Net Changes in Fair Values of Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI) - Net of Deferred Income Tax Effect (Notes 12 and 19)	Other Components of Equity: Revaluation Increment - Net of Deferred Income Tax Effect (Notes 10 and 19)	Other Components of Equity: Remeasurement Gains (Losses) on Defined Benefit Plan - Net of Deferred Income Tax Effect (Notes 19 and 21)	Other Components of Equity: Subtotal	Deficit (Note 17)	Treasury Stock - At Cost (Note 17)	Total Equity (Capital Deficiency) Attributable to the Equity Holders of the Parent	Non-Controlling Interest (Note 9)	Total
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 income for the year	–	–	–	–	–	–	–	–	–	–	59,089,967	–	59,089,967	1,521,508	60,611,475
Other comprehensive income (loss) (Note 19)	–	–	–	–	–	(5,171,939)	(205,489)	–	(79,307)	(5,456,735)	–	–	(5,456,735)	1,336,388	(4,120,347)
Total comprehensive income (loss) for the year	–	–	–	–	–	(5,171,939)	(205,489)	–	(79,307)	(5,456,735)	59,089,967	–	53,633,232	2,857,896	56,491,128
Effect of change in noncontrolling interest (Note 17)	–	–		(275,827)	174,166	461,708	(841)	(117,592)	168,352	685,793	–	–	409,966	(79,013)	330,953
Deposit for future stock subscription	–	–	12,907,210	–	–	–	–	–	–	–	–	–	12,907,210	–	12,907,210
Net effect of transfer of portion of revaluation increment in property realized through sale and depreciation, net of deferred income tax and foreign exchange adjustment	–	–	–	–	–	–	–	(22,235)	–	(22,235)	88,403	–	66,168	722	66,890
	–	–	12,907,210	(275,827)	174,166	461,708	(841)	(139,827)	168,352	663,558	88,403	–	13,383,344	(78,291)	13,305,053
BALANCES AT DECEMBER 31, 2021	**9,799,753**	**3,010**	**12,907,210**	**1,354,054**	**163,398**	**(1,888,583)**	**555,026**	**481,079**	**(619,408)**	**(1,308,488)**	**(29,788,307)**	**(25)**	**(7,032,793)**	**8,722,419**	**1,689,626**
Net income for the year	–	–	–	–	–	–	–	–	–	–	8,164,471	–	8,164,471	2,194,293	10,358,764
Other comprehensive income (loss) (Note 19)	–	–	–	–	–	451,763	(52,163)	206,593	3,350	609,543	–	–	609,543	155,687	765,230
Total comprehensive income (loss) for the year	–	–	–	–	–	451,763	(52,163)	206,593	3,350	609,543	8,164,471	–	8,774,014	2,349,980	11,123,994
Net effect of transfer of portion of revaluation increment in property realized through sale and depreciation, net of deferred income tax and foreign exchange adjustment	–	–	–	–	–	–	–	(65,329)	–	(65,329)	72,693	–	7,364	1,899	9,263
	–	–	–	–	–	–	–	(65,329)	–	(65,329)	72,693	–	7,364	1,899	9,263
BALANCES AT DECEMBER 31, 2022	**₱9,799,753**	**₱3,010**	**₱12,907,210**	**₱1,354,054**	**₱163,398**	**(₱1,436,820)**	**₱502,863**	**₱622,343**	**(₱616,058)**	**(₱764,274)**	**(₱21,551,143)**	**(₱25)**	**₱1,748,585**	**₱11,074,298**	**₱12,822,883**

See accompanying Notes to Consolidated Financial Statements

PAL HOLDINGS, INC.
(A Subsidiary of Trustmark Holdings Corporation)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**₱10,572,200**	₱53,713,093	(₱65,870,123)
Adjustments for:			
Depreciation and amortization (Notes 10 and 20)	**13,051,587**	19,513,777	25,853,203
Loss (Gain) on disposal of property and equipment and others (Note 10)	**42,912**	(1,761,552)	(1,663,875)
Provision for (reversal of) impairment loss - net (Notes 10 and 11)	**(313,667)**	(3,807,144)	32,824,745
Financing charges (Notes 13, 15, 16 ,18 and 20)	**7,345,650**	8,296,169	9,844,505
Gain from debt settlement (Notes 2, 13, 15, 20 and 24)	–	(80,082,914)	–
Gain from condonation of debt (Notes 2, 16, 17, 18 and 20)	–	(18,272,279)	–
Loss on recognition of claims liability arising from lease amendments and terminations (Notes 15 and 20)	–	24,778,425	–
Reversal of provision for litigations - net (Note 16)	**(335)**	(125,593)	(22,833)
Interest income (Notes 5 and 12)	**(533,355)**	(461,035)	(868,796)
Dividend income (Note 12)	**(446)**	–	–
Fair value changes on derivatives (Note 27)	**–**	(2,331,929)	1,783,334
Income on manufacturers' credits (Note 24)	**(659,191)**	(6,609)	(29,726)
Unrealized foreign exchange loss (gain) - net	**(584,827)**	4,858,400	(1,064,491)
Movement in accrued employee benefits (Note 21)	**1,242,258**	309,492	(874,385)
Operating income (loss) before working capital changes	**30,162,786**	4,620,301	(88,442)
Decrease (increase) in:			
Receivables	**(3,622,325)**	(7,974,248)	6,442,176
Expendable parts, fuel, materials and supplies	**(520,219)**	814,550	1,181,144
Other current assets	**(2,735,480)**	390,583	132,794
Other noncurrent assets	–	–	1,884,749
Increase (decrease) in:			
Accounts payable	**(226,130)**	(642,178)	187,630
Accrued expenses and other current liabilities	**(2,437,980)**	(1,800,793)	2,762,073
Unearned transportation revenue	**10,212,337**	2,790,461	(6,251,231)
Net movement on derivative transactions	–	2,117,478	(1,741,938)
Cash generated from operations	**30,832,989**	316,154	4,508,955
Financing charges paid	**(4,598,728)**	(4,065,742)	(3,338,415)
Interest received	**174,572**	33,078	137,980
Income taxes paid (including final and creditable withholding taxes)	**(532,860)**	(201,422)	(381,817)
Net cash flows from (used in) operating activities	**25,875,973**	(3,917,932)	926,703
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in money market placements (Note 5)	**(11,025,273)**	–	(30,000)
Additions to:			
Security deposits (Note 12)	**(541,771)**	(105,575)	(5,127,848)
Property and equipment (Notes 10 and 23)	**(1,485,891)**	(7,727)	(2,510,962)
Dividend received (Notes 12 and 18)	**446**	–	336
Proceeds from disposal of:			
Investment properties (Note 11)	–	660,743	3,096,043
Property and equipment (Note 10)	**53,413**	34,555	80,885
Assets held for sale (Note 10)	**582,472**	–	12,006
Return of various deposits (Note 12)	**720,968**	2,341,160	3,214,804
Refund of predelivery payments (Note 24)	–	–	1,047,806
Net cash flows from (used in) investing activities	**(11,695,636)**	2,923,156	(216,930)

Forward

		Years Ended December 31	
		2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Notes payable (Notes 13 and 18)	**₱–**	₱20,417,246	₱3,937,886
Bridge loan (Notes 15 and 18)	–	5,099,900	–
Long-term obligations (Notes 15, 18, 23 and 24)	–	–	792,379
Receipt of deposit for future stock subscription (Note 17)	–	25,754,495	–
Receipt of deposits from non-controlling interest of a subsidiary (Note 16)	–	–	6,383,409
Payments of:			
Notes payable (Notes 13 and 18)	–	(18,541,706)	(9,977,258)
Bridge loan (Notes 15 and 18)	–	(5,099,900)	–
Long-term obligations (Notes 15, 18, 23 and 24)	**(23,255,017)**	(5,882,527)	(13,964,179)
Net cash flows from (used in) financing activities	**(23,255,017)**	21,747,508	(12,827,763)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**3,303,948**	1,044,281	(628,375)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(5,770,732)**	21,797,013	(12,746,365)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**24,154,660**	2,357,647	15,104,012
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱18,383,928**	₱24,154,660	₱2,357,647

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information and Authorization for Issuance of the Consolidated Financial Statements

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") are 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, 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.

As of December 31, 2022 and 2021, the Parent Company is 76.92% owned by Trustmark Holdings Corporation (Trustmark), which 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 both incorporated in the Philippines and are part of the Lucio Tan Group of Companies, while HGIL was incorporated in the 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.

PAL Franchise

PAL operates under a franchise, which extends up to the year 2034, granted by the Philippine Government under Presidential Decree No. 1590. As provided for under the franchise, PAL is subject to:

a. corporate income tax based on net taxable income; or
b. franchise tax of 2% of the gross revenue derived from non-transport, domestic transport and outgoing international transport operations,

whichever is lower, in lieu of all other taxes, duties, royalties, registration licenses and other fees, and charges of any kind, nature, or description, imposed, levied, established, assessed, or collected by any municipal, city, provincial or national authority or government agency, except real property tax.

APC Franchise

APC operates under a franchise for a term of 25 years from August 8, 1997, the date of effectivity of Republic Act (RA) No. 8339, with some provisions amended under Republic Act (RA) No. 9215 effective May 5, 2003. APC's franchise was renewed for a term of 25 years under RA No. 11682 when it lapsed into law on April 11, 2022. As provided for under the franchise, APC was subject to, among others:

a. corporate income tax based on net taxable income; or
b. franchise tax of 5% of the gross revenue derived from non-transport, domestic transport and outgoing international transport operations,

whichever is lower, in lieu of all other taxes, duties, fees, and licenses of any kind, nature, or description, imposed, levied, established, assessed, or collected by any municipal, city, provincial or national authority or government agency, except real property tax.

Under RA No. 9337 or the E-VAT Act of 2005 which took effect on November 1, 2005, the franchise tax of PAL and APC was abolished and PAL and APC became subject to the corporate income tax. PAL and APC remain exempt from any taxes, duties, royalties, registration license, and other fees and charges, as may be provided under PAL's and APC's franchises.

As further provided for under PAL's and APC's franchises, PAL and APC can carry forward as a deduction from taxable income, net loss incurred in any year up to five years following the year of such loss (see Note 22). In addition, the payment of the principal, interest, fees, and other charges on foreign loans obtained by PAL and APC, and all rentals, interest, fees and other charges paid by PAL and APC to their lessors for the lease of aircraft, engines, spares, other flight or ground equipment, and other personal property are exempt from all taxes, including withholding tax, provided that the liability for the payment of said taxes is assumed by the grantee (PAL or APC, as applicable).

Board of Investments (BOI) Registration
In 2018, PAL registered with the BOI as a new operator of air transport services on a non-pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226). Under the terms of the registration with the BOI, PAL is entitled to certain fiscal and non-fiscal incentives available to the registered project, including among others, an income tax holiday (ITH) for a period of four years from the month following the delivery date or actual start of commercial operations of the aircraft, whichever is earlier. The availment of which, however, shall in no case be earlier than the date of registration (see Note 22).

Authorization for Issuance of the Consolidated Financial Statements
These accompanying consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 were authorized for issuance by the Parent Company's BOD on March 31, 2023.

2. Status of Operations

With the implementation of the financial restructuring plan as discussed below and the improvement in the results of operations, the Group reported consolidated comprehensive income amounting to ₱11.12 billion in 2022, and ₱56.49 billion in 2021 which considered the net gain from debt restructuring amounting to ₱73.74 billion (see Note 20). The Group reported consolidated total comprehensive loss of ₱73.00 billion for the year ended December 31, 2020. The total comprehensive income in 2022 and 2021 reduced the deficit to ₱21.55 billion and ₱29.79 billion, and increased the consolidated equity to ₱12.82 billion and ₱1.69 billion as of December 31, 2022 and 2021, respectively, from a deficit of ₱88.97 billion and consolidated capital deficiency of ₱68.11 billion as of December 31, 2020. Further, the Group's excess of current liabilities over current assets was reduced to ₱10.25 billion and ₱11.14 billion as of December 31, 2022 and 2021, respectively, from ₱164.02 billion as of December 31, 2020. Management plans to continuously implement key activities to further improve the Group's operations in 2023 and thereafter.

Recovery Plan
In 2021 and 2020, the Group's liquidity situation became more critical due to severely weak passenger revenue as an adverse effect of the COVID-19 pandemic. The COVID-19 pandemic and the measures taken by the Philippine and foreign governments caused disruptions to the Group'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 (see Note 15).

The Group addressed the conditions set out above from the start of the pandemic in 2020 with the immediate implementation of cost-cutting measures, deferral of lease and loan principal payments, deferral of payment of airport authority fees and charges, extension of credit terms with critical vendors, delay of aircraft and engine capital expenditure, suspension of all non-aircraft capital expenditure, disposal of non-core assets, and execution of a retrenchment program. The Group also engaged financial advisors and legal counsels to assist in the recovery plan which includes the negotiations with its local and foreign bank creditors as well as aircraft lessors and trade creditors to restructure its existing debts, the refinement and validation of the Group's fleet and network strategy and embarking on a financial restructuring to ensure the Group's business continuity. The COVID-19 situation, however, continued to undermine the Group's ability to generate sufficient revenues and cash to meet its financial obligations. In May 2020, management presented to the BOD the Group's recovery plan that focuses on the following four key areas: (1) right-sized network fleet; (2) effective customer engagement; (3) cost containment; and (4) financial restructuring.

Chapter 11 Plan of Reorganization of Philippine Airlines, Inc. (the "Plan")
Due to the difficulties in sourcing additional financing, on September 3, 2021, PAL proceeded with the filing of voluntary petition for relief under Chapter 11 (Chapter 11 Filing) of the US Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the US Court). The petition was for PAL to be authorized to continue to operate its business and manage its operations as a debtor-in-possession pursuant to Sections 1107 and 1108 of the US Bankruptcy Code and pursue confirmation of a pre-arranged plan of reorganization to effect the restructuring contemplated by various Restructuring Support Agreements (RSAs) with the lessors, creditors, and primary original equipment manufacturers (OEM) and maintenance, repair and overhaul service providers (MRO) (collectively the "Supporting Creditors"). The Chapter 11 Filing was part of the Group's overall plan to position itself for the post-pandemic environment. Apart from protection from the US Court, the Group's plan included resizing and reshaping its operations, permanent restructuring of its obligations and broad recapitalization.

Prior to the Chapter 11 Filing and in order to ensure a smooth confirmation process, discussions were held with key stakeholders and RSAs were negotiated with substantially all of PAL's aircraft lessors and lenders outlining the material terms for a proposed Plan of Reorganization (the Plan). In summary, the RSAs and the Plan contemplate the following:

- Reduction of PAL's aircraft related obligations by restructuring the terms and conditions of the lease agreements with respect to certain aircraft and engines, including PAL's obligations that will be implemented consistent with the terms and conditions set forth in the Plan Term Sheet of the RSAs (the "Restructuring");
- Infusion of $505 million working capital to fund PAL's ongoing operations during the Chapter 11 Filing of which, $250 million Tranche A Debtor-in-possessions (DIP) Facility and $255 million Tranche B DIP Facility (collectively the "DIP Facility") will come from BSHI and PHI, respectively. The $505 million comprised of (a) a first lien secured Tranche A multi-draw term loan facility (the "Tranche A Facility) in an aggregate amount of $250 million from BSHI; and (b) a second lien secured Tranche B multi-draw term loan facility (the "Tranche B DIP Facility" and, together with the Tranche A DIP Facility, the "DIP Facility") in an aggregate principal amount of $255 million from PHI;

- Optimization of PAL's fleet size, composition and ownership costs as required by the new market;
- Maintenance and enhancement of PAL's key contracts with business partners to strengthen its viability; and,
- Execution of commitments for up to $150 million exit facility (the Optional Exit Facility) from new investors to ensure PAL has adequate available liquidity to complete its restructuring.

The Plan Term Sheet included the material terms for the DIP Facility, Optional Exit Facility, and the treatment of claims and interest under the Plan, which mainly included the general unsecured claims and other secured debts held by parties to the RSAs (see Notes 13, 15 and 18).

A summary of significant activities under the Chapter 11 Filing vis-a-vis some of the relevant terms of the Plan are as follows:

- On September 24, 2021, PAL filed with the Regional Trial Court, National Capital Judicial Region, Branch CXI (111), Pasay City, the local court, the petition seeking recognition of foreign proceedings in relation to the Chapter 11 Filing.

- On October 22, 2021, the local court granted PAL's petition and rendered judgment (i) recognizing the Chapter 11 Filing; and (ii) giving force and effect to the Chapter 11 Filing and all court orders issued by the US Court in connection with such foreign proceeding, among others.

- On September 30, 2021, the US Court issued an order authorizing PAL to obtain post-petition financing consisting of an aggregate amount of $505 million comprising of a first lien secured Tranche A DIP of $250 million from BSHI and a second lien secured Tranche B DIP Facility in an aggregate principal amount of $255 million from PHI. The Tranche A DIP Facility and Tranche B DIP facility were fully drawn on October 6, 2021 and November 3, 2021, respectively. The proceeds from the DIP Facility were used to meet PAL's obligations arising during the Chapter 11 Filing, including its administration, and as working capital to operate its business (see Note 18).

- On October 13, 2021, PAL filed the Plan and a Disclosure Statement before the US Court.

- On November 12, 2021, the US Court, approved, upon motion of PAL, the Disclosure Statement, materials and timeline for soliciting votes, and solicitation and voting procedures. Under the voting procedures, only holders of general unsecured claims are entitled to object or vote on the Plan. 100% of the valid ballots voted in favor of the Plan.

- As a consequence of this post-petition financing and in view of the consent of majority of all the creditors and lessors (in monetary terms), on December 17, 2021, the US Court confirmed its approval of the Plan. The Plan calls for the conversion of all unsecured creditor loans/claims, including a portion of the $505 million working capital received by PAL, to the extent of $255 million from PHI, into new equity in PAL. Further, the US Court stated in its order that PAL may take any action free of any restrictions of the US Bankruptcy Code or Bankruptcy Rules and in all respects as if there were no pending cases under any chapter or provision of the US Bankruptcy Code, except as expressly provided in the Plan.

- On December 31, 2021, PAL filed with the US Court a Notice of Effective Date and Entry Order (i) confirming the Debtor's Chapter 11 Plan of Reorganization and (ii) granting related relief before the US Court. The notice states that all conditions precedent to the Effective Date set forth in Section 9.2, *Conditions Precedent to Effective Date*, of the Plan have been either satisfied, including the completion by PAL of the debt-to-equity conversion, or waived pursuant to Section 9.3, *Waiver of Condition Precedent*, of the Plan, such that the Plan was substantially consummated, and the Effective Date occurred, on December 31, 2021. With the approval and effectivity of the Plan, the US Court retains non-exclusive jurisdiction over all matters related to the Chapter 11 Filing or the Plan.

- In accordance with the Plan, in 2021, PAL filed with the Philippine SEC the following amendment in its Articles of Incorporation: (a) decrease in the par value shares from ₱1.00 to ₱0.001 per common share to create additional paid-in capital amounting to $300 million; (b) increase in the par value per common share from ₱0.001 to ₱1.00 per share, which reduced the authorized shares of stock by 12.99 billion shares (Reverse Stock Split), and; (c) increase in authorized capital stock to ₱7 billion divided into 7 billion common shares with a par value of ₱1.00 per share. On December 31, 2021, the Philippine SEC approved the amendment in the par value and authorized capital stock of PAL (see Notes 1 and 17).

- In accordance with the terms negotiated with the Supporting Creditors, through the Restructuring Support Agreements (RSAs) and with PHI in relation to the Tranche B DIP Facility, PAL issued common shares to the Supporting Creditors and PHI to settle its general unsecured claims and Tranche B DIP Facility, respectively. The issuance of shares in 2021 to Supporting Creditors resulted to a reduction in the effective ownership of PHI in PAL from 98.92% ownership interest as of December 31, 2020 to 79.49% ownership interest as of December 31, 2022 and 2021. On December 29, 2022, PAL issued a letter to the Supporting Creditors, which provides the status of the swap process and the mechanism whereby the Supporting Creditors will be able to exchange their PAL shares to PHI shares. On February 27, 2023, the BOD of PHI approved the exchange ratio between PHI and PAL of 15.57 PHI shares to 1 PAL share. As of March 31, 2023, the process of facilitating the swap of all shares issued to Supporting Creditors under the debt-to-equity conversion is ongoing.

<u>Key Initiatives and Conditions to Support the Recovery Plan</u>
Management recognizes that the Group's future viability will depend largely on the following initiatives to improve the Group's financial condition, operating performance, and cash flows:

- Payments of obligations under the restructured debts;
- Reinforcing PAL's market position as the Philippines' sole full-service airline with the largest international network;
- Restoring more routes and increasing flight frequencies;
- Building on code sharing and interline partnerships to complement the airline's current and future network;
- Expanding PAL's cargo business to tap more air cargo market opportunities;
- Offering great value fares and competitive promotional offers;
- Implementing continuous innovations to PAL's Mabuhay Miles frequent flyer program, including an expansion of membership rolls and enhancements to program terms and benefits;
- Accelerating digital transformation initiatives;
- Rolling out new product advancements to continuously upgrade the overall customer travel experience;
- Upholding the strictest professional safety standards in all of PAL's operations; and
- Generating positive operating results and cash flows.

In line with PAL's fleet optimization, as of December 31, 2021, PAL already redelivered surplus aircraft to the lessors. In 2022, PAL returned six additional aircraft. PAL's Purchase Agreement with Airbus has also been amended to defer the delivery of 13 Airbus 321-231 NEO aircraft from the schedule of delivery in years 2021-2025 to years 2026-2029 (see Note 10).

3. 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). 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, 2022. The new accounting pronouncements do not have significant impact to the consolidated financial statements, unless otherwise indicated:

- Amendments to PFRS 3, *Business Combinations*, *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 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-International Financial Reporting Interpretations Committee (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.

- Amendments to Philippine Accounting Standard (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.

- 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.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  Amendments to PFRS 1, *First-time Adoption of Philippine 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 in the parent’s consolidated financial statements, based on the parent’s date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  - 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.

  - 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.

New Accounting Standards and Amendments to Existing
<u>Standards Effective Subsequent to December 31, 2022</u>

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on the consolidated financial statements. The Group intends to adopt these pronouncements when they become effective.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Presentation of Financial Statements* and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies, and

- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 12, *Income Taxes*, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

Effective beginning on or after January 1, 2024

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

  The amendments clarify:

  - That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right.
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation;

- Amendments to PFRS 16, *Leases*, *Lease Liability in a Sale and Leaseback*

  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

  The Group is currently assessing the impact of these amendments.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures*, *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 and Sustainability Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the 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 December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022. The financial statements of the subsidiaries are prepared using consistent accounting policies as those of the Parent Company.

The subsidiaries and the respective percentages of ownership of the Parent Company as at December 31, 2022 and 2021 are as follows:

	Direct	Indirect
PAL	79.49%	0.002%
Sabre Travel Network (Philippines), Inc. (Sabre)	–	65.97%
PAL Receivables Co. Ltd. (PRC)	–	–
Mabuhay Miles Inc. (MMI)	–	79.49%
Mabuhay Maritime Express Transport Inc. (MMET)	–	79.49%
Fortunate Star Limited (FSL)	–	51.67%
PR Holdings, Inc. (PRI)	82.33%	–
ZUMA	51.00%	–
APC	–	50.98%
GuidetothePhilippines Inc. (Guide)	–	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 was intended to promote the frequent flyer program of PAL; PRI and ZUMA are holding companies; MMET is a company established in 2016 which engaged 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 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 90 days 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. Cash equivalents with original maturities more than 90 days but less than one year are presented as "Short-term investments" in the consolidated statement of financial position.

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 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 marketplace 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 the 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 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, accrued expenses and other current liabilities, lease liabilities and long-term debt 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. As of December 31, 2022 and 2021, the Group has no derivative transactions designated as cash flow or fair value hedge.

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 is 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 the replacement cost of these expendable parts, fuel, materials and supplies, considering factors such as age and physical condition of these assets.

Deposits and Prepayments
Deposits and 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:

	Number of Years
Passenger aircraft	4 to 20
Engines	4 to 20
Buildings and improvements	5 to 40
Rotable and reparable 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, *Non-current 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 of 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, is presented below:

	Number of Years
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.

Lease modifications and termination
After the commencement date, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. The Group remeasures the lease liability to reflect changes to the lease payments. The Group determines the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined. The Group recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognizes any remaining amount of the remeasurement in profit or loss.

In the case of lease termination, the Group decreases the carrying amount of the right-of-use assets to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease.

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 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 to 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, including Right-of-Use Assets, 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 for Future Stock Subscription

Deposit for future stock subscription generally represent funds received by the Parent Company 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 Parent Company classifies deposit for future stock subscription 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;
- The BOD has approved the proposed increase in authorized capital stock (for which a deposit was received by the Parent Company);
- The stockholders have approved 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.

Retained earnings (Deficit) represents the cumulative balance of net income (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.

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of goods or services is 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 waybills 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 in banks, 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 for 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.

4. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of these consolidated financial statements in accordance with PFRSs requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. These judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the end of the reporting period. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments
In the process of applying the Group's accounting policies, management has made the judgments as discussed in the next page, apart from those involving estimations, which have the most significant effect on amounts recognized in the consolidated financial statements.

Use of going concern assumption
The use of the going concern assumption involves management making judgments, at a particular point in time, about the future outcome of events or conditions that are inherently uncertain. The underlying assumption in the preparation of the consolidated financial statements is that the Group has neither the intention nor the need to liquidate. Management considers a whole range of factors and assumptions which include, but are not limited to, positive projected operating cash flows in 2023 because of the recovery in the travel industry, among others (see Note 2).

Determination of functional currency
Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses and other factors including the currency in which financing is primarily undertaken by each entity. Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of the Parent Company rather than being carried out with significant autonomy.

The Parent Company, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Philippine peso. It is the currency of the primary economic environment in which it operates. The functional currency of PAL, its major subsidiary, has been determined to be USD.

Recognition and measurement of revenue from contracts with customers and determination of the timing of satisfaction of performance obligation
The Group applied the following judgments that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- The Group assessed that performance obligation for passenger, cargo, ancillary and other services are rendered to the customers over time. As a result, the Group recognized revenue based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment.

- For the sale of goods, the Group assessed that performance obligation for sale of goods are satisfied at a point in time. The Group uses its judgment on when a customer obtains control of the promised goods. The Group has assessed that the actual delivery of the goods to the customer is the point in time when the performance obligation has been satisfied.

Assessment of control on investees
The Group makes an assessment whether or not it controls an investee by considering all relevant facts and circumstances that indicates that the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. A reassessment is made if circumstances indicate that there are changes in these control elements. The Group has significant influence over an investee if it only has the power to participate in the financial and operating policy decisions, but not control or joint control over it. The Parent Company has determined that it controls its subsidiaries.

An entity is considered a structured entity and included in consolidation even in a case where the Group owns less than one-half or none of the structured entity's equity, when the substance of the relationship indicates that the structured entity is being controlled by the Group. While PAL has no ownership interest in PRC, the latter's purpose is to facilitate PAL's sale of receivables and obtain financing from a third-party bank. In substance, the majority of the benefits from the activities of PRC flow to PAL and ultimately to the Parent Company. Based on these facts and circumstances, management has concluded that PAL has control over PRC, and therefore, included PRC in the consolidated financial statements of the Group.

Classification of financial instruments
From 2015 to 2019, the Group sold its rights to the cash flows arising from certain credit card receivables including future credit card receivables from sales in the United States, for a total cash consideration of ₱33.35 billion. On the same period, the Group also sold its rights to the cash flows arising from passenger and cargo receivables denominated in Japanese Yen through certain agents in Japan, including future receivables, for a total cash consideration of ₱22.37 billion. The Group has determined that substantially all the risks and rewards of the sold portfolios in have been retained and consequently, the receivables were not derecognized. The Group accounted for the transaction as a collateralized borrowing and recorded the cash received as a financial liability. The carrying value of these financial liabilities amounted to ₱28.73 billion and ₱31.97 billion as of December 31, 2022 and 2021, respectively (see Note 15).

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

In 2019, management determined that certain aircraft and engines are available for sale in their present condition within the next 12 months. Management reclassified these aircraft and engines from “Property and equipment - at cost” into “Assets held for sale” in the consolidated statement of financial position as of December 31, 2019 (see Note 10). In 2020, management reassessed that the potential sale of these aircraft, previously classified as assets held for sale, with a net carrying amount of ₱1.44 billion, is no longer highly probable. As a result, these aircraft were reclassified back to “Property and equipment - at cost”. On the other hand, management reassessed in 2022 that the potential sale of aircraft engines previously classified as assets held for sale, with a net carrying amount of ₱37.63 million, is no longer highly probable. As a result, these engines were written-off.

In 2021, MMET vessels with carrying amount of ₱503.00 million were reclassified to asset held for sale and subsequently sold in 2022 (see Note 10).

Determination of whether the Group is acting as principal or agent
Management exercises judgment in determining whether the Group is acting as a principal or as an agent under its arrangements. Management determined that PAL is acting as principal under the Joint Marketing and Licensing Agreement and Block Space Code Share Agreement (Code Share Agreement) considering that it has the primary responsibility of providing the service to the passengers, bears the seat utilization and credit risks, and has significant control in setting the prices of the ticket (see Note 18). Management, on the other hand, determined that PAL is acting as an agent on other codeshare arrangements where it is acting as the marketing airline considering that the risks and rewards are with the operating airlines.

Determination of whether an arrangement contains a lease
Management exercises judgment in determining whether an arrangement is, or contains, a lease, which requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Management determined that its Code Share Agreement with Air Philippines Corporation (APC) does not contain a lease considering that the fulfillment of the obligation is not restricted in the use of specific aircraft and APC maintains the right to control and operate the aircraft (see Note 18).

Determination of lease term of contracts with renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Classification of leases - Group as lessor
The Group has sublease agreements covering some of its aircraft lease arrangements with the original lessors where it has determined that it has retained substantially all the risks and rewards incidental to ownership of the leased assets. These leases are classified as operating subleases (see Note 24).

Determination of taxable profit (loss)
Upon adoption of the Philippine Interpretation IFRIC 23, *Uncertainty over income tax treatments*, the Group assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined, based on its consultation with its tax counsel, that it is probable that its current income tax treatments will be accepted by the taxation authorities.

Contingencies
The Group is involved in various labor disputes, litigations, claims and tax assessments that are normal to its business. Based on the opinion of the Group's legal counsels on the progress and legal grounds of these cases, the Group believes that it may have a present obligation arising from a past event on some cases but that their likely outcome and estimated potential cash outflow cannot be determined reasonably as of this time. As such, no provision was made for these contingencies (see Note 16).

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

Recognition and measurement of passenger and cargo revenue
Passenger and cargo sales are recognized as revenue over time when the related passengers and cargoes are flown or lifted. Passenger tickets that are unused are recognized as revenue based on the expected breakage (expiration) of the passenger ticket using the Group's historical expiration experience. The carrying amount of unearned transportation revenue as of December 31, 2022 and 2021 amounted to ₱22.12 billion and ₱11.90 billion, respectively. In 2022 and 2021, the Group earned revenue from its contract liabilities as at January 1, 2022 and 2021 amounting to ₱4.06 billion and ₱0.92 billion, respectively.

A portion of passenger revenue attributable to the award of frequent flyer miles is deferred until they are utilized. The deferment of the revenue is estimated based on historical trends of breakage and redemption, which are then used to project the estimated utilization of the miles earned. The remaining unredeemed miles are measured at fair value estimated using the applicable fare based on the historical redemption. Changes in the estimates have a significant effect on the Group's financial results. Deferred revenue included as part of "Reserves and other noncurrent liabilities" amounted to ₱5.04 billion and ₱3.98 billion as of December 31, 2022 and 2021, respectively (see Note 16).

Provision for ECL of trade receivables and contract assets
The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various agents and customer segments that have similar loss patterns (i.e., by geography, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast of economic conditions (e.g., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the airline sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of debtor's actual default in the future.

The carrying value of receivables, net of allowance for ECL, as of December 31, 2022 and 2021 amounted to ₱32.08 billion and ₱27.51 billion, respectively. The allowance for ECL as of December 31, 2022 and 2021 amounted to ₱6.06 billion and ₱5.32 billion, respectively (see Note 6).

Determination of fair value of financial instruments (including derivatives)
The Group initially records all financial instruments at fair value and subsequently carries certain financial assets and financial liabilities at fair value, which requires use of estimates and judgment. Valuation techniques are used particularly for financial assets and financial liabilities (including derivatives) that are not quoted in an active market. Where valuation techniques are used to determine fair values (e.g., discounted cash flow, option models), they are periodically reviewed by qualified personnel who are independent of the trading function. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data as valuation inputs. However, other inputs such as credit risk (whether that of the Group or the counterparties), forward prices, volatilities and correlations, require management to develop estimates or make adjustments to observable data of comparable instruments. The amount of changes in fair values would differ if the Group uses different valuation assumptions or other acceptable methodologies. Any change in fair value of these financial instruments (including derivatives) would affect either profit or loss or other comprehensive income. The fair value of the Group's financial assets and financial liabilities are presented in Note 27.

Determination of net realizable value of expendable parts, fuel, materials and supplies
The Group's estimates of the net realizable values of expendable parts, fuel, materials and supplies are based on the most reliable evidence (e.g., age and physical condition of the inventory) available at the time the estimates are made of the amount that these assets are expected to be realized. A new assessment is made of the net realizable value in each subsequent period. When the circumstances that previously caused expendable parts, fuel, materials and supplies to be written down below cost no longer exist or when there is a clear evidence of an increase in net realizable value because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. The carrying amount of expendable parts, fuel, materials and supplies as of December 31, 2022 and 2021 amounted to ₱3.62 billion and ₱3.10 billion, respectively. The allowance for expendable parts obsolescence amounted to ₱1.27 billion and ₱1.21 billion as of December 31, 2022 and 2021, respectively (see Note 7).

Valuation of property and equipment under revaluation basis
The Group's buildings and improvements are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and any accumulated impairment losses. The valuations of buildings and improvements are performed by professionally qualified independent appraisers using generally acceptable valuation techniques and methods. The key assumptions used to determine the fair value of these assets and sensitivity analyses are disclosed in Note 10. Revaluations are made regularly to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at reporting date. Management believes that the basis of fair market value is still appropriate considering that there are no significant changes in the properties and the surrounding area from the date of valuation up to and from the financial reporting date. The revaluation increment, net of related deferred income tax, in the valuation of these assets based on appraisal reports in December 2022 and 2021 amounted to ₱782.92 million and ₱605.21 million (see Note 19). The carrying value of property and equipment carried at appraised value amounted to ₱1.19 billion and ₱958.49 million as of December 31, 2022 and 2021, respectively (see Note 10).

Valuation of assets held for sale
The Group measures its assets held for sale at the lower of their carrying amount and fair value less costs to sell. Management determined the fair value less costs to sell of the Group's assets held for sale based on offer price of prospective buyers.

In 2020, the Group ceased to classify certain aircraft as asset held for sale and measured these aircraft at carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale. As a result, the Group recognized an impairment loss of ₱173.11 million in 2020 (see Note 10).

In 2021, MMET vessels with carrying amount of ₱503.00 million were reclassified to asset held for sale and were subsequently sold in 2022 (see Note 10).

In 2022, management reassessed that the potential sale of engines classified as assets held for sale as of December 31, 2021 amounting to ₱37.63 million is no longer highly probable. As a result, the Group recognized a loss from engines' write-off to "Other income (charges) - net" in the consolidated statements of comprehensive income.

The carrying value of assets held for sale as of December 31, 2022 and 2021 amounted to nil and ₱537.43 million, respectively (see Note 10).

Classification and measurement of repairs and maintenance cost and ARO
The Group entered into several agreements with maintenance service providers relating to the periodic inspections and overhauls during the life of the aircraft and aircraft parts. Management assessed and estimated which portion of the cost incurred for the repairs, maintenance and overhauls under these agreements has the economic effect of extending the useful lives of the aircraft and engines, hence, can be capitalized. Other repairs and maintenance costs are expensed as incurred.

Moreover, management estimates certain repairs and maintenance costs to be accrued as of December 31, 2021 based on the open work orders and other variable factors. Total aircraft-related repairs and maintenance costs recognized in profit or loss amounted to ₱14.79 billion in 2022, ₱9.79 billion in 2021 and ₱11.99 billion in 2020 (see Note 20). Accrued maintenance costs as of December 31, 2022 and 2021 amounted to ₱16.38 billion and ₱15.54 billion, respectively (see Note 14).

The Group is also contractually committed to return a number of aircraft held under operating leases to the lessors in a physical condition agreed at the inception of each lease. PAL estimates the costs of heavy maintenance on the leased aircraft and engines required on the redelivery to the lessor, and recognizes an obligation for the excess of estimated costs over the cumulative MRF or for the total estimated costs where the lease agreement does not require contribution of MRF. As of December 31, 2022 and 2021, provision for ARO amounted to nil because management assessed that the cumulative balance of MRF is sufficient to cover the estimated costs of heavy maintenance on the lease aircraft and engines required on the redelivery to the lessor.

Estimation of useful lives and residual values of property and equipment
The Group estimates the useful lives of property and equipment, including right-of-use assets, based on internal technical evaluation and experience with similar assets. The estimated useful lives and residual values are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. The carrying amount of depreciable property and equipment, net of accumulated depreciation and impairment, amounted to ₱107.15 billion and ₱109.47 billion as of December 31, 2022 and 2021, respectively (see Note 10).

Impairment of property and equipment and investment properties
The Group determines whether its property and equipment, including right-of-use assets, and investment properties are impaired, 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 are written down to their recoverable amounts. The recoverable amount of property and equipment, including right-of-use assets, and investment properties is the greater of the asset's fair value less costs to sell and value-in-use. Determination of impairment of property and equipment, including right-of-use assets, and investment properties requires an estimation of the value-in-use of the CGU to which the assets belong. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and applying an appropriate discount rate in order to calculate the present value of those cash flows. In discounting, the Group uses a discount rate based on the weighted average cost of capital adjusted to reflect the way that the market would assess the specific risks associated with the cash flow and exclude risks that are not relevant to the cash flow. Other assumptions used in projecting the future cash flows include passenger load factor, passenger yield, fuel surcharge rate and fuel costs, among others.

In 2020, the Group recognized impairment loss amounting to ₱14.94 billion for its CGU based on the estimation of its value-in-use. The Group also recognized in 2020 an impairment loss amounting to ₱16.84 billion, for certain right-of-use assets that will be early terminated in 2021 (see Note 10). The Group recognized reversal of impairment loss amounting to ₱411.38 million and ₱3.87 billion for its CGU based on its value-in-use in 2022 and 2021, respectively (see Notes 10 and 20).

The Group also recognized an additional impairment loss for the vessels of MMET amounting to ₱46.05 million in 2020 (see Note 10). The impairment loss amounting to ₱49.96 million was reversed in 2021 upon reclassification of the vessels to assets held for sale as of December 31, 2021.

In 2021, the Group recognized impairment loss for the ground property equipment of MMET amounting to ₱12.13 million that will be early retired in 2022.

As of December 31, 2022 and 2021, the aggregate carrying value of the Group's property and equipment, including right-of-use assets, and investment properties amounted to ₱113.26 billion and ₱116.36 billion, respectively (see Notes 10 and 11).

Valuation of lease liabilities and right-of-use assets
The application of PFRS 16 requires the Group to make judgments that affect the valuation of the lease liabilities and the valuation of right-of-use assets. These include (a) determining contracts in scope of PFRS 16, (b) determining the contract term, (c) determining the interest rate used for discounting of future cash flows.

The lease term determined by the Group comprises the non-cancellable period of lease contracts, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. For lease contracts with indefinite term the Group estimates the length of the contract to be equal to the economic useful life of non-current assets located in the leased property and physically connected with it or determines the length of the contract to be equal to the average or typical market contract term of particular type of lease. The same economic useful life is applied to determine the depreciation rate of right-of-use assets.

The present value of the lease payment is determined using the discount rate representing the rate of interest rate swap applicable for currency of the lease contract and for similar tenor, corrected by the average credit spread of entities with rating similar to the Group's rating, observed in the period when the lease contract commences or is modified.

The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. The Group remeasures the lease liabilities to reflect changes to the lease payments based on the revised discount rate at the time of lease amendment or modification. In 2021, following the US Court confirmation of PAL's Plan, the Group's lease contracts were amended to reflect the revised terms based on the amended lease contracts as agreed with PAL's lessors (see Note 15).

In relation with the lease termination, the Group derecognized the carrying value of lease liabilities and right-of-use assets and recognized in profit or loss any gain or loss from lease termination.

In 2021, the Group recognized a reduction in the lease liabilities and right-of-use assets amounting to ₱22.98 billion as a result of lease modification (see Notes 10 and 15). In addition, the Group recognized loss on lease termination amounting to ₱14.94 billion which is presented as part of "Others" in the Group's 2021 consolidated statement of comprehensive income (see Notes 15 and 20).

In 2022, the Group recognized a reduction of lease liabilities and right-of-use assets amounting to ₱2.48 billion as a result of exercising the early-lease termination option (see Notes 10 and 15).

The carrying value of lease liabilities and right-of-use assets amounted to ₱68.93 billion and ₱103.05 billion as of December 31, 2022 and ₱76.70 billion and ₱104.67 billion as of December 31, 2021, respectively (see Notes 10 and 15).

Estimation of retirement and other long-term employee benefits cost
The Group's retirement and other long-term benefits costs relating to its defined benefit plans are actuarially computed which entail using certain assumptions like discount rates and future salary increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of long-term Philippine government bonds to correspond with the expected term of the defined benefit obligation. Further details about pension obligations are disclosed in Note 21. Accrued employee benefits as of December 31, 2022 and 2021 amounted to ₱13.06 billion and ₱11.91 billion, respectively (see Note 21).

Provisions
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. Management exercises judgment in assessing the probability of the Group becoming liable. An estimate of the provision is based on known information as of reporting date. The amount of provision is being reassessed at least on an annual basis to consider new and relevant information. Provisions recognized amounted to ₱31.11 million and ₱31.61 million as of December 31, 2022 and 2021, respectively (see Note 16).

Recognition of deferred income tax assets
The Group assesses at each reporting date and recognizes deferred income tax assets to the extent of probable future taxable profits and reversing taxable temporary differences that will allow the deferred income tax assets to be utilized. Management uses judgment and estimates in assessing the probability and level of future taxable profits, considering management's future plan of actions, including the timing of reversal of deferred income tax liability, aided by forecasting and budgeting techniques. As of December 31, 2022 and 2021, the Group did not recognize deferred income tax assets on NOLCO, excess MCIT over RCIT and other deductible temporary differences amounting to ₱83.00 billion and ₱97.86 billion, respectively, since based on the projection, not all temporary differences and carryforward benefits of NOLCO and excess MCIT over RCIT will be realized (see Note 22). Deferred income tax assets recognized amounted to ₱15.67 billion and ₱14.60 billion as of December 31, 2022 and 2021, respectively (see Note 22).

5. Cash and Cash Equivalents

	2022	2021
Cash on hand and in banks (Note 18)	**₱10,148,235**	₱9,184,441
Cash equivalents (Note 18)	**8,235,693**	14,970,219
	₱18,383,928	₱24,154,660

Cash in banks and cash equivalents earned interest at the respective bank deposit rates totaling ₱180.49 million, ₱238.57 million and ₱189.26 million for the years ended December 31, 2022, 2021 and 2020, respectively [included under "Other income (charges) - net" in the consolidated statements of comprehensive income (see Note 20)].

Cash and cash equivalents used to collateralize margin call requirements on fuel derivatives are presented as part of "Other current assets" (see Note 8), while those used to collateralize various surety bonds issued in connection with certain litigations and sinking fund related to asset-backed securities are presented as part of "Other noncurrent assets" (see Note 12).

In 2022, the Group invested in various money market placements with maturity of more than 90 days but less than one year. These money market placements amounting to ₱11.19 billion were presented as "Short-term investments" as of December 31, 2022. Interest income earned amounted to ₱43.60 million in 2022 (see Note 18).

6. **Receivables**

	2022	2021
General traffic (Note 15)	**₱18,053,974**	₱14,908,878
Related parties (Note 18)	**10,673,296**	9,801,445
Non-trade*	**9,405,605**	8,116,726
	38,132,875	32,827,049
Less allowance for ECL	**(6,057,428)**	(5,320,680)
	₱32,075,447	₱27,506,369

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

Receivables attributable to general traffic are noninterest-bearing and are generally on a 5 to 60-day term.

Movements in allowance for ECL as of December 31 presented by class, are as follows:

	2022			
	General Traffic	**Related Parties**	**Non-trade**	**Total**
Balance at beginning of year	**₱1,574,600**	**₱99,244**	**₱3,646,836**	**₱5,320,680**
Charges for the year	**752,772**	**70,471**	**81,371**	**904,614**
Reversals for the year	**(2,453)**	**(1,744)**	**(93,361)**	**(97,558)**
Writteoffs for the year	**(275,453)**	**–**	**–**	**(275,453)**
Foreign exchange translation	**10,872**	**1,580**	**192,693**	**205,145**
Balance at end of year	**₱2,060,338**	**₱169,551**	**₱3,827,539**	**₱6,057,428**

	2021			
	General Traffic	Related Parties	Non-trade	Total
Balance at beginning of year	₱1,097,806	₱154,970	₱3,607,968	₱4,860,744
Charges for the year	432,360	4,794	144,123	581,277
Reversals for the year	(8,619)	(70,124)	(328,842)	(407,585)
Foreign exchange translation	53,053	9,604	223,587	286,244
Balance at end of year	₱1,574,600	₱99,244	₱3,646,836	₱5,320,680

	2020			
	General Traffic	Related Parties	Non-trade	Total
Balance at beginning of year	₱906,873	₱61,370	₱3,569,082	₱4,537,325
Charges for the year	266,704	96,766	223,403	586,873
Reversals for the year	(40,627)	–	336	(40,291)
Foreign exchange translation	(35,144)	(3,166)	(184,853)	(223,163)
Balance at end of year	₱1,097,806	₱154,970	₱3,607,968	₱4,860,744

The net provisions for (reversals of) impairment losses on receivables recognized in the consolidated statements of comprehensive income under "General and administrative expenses" amounted to ₱807.06 million, ₱173.69 million and ₱546.58 million in 2022, 2021 and 2020, respectively.

The Group uses a provision matrix to calculate ECLs (provisioning rates) based on days past due for groupings of various agents and customer segments that have similar loss patterns. The historical loss rates are credit adjusted by forward-looking estimates (called overlay).

The Group determines allowance for each significant receivable on an individual basis. Among the factors that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, nonmoving accounts receivable, accounts of defaulted agents and accounts from closed stations.

7. Expendable Parts, Fuel, Materials and Supplies

	2022	2021
At cost:		
Expendable parts	**₱1,214,305**	₱1,037,289
Fuel	**912,765**	409,314
Materials and supplies	**393,817**	365,122
	2,520,887	1,811,725
At net realizable value - expendable parts	**1,097,545**	1,286,488
	₱3,618,432	₱3,098,213

The cost of expendable parts carried at net realizable value amounted to ₱2.58 billion and ₱2.49 billion as of December 31, 2022 and 2021, respectively. Provisions for (reversal of provisions for) inventory obsolescence amounted to (₱4.88) million in 2022, ₱172.88 million in 2021 and ₱39.14 million in 2020. Expendable parts recognized as maintenance expense amounted to ₱755.88 million in 2022, ₱365.19 million in 2021 and ₱464.61 million in 2020 (see Note 20).

8. Other Current Assets

	2022	2021
Deposits and prepayments	**₱5,135,016**	₱3,075,527
Security deposits (Note 5)	**981,846**	699,273
Others - net of allowance for probable loss of ₱10,188 and ₱9,727 as of December 31, 2022 and 2021, respectively	**994,916**	251,332
	₱7,111,778	₱4,026,132

Deposits and prepayments pertain to advance payments for materials and supplies, prepaid rentals and miscellaneous payments.

"Others" includes claims for compensation on damaged assets, other insurance claims and short-term investments with maturity of more than three months.

9. Investments in Subsidiaries with Material Non-controlling Interest

PAL, including FSL, and APC are the significant subsidiaries with material non-controlling interest.

As discussed in Note 2, the Group's effective ownership interest in PAL was reduced from 98.92% as of December 31, 2020 to 79.49% as of December 31, 2021 because of the issuance of PAL's capital stock to the Supporting Creditors to settle its general unsecured claims in accordance with Chapter 11 Plan. Further, the Group, through PAL, has effective ownership interest in FSL of 51.65% as of December 31, 2022 and 2021, and 64.30% as of December 31, 2020.

In 2017, the Parent Company acquired 51% ownership in ZUMA (see Note 2), which in turn owns 99.97% interest in APC, giving the Parent Company an effective interest of 50.98% in APC.

The acquisitions of ZUMA and FSL have been accounted for in the consolidated financial statements as business combination under common control using the pooling-of-interests method of accounting (see Note 4). Accordingly, the Group presented as non-controlling interests the ownership interests which were not acquired by the Group.

From 2017 to 2019, there were changes in the ownership interest of PAL in FSL, from 40% to 65%. The Group recognized ₱1.35 billion in equity under "Other equity reserves" as a result of the change in ownership interest, which pertains to the excess of the consideration received over net assets disposed.

Below are the summarized financial information of PAL and its subsidiaries including FSL (the consolidated PAL) and the Group's share in equity, net income and total comprehensive income of the consolidated PAL as of and for the years ended December 31. The summarized financial information are based on the amounts in the consolidated financial statements of PAL and its subsidiaries, and are translated to Philippine Peso.

	2022	2021
Current assets	**₱74,236,779**	₱60,563,819
Noncurrent assets	**133,597,399**	134,773,717
Current liabilities	**82,667,660**	69,971,180
Noncurrent liabilities	**110,273,856**	121,794,693
Equity	**14,892,662**	3,571,663
Equity attributable to:		
Equity holders of the Parent Company	**2,714,759**	(6,186,158)
Non-controlling interest	**12,177,903**	9,757,821

	2022	2021	2020
Revenue	**₱140,763,247**	₱60,231,167	₱57,521,594
Net income (loss)	**10,450,705**	61,864,255	(73,162,035)
Total comprehensive income (loss)	**11,311,736**	57,902,496	(72,024,568)
Net income (loss) attributable to:			
Equity holders of the Parent Company	**8,208,257**	60,348,628	(71,879,575)
Non-controlling interest	**2,242,448**	1,515,627	(1,282,460)
Total comprehensive income (loss) attributable to:			
Equity holders of the parent	**8,893,553**	55,073,706	(69,547,277)
Non-controlling interest	**2,418,183**	2,828,790	(2,477,291)

The following are the summarized financial information of APC and the Group's share in equity, net income and total comprehensive income (loss) of APC as of and for the years ended December 31:

	2022	2021
Current assets	**₱4,235,949**	₱3,118,559
Noncurrent assets	**6,389,196**	7,120,323
Current liabilities	**4,011,339**	1,920,811
Noncurrent liabilities	**5,218,135**	6,763,503
Equity	**1,395,671**	1,554,568
Equity attributable to:		
Equity holders of the Parent Company	**2,499,276**	2,589,970
Non-controlling interest	**(1,103,605)**	(1,035,402)

	2022	2021	2020
Revenue	**₱5,819,834**	₱4,212,183	₱6,567,595
Net income (loss)	**(77,641)**	67,655	49,092
Total comprehensive income (loss)	**(118,530)**	115,040	22,080
Net income attributable to:			
Equity holders of the Parent Company	**(29,487)**	34,494	31,396
Non-controlling interest	**(48,155)**	33,161	17,696
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**(50,328)**	58,653	11,257
Non-controlling interest	**(68,203)**	56,387	10,823

10. Property and Equipment

	2022					
	December 31, 2021	**Additions**	**Disposals/ Retirements**	**Reclassification and Others**	**Translation Adjustment**	**December 31, 2022**
At Cost						
Cost:						
Passenger aircraft, engines and improvements (Notes 15 and 24)	**₱18,646,020**	**₱281,975**	**(₱1,116,417)**	**(₱25,725)**	**₱1,721,161**	**₱19,507,014**
Rotable and reparable parts	**11,133,951**	**511,337**	**(872,412)**	**46,109**	**892,575**	**11,711,560**
Ground property and equipment (Note 15)	**13,305,520**	**24,136**	**(320,907)**	**63,713**	**1,234,467**	**14,306,929**
Right-of-use assets:						
Passenger aircraft, engines and leasehold improvements	**182,984,818**	**3,431,549**	**(23,031,849)**	**8,964,895**	**16,354,844**	**188,704,257**
Ground property and equipment	**2,884,424**	**943,046**	**(1,554,776)**	**(21,801)**	**246,458**	**2,497,351**
	228,954,733	**5,192,043**	**(26,896,361)**	**9,027,191**	**20,449,505**	**236,727,111**
Accumulated depreciation:						
Passenger aircraft, engines and leasehold improvements	**(10,663,784)**	**(965,610)**	**962,722**	**382**	**(976,482)**	**(11,642,772)**
Rotable and reparable parts	**(6,048,657)**	**(660,781)**	**444,954**	**16,024**	**(498,252)**	**(6,746,712)**
Ground property and equipment (Note 15)	**(11,814,479)**	**(369,904)**	**328,483**	**11,990**	**(1,095,671)**	**(12,939,581)**
Right-of-use assets:						
Passenger aircraft, engines and leasehold improvements	**(80,147,227)**	**(13,988,131)**	**12,326,913**	**1,427,870**	**(6,991,885)**	**(87,372,460)**
Ground property and equipment	**(1,056,560)**	**(672,880)**	**1,031,285**	**1,581**	**(84,323)**	**(780,897)**
	(109,730,707)	**(16,657,306)**	**15,094,357**	**1,457,847**	**(9,646,613)**	**(119,482,422)**
Accumulated impairment:						
Passenger aircraft and engines	**(10,545,171)**	**–**	**411,380**	**–**	**(973,949)**	**(11,107,740)**
Rotable and reparable parts	**(155,637)**	**–**	**–**	**–**	**(14,515)**	**(170,152)**
Ground property and equipment	**(11,932)**	**–**	**–**	**1,090**	**(1,088)**	**(11,930)**
Construction-in-progress	**(234,210)**	**–**	**–**	**21,365**	**(21,404)**	**(234,249)**
	(10,946,950)	**–**	**411,380**	**22,455**	**(1,010,956)**	**(11,524,071)**
Net book value	**108,277,076**	**(11,465,263)**	**(11,390,624)**	**10,507,493**	**9,791,936**	**105,720,618**
Construction in progress	**5,517,395**	**3,248,749**	**(40,604)**	**(3,135,767)**	**516,197**	**6,105,970**
Total	**₱113,794,471**	**(8,216,514)**	**(11,431,228)**	**7,371,726**	**10,308,133**	**₱111,826,588**
At Revalued Amount						
Buildings and improvements:						
Revalued amount	**₱1,097,605**	**₱–**	**₱–**	**₱12,753**	**₱102,635**	**₱1,212,993**
Accumulated depreciation and amortization	**(139,112)**	**(113,963)**	**–**	**241,334**	**(10,046)**	**(21,787)**
Net Book Value	**₱958,493**	**(₱113,963)**	**₱–**	**₱254,087**	**₱92,589**	**₱1,191,206**

	2021					
	December 31, 2020	Additions	Disposals/ Retirements	Reclassification and Others	Translation adjustment	December 31, 2021
At Cost						
Cost:						
Passenger aircraft, engines and improvements (Notes 15 and 24)	₱22,663,584	₱–	(₱96,405)	(₱5,247,582)	₱1,326,423	₱18,646,020
Rotable and reparable parts	12,220,276	961,470	(2,692,234)	(100,000)	744,439	11,133,951
Ground property and equipment (Note 15)	12,659,843	25,729	(156,502)	(6,830)	783,280	13,305,520
Vessels	1,163,853	–	–	(1,235,371)	71,518	–
Right-of-use assets:						
Passenger aircraft, engines and leasehold improvements	245,540,051	1,889,820	(56,089,935)	(23,350,449)	14,995,331	182,984,818
Ground property and equipment	2,970,477	30,565	(191,597)	(103,677)	178,656	2,884,424
	297,218,084	2,907,584	(59,226,673)	(30,043,909)	18,099,647	228,954,733
Accumulated depreciation:						
Passenger aircraft, engines and leasehold improvements	(12,961,942)	(3,058,463)	83,768	6,139,661	(866,808)	(10,663,784)
Rotable and reparable parts	(6,986,550)	(759,027)	1,926,869	101,282	(331,231)	(6,048,657)
Ground property and equipment (Note 15)	(10,875,008)	(440,873)	149,826	6,855	(655,279)	(11,814,479)
Vessels	(113,031)	(27,415)	–	147,392	(6,946)	–
Right-of-use assets:						
Passenger aircraft, engines and leasehold improvements	(64,736,314)	(27,439,413)	12,355,669	3,947,920	(4,275,089)	(80,147,227)
Ground property and equipment	(669,849)	(485,791)	168,015	(29,518)	(39,417)	(1,056,560)
	(96,342,694)	(32,210,982)	14,684,147	10,313,592	(6,174,770)	(109,730,707)
Accumulated impairment:						
Passenger aircraft and engines	(31,763,233)	3,865,205	17,560,947	1,685,801	(1,893,891)	(10,545,171)
Rotable and reparable parts	(146,555)	–	–	–	(9,082)	(155,637)
Ground property and equipment	–	(12,132)	–	204	(4)	(11,932)
Vessels	(584,054)	49,955	–	569,991	(35,892)	–
Construction-in-progress	(234,210)	–	–	14,507	(14,507)	(234,210)
	(32,728,052)	3,903,028	17,560,947	2,270,503	(1,953,376)	(10,946,950)
Net book value	168,147,338	(25,400,370)	(26,981,579)	(17,459,814)	9,971,501	108,277,076
Construction in progress	6,196,613	909,838	–	(1,972,542)	383,486	5,517,395
Total	₱174,343,951	(₱24,490,532)	(₱26,981,579)	(₱19,432,356)	₱10,354,987	₱113,794,471
At Revalued Amount						
Buildings and improvements:						
Revalued amount	₱1,033,554	₱–	₱–	₱–	₱64,051	₱1,097,605
Accumulated depreciation and amortization	(32,852)	(104,172)	–	–	(2,088)	(139,112)
Net Book Value	₱1,000,702	(₱104,172)	₱–	₱–	₱61,963	₱958,493

In 2020, impairment loss of ₱46.05 million for the vessels was recognized. In 2021, the Group entered into a memorandum of agreement with the buyer for the sale of vessels with a fair value less cost to sell amounting to ₱503.0 million. Accordingly, these vessels were classified under “Assets held for sale”. In 2021, the Group reversed the previously recognized impairment loss amounting to ₱49.96 million” (see Note 20). These vessels were subsequently sold in 2022.

In 2020, the Group recognized a total impairment loss of ₱14.94 billion for the operating fleet. The Group also recognized impairment loss amounting to ₱16.84 billion for the 14 aircraft under lease that will be early terminated in 2021. Total impairment loss is included under “Accumulated impairment - Passenger aircraft and engines”.

In 2022 and 2021, the Group reversed the previously recognized impairment loss amounting to ₱411.38 million and ₱3.87 billion for its CGU based on its value-in-use (see Note 20).

In 2021, the Group recognized reduction in the carrying amounts of right-of-use assets amounting to ₱22.98 billion and ₱25.59 billion as a result of modification and termination, respectively (see Notes 15 and 20).

In 2022, the Group recognized a reduction in the lease liabilities and right-of-use assets amounting to ₱2.48 billion as a result of exercising the early-lease termination option (see Note 15).

Construction in progress mainly includes predelivery payments for aircraft acquisition. Predelivery payments include capitalized borrowing costs (see Notes 13 and 15).

Property and equipment with carrying value of ₱705.91 million and ₱8.00 billion as of December 31, 2022 and 2021, respectively, used to secure long-term debt are described in Note 15.

Movements in Fleet

Airbus 350-900

In 2021, the Group redelivered two Airbus 350-900 aircraft to its lessors. In 2022, the Group redelivered two additional Airbus A350-900 aircraft to its lessors.

Airbus 330-300

In 2021, the Group redelivered five Airbus 330-300 aircraft to its lessors. In 2022, one additional Airbus 330-300 aircraft was redelivered to its lessor.

Airbus 321-231

In 2021, the Group redelivered two aircraft to its lessors under an early return agreement. Both aircraft were subleased to APC before it was redelivered to the head lessor. In 2022, one additional Airbus 321-231 was redelivered to its lessor.

Boeing 777

In 2022, the Group redelivered one Boeing 777 aircraft to its lessor.

DHC 8-400 NG

In 2021, the Group redelivered one aircraft to its lessor under an early return agreement. In 2022, one additional aircraft was redelivered to its lessor.

The fleet as of December 31 is as follows (see Notes 15, 18 and 24):

	2022	2021
Owned:		
Airbus 320-200	**9**	9
Bombardier DHC 8-400	**3**	3
Bombardier DHC 8-300	**4**	4
Under lease:		
Boeing 777-300ER	**9**	10
Airbus 350-900	**2**	4
Airbus 330-300	**9**	10
Airbus 321-231	**21**	22
Airbus 321-271N	**6**	6
Airbus 321-271NX	**2**	2
Airbus 320-200	**6**	6
Bombardier DHC 8-400 NG	**10**	11
	81	87

Movements in the aircraft fleet in 2022 and 2021 were based on the Recovery Plan and amended agreements with the lessors which resulted to pre-termination and redelivery of aircraft (see Note 2).

Assets Held for Sale

In 2020, management reassessed that the potential sale of certain aircraft previously classified as assets held for sale was no longer highly probable. Accordingly, aircraft with net carrying amount of ₱1.44 billion were reclassified back to "Property and equipment - at cost" and an impairment loss amounting to ₱173.11 million was recognized as part of "Other income (charges) - net". Other movement in assets held for sale in 2020 pertains to sale of spare engine amounting to ₱12.40 million.

In 2022, management reassessed that the potential sale of engines previously classified as held for sale amounting to ₱37.63 million was no longer highly probable. As a result, the Group recognized a loss from engines' write-off to "Other income (charges) - net" account in the consolidated statement of comprehensive income (see Note 20).

The two vessels with carrying amount of ₱503.00 million were reclassified to asset held for sale as of December 31, 2021 and were sold in January 2022.

As of December 31, 2021, assets held for sale amounted ₱537.43 million (nil as of December 31, 2022). The Group recognized impairment loss amounting ₱11.47 million in 2021 and ₱173.11 million in 2020 (nil in 2022).

Buildings and Improvements

Buildings and improvements, whose fair value can be measured reliably, are carried at appraised values determined based on valuations performed by various qualified and Philippine SEC-accredited independent appraisers. The appraised values as of December 31, 2022 and 2021 are based on appraisal studies performed in December 2022 and 2021. In the valuation process using market comparison method (a market approach), the appraisers compared the fair market value of similar assets adjusted for dissimilarities and considered the best use of the properties at hand (Level 3). Significant unobservable valuation input in determining the fair value of buildings and improvements includes adjusted offer prices of similar properties. Increases (decreases) in estimated inputs would result in a significantly higher (lower) fair value.

The additional revaluation increase, net of deferred income tax effect of ₱86.63 million and ₱19.94 million, amounted to ₱259.90 million and ₱ 46.52 million in 2022 and 2020, respectively (see Note 19). There was no revaluation increase recognized in 2021.

If buildings and improvements were carried at cost less accumulated depreciation, the amounts as of December 31 would be as follows:

	2022	2021
Cost	**₱8,810**	₱8,810
Accumulated depreciation	**(8,810)**	(8,810)
	₱–	₱–

11. Investment Properties

	2022		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning of year	**₱1,636,405**	**₱263,920**	**₱1,900,325**
Disposal for the year	**(1,593,478)**	**–**	**(1,593,478)**
Translation adjustment	**152,606**	**24,612**	**177,218**
End of year	**195,533**	**288,532**	**484,065**
Accumulated depreciation and impairment loss			
Beginning of year	**(94,909)**	**(200,965)**	**(295,874)**
Disposal for the year	**77,276**	**–**	**77,276**
Translation adjustment	**(8,851)**	**(18,765)**	**(27,616)**
End of year	**(26,484)**	**(219,730)**	**(246,214)**
Net book value	**₱169,049**	**₱68,802**	**₱237,851**

	2021		
	Land	Buildings and Improvements	Total
Cost			
Beginning of year	₱1,540,914	₱248,519	₱1,789,433
Translation adjustment	95,491	15,401	110,892
End of year	₱1,636,405	₱263,920	₱1,900,325
Accumulated depreciation and impairment loss			
Beginning of year	(22,811)	(189,249)	(212,060)
Impairment loss for the year	(70,650)	–	(70,650)
Translation adjustment	(1,448)	(11,716)	(13,164)
End of year	(94,909)	(200,965)	(295,874)
Net book value	₱1,541,496	₱62,955	₱1,604,451

In 2020, the Group sold an investment property with a net carrying amount of ₱1.75 billion for ₱3.10 billion, resulting to recognition of gain amounting to ₱1.65 billion which is presented as part of "Other income (charges) - net".

In 2021, in accordance with the RSA with Philippine National Bank (PNB), PAL used the investment property with a carrying amount of ₱1.39 billion, net of the impairment loss recognized amounting to ₱70.65 million, to secure the outstanding balance of the loan payable to PNB amounting to ₱1.39 billion. This loan was not subjected to debt settlement by way of issuance of common shares by PAL. The recognized impairment loss is presented as part of "Provision for (reversal of) impairment losses" in the "Other income (charges) - net" account (see Notes 13 and 20). In 2022, PAL completed the transfer of the investment property to settle the full outstanding balance of the notes payable to PNB, pursuant to the terms in the RSA.

The aggregate fair value of investment properties amounted to ₱494.05 million and ₱2.79 billion as of December 31, 2022 and 2021, respectively. The fair value of investment properties with carrying value of ₱237.85 million and ₱1.60 billion as of December 31, 2022 and 2021, respectively, has been determined based on valuation reports by various qualified, independent and Philippine SEC-accredited appraisers dated December 2022 and December 2020. The valuation undertaken considered the fair market value of similar or substitute properties and related market data and established estimated value by processes involving comparison (Level 3).

The valuation techniques used and key inputs to valuation on investment properties are as follows:

	Valuation technique	Significant unobservable input
Land	Sales comparison approach and income approach	Adjusted sales price of comparable properties, rental rates
Buildings and improvements	Sales comparison approach	Adjusted sales price of comparable properties

Significant increases (decreases) in estimated inputs above would result in a significantly higher (lower) fair value of the properties.

These properties were held by the Group for capital appreciation, which also represents their current use. The appraisers determined that the highest and best use of these properties is for residential, agricultural and commercial utility. For strategic reasons, the properties are not currently used in any of these uses.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Direct costs related to these investment properties (e.g., property taxes, among others) amounted to ₱1.13 million, ₱1.12 million and ₱11.85 million for the years ended December 31, 2022, 2021 and 2020, respectively.

12. Other Noncurrent Assets

	2022	2021
Long-term security deposits (Notes 5, 15 and 18)	**₱5,317,600**	₱4,605,021
Deposits on aircraft leases (Notes 18, 24, 26 and 27)	**5,502,071**	4,969,810
Creditable withholding taxes	**3,428,542**	3,111,553
Financial assets at FVTOCI (Note 27)	**794,441**	836,993
Manufacturers' credits (Note 24)	**270,133**	145,353
Others	**165,711**	19,543
	₱15,478,498	₱13,688,273

Long-term Security Deposits

Long-term security deposits include the following:

- cash amounting to ₱28.04 million and ₱48.04 million as of December 31, 2022 and 2021, respectively, set aside to collateralize various surety bonds issued (as required under the legal proceedings) in connection with certain litigations (see Note 5);
- hold-out deposits for bank merchant services amounting to ₱2.77 billion and ₱2.09 billion as of December 31, 2022 and 2021, respectively.
- sinking fund amounting to ₱936.63 million and ₱293.65 million as of December 31, 2022 and 2021, respectively, set aside to guarantee the periodic payments of asset-backed securities (see Note 15); and,
- deposits to various airports and agencies.

In 2021, standby letter of credits amounting to ₱6.70 billion were reclassified to deposits on aircraft leases as agreed with aircraft lessors. In addition, security deposits related to fuel hedges amounting to ₱1.53 billion as of December 31, 2020 were withdrawn in 2021. The Group has no outstanding fuel hedging transaction as of December 31, 2022 and 2021 (see Note 8).

Total interest income earned on long-term security deposits amounted to ₱2.89 million in 2022, ₱0.20 million in 2021 and ₱77.03 million in 2020.

Deposits on Aircraft Leases

The Group has security deposits required under certain lease agreements to cover qualifying maintenance events. In 2021, as agreed with the aircraft lessors, security deposits and some standby letters of credits totaling to ₱3.60 billion were applied as payment on the Group's lease liabilities (see Note 15).

The Group's deposits on aircraft leases are carried at amortized cost. Accretion on these deposits, included under "Other income (charges) - net" in the consolidated statements of comprehensive income, amounted to ₱153.59 million in 2022, ₱207.11 million in 2021 and ₱746.51 million in 2020.

Financial assets at FVTOCI
The Group's financial assets at FVTOCI include investments in MacroAsia Corporation (MAC) amounting to ₱672.67 million and ₱727.58 million as of December 31, 2022 and 2021, respectively. This account also includes certain quoted equity investments and club shares amounting to ₱8.53 million and ₱6.32 million, and unquoted equity investments amounting to ₱113.33 million and ₱103.09 million as of December 31, 2022 and 2021, 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 movements in "Net changes in fair values of financial assets at FVTOCI", net of deferred income tax effect are as follows:

	2022	2021	2020
Balance at beginning of year	**₱555,902**	₱761,386	₱1,714,411
Mark-to-market loss recognized as OCI	**(51,454)**	(205,484)	(953,025)
	504,448	555,902	761,386
Less share of non-controlling interests	**(1,585)**	(876)	(30)
Balance at end of year	**₱502,863**	₱555,026	₱761,356

The fair values of investment in shares of stock of MAC were determined based on published prices in the active market while those of the other quoted equity investments were determined by reference to quoted market prices as of the end of each reporting period. As of December 31, 2022 and 2021, the unquoted equity investments are carried at fair value, which is based on significant unobservable inputs (see Note 27).

In 2022, 2021 and 2020, no dividend income from investment in shares of stock of MAC was received.

13. Notes Payable

In relation to the Chapter 11 Filing as discussed in Note 2, PAL and the Supporting Creditors have executed various RSAs prior to the petition date of PAL to the US Court. As provided in the respective RSAs of the Supporting Creditors, the outstanding balances of the unsecured short-term loans were settled through issuance of shares of PAL.

On December 31, 2021, PAL issued its common shares out of the increase in authorized capital stock to the above Supporting Creditors amounting to ₱12.60 billion, inclusive of accrued interest. The Group accounted for the debt settlement in accordance with the requirement of IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*. Accordingly, the Group recognized the difference between the carrying amount of the settled unsecured short-term loans and the fair value of the common shares issued by PAL to the Supporting Creditors amounting to ₱12.53 billion as a gain from debt settlement as part of "Other income (charges)-net" account (see Notes 18 and 20).

As of December 31, 2021, the outstanding balance of the notes payable amounting to ₱1.39 billion pertained to the amount payable to PNB which was not subjected to debt-to-equity conversion since this was to be settled with PAL's investment property (see Notes 11 and 18). The outstanding notes payable was settled in April 2022.

Interest rates on these notes payable ranged from 4.25% to 6.00% in 2021 and from 4.00% to 5.50% in 2020, and the related interest expense charged to profit or loss amounted to ₱513.31 million in 2021 and ₱596.37 million in 2020 (nil in 2022). The interest payable included in "Accrued expenses - others" amounted to ₱25.19 million as of December 31, 2021.

14. Accrued Expenses and Other Current Liabilities

	2022	2021
Accrued expenses:		
Maintenance (Note 18)	**₱16,379,888**	₱15,541,440
Salaries and wages	**707,482**	2,137,568
Ground handling charges (Note 18)	**1,760,464**	1,740,571
Landing and take-off fees	**1,361,293**	1,000,873
Lease charges (Note 15)	**611,884**	387,902
Income taxes	**291,822**	232,181
Foreign station	**274,649**	219,449
Passenger food and supplies	**253,299**	190,032
Others (Note 13)	**2,954,145**	933,257
	₱24,594,926	₱22,383,273

Other accrued expenses include accruals for interest expense and other operating expenses.

As part of the debt restructuring under the Plan, the Group reclassified the accrued lease charges of the Supporting Creditors to general unsecured claims which was subsequently included in the debt settlement by way of issuance of shares of PAL, except for ₱338.71 million converted to unsecured long-term debt as of December 31, 2021 and is payable in 2023 (see Note 15).

15. Long-term Obligations

	2022	2021
Lease liabilities (Note 24)	**₱68,925,729**	₱76,697,110
Long-term debt (Note 18)	**43,705,787**	46,648,162
	112,631,516	123,345,272
Less current portion	**20,606,398**	17,578,376
	₱92,025,118	₱105,766,896

Note 26 presents the undiscounted contractual maturity analysis of financial liabilities, including long-term obligations. Note 23 presents the movement of the lease liabilities for the years ended December 31, 2022 and 2021.

Lease Liabilities
Set out below is the roll forward analysis of lease liabilities:

	2022	2021
Beginning balances	**₱76,697,110**	₱152,031,907
Additions	**1,251,644**	33,338
Accretion for the year	**5,906,480**	6,388,033
Payments*	**(19,035,370)**	(5,981,390)
Reclassification (Note 14)	**–**	(15,804,271)
Adjustments related to effect of:		
Modification and reassessment (Note 10)	**(3,243,659)**	(24,457,539)
Termination and early redelivery (Note 10)	**–**	(44,887,433)
Translation adjustment	**7,349,525**	9,374,465
Ending balances	**₱68,925,729**	₱76,697,110

**This amount includes application of long-term security deposits amounting to ₱3.60 billion in 2021 (see Note 12).*

Aircraft and engine leases
The present value of minimum lease commitments for the Group's lease liabilities as of December follows:

	2022		2021	
	Minimum lease commitments	**Present value of lease commitments***	Minimum lease commitments	Present value of lease commitments*
Due within one year	**₱18,331,631**	**₱13,686,180**	₱14,914,913	₱11,138,845
Due after one year but within five years	**49,183,771**	**39,909,373**	52,593,739	43,454,514
More than five years	**14,880,173**	**13,136,658**	22,254,638	19,970,188
Minimum lease payments	**82,395,575**	**66,732,211**	89,763,290	74,563,547
Interest and others	**(15,663,364)**	**–**	(15,199,743)	–
	66,732,211	**66,732,211**	74,563,547	74,563,547
Less current portion	**13,686,180**	**13,686,180**	11,138,845	11,138,845
	₱53,046,031	**₱53,046,031**	₱63,424,702	₱63,424,702

**Include obligations under lease with bargain purchase option amounting to ₱43.83 billion as of December 31, 2022 and ₱48.6 billion as of December 31, 2021.*

Details of the aircraft and engine leases are presented in Note 24.

The carrying value of the aircraft and engine leases recognized in the consolidated statements of financial position amounted to ₱101.33 billion and ₱102.84 billion as of December 31, 2022 and 2021, respectively (see Note 10).

As discussed in Note 2, the Group did not make principal and/or interest payments due in respect of the above lease liabilities since April 2020, resulting in breach of covenants under the lease agreements as of December 31, 2020.

In relation to the Chapter 11 Filing, PAL executed lease amendments and terminations with the Supporting Creditors, which became effective on December 17, 2021 upon confirmation of the U.S. Court of the Plan. For the retained leased aircraft and engines, PAL agreed with the Supporting Creditors to modify the lease charges and the payment terms by executing various Amended Lease Agreements and Power by the Hour (PBH) Lease Agreements. For the aircraft and engines that were redelivered or subject to redelivery to the lessors, PAL executed various Early Return Agreements and Soft Landing Agreements with the Supporting Creditors.

In 2020, the lease amendments related to the retained leased aircraft and engines resulted to (a) reduction in the carrying amounts of right-of-use assets and finance lease receivables by ₱22.98 billion and ₱1.47 billion, respectively; (b) reduction in the accrued lease charges and lease liabilities amounting by ₱36.72 billion; (c) recognition of claims liability amounting to ₱20.97 billion (see Notes 10 and 14); (d) recognition of notes payable amounting to ₱297.12 million; and (e) recognition of PBH liability amounting to ₱820.37 million. On the other hand, the lease terminations for the aircraft and engines that were redelivered or subject to redelivery to the lessors resulted to (a) derecognition of right-of-use assets with carrying amount of ₱25.59 billion and finance lease receivable amounting to ₱2.67 billion; (b) derecognition of accrued lease charges and lease liabilities totaling to ₱54.01 billion; and (c) recognition of claims liability amounting to ₱42.31 billion (see Notes 10 and 14); (d) reversal of accrued maintenance reserve fund amounting to ₱1.77 billion; (e) recognition of notes payable amounting to ₱41.62 million (f) recognition of PBH liability amounting to ₱111.99 million.

In 2021, the lease amendments and terminations resulted to recognition of a loss amounting to ₱24.77 billion which is presented as part of "Loss on recognition of claims liability arising from lease amendments and termination in the "Other income (charges) - net" account (see Notes 10, 14 and 20).

In accordance with the Plan, on December 31, 2021, PAL issued its common shares out of the increase in authorized capital stock to the above Supporting Creditors to settle the agreed claims liability, which the Group accounted for in accordance with the requirement of IFRIC 19. Hence, the Group recognized the difference between the carrying amount of the claims liability and the fair value of the common shares issued by PAL to the Supporting Creditors amounting to ₱62.97 billion as a gain from debt settlement included in the "Other income (charges) - net" account (see Note 20).

Further, the unpaid portions of the lease liabilities that are due as of December 31, 2022 and 2021 amounting to ₱544.44 million and ₱387.90 million, respectively, are presented under "Accrued expenses and other liabilities" (see Note 14).

Ground property
The present value of minimum lease commitments for the Group's ground property leases as of December 31 follows:

	2022		2021	
	Minimum lease commitments	**Present value of lease commitments**	Minimum lease commitments	Present value of lease commitments
Due within one year	**₱799,415**	**₱728,737**	₱531,999	₱385,851
Due after one year but within five years	**864,983**	**549,669**	1,112,954	789,631
More than five years	**1,114,599**	**915,112**	1,278,035	958,081
Minimum lease payments	**2,778,997**	**2,193,518**	2,922,988	2,133,563
Interest and others	**(585,479)**	**–**	(789,425)	–
	2,193,518	**2,193,518**	2,133,563	2,133,563
Less current portion	**728,737**	**728,737**	385,851	385,851
	₱1,464,781	**₱1,464,781**	₱1,747,712	₱1,747,712

The Group has various ground property lease agreements in which the related right-of-use assets' carrying value amounted to ₱1.72 billion and ₱1.81 billion as of December 31, 2022 and 2021, respectively (see Note 10).

Interests paid on these leases are based on 6.75% rate as of December 31, 2022 and 2021. Principal payments amounted to ₱437.43 million and ₱523.61 million in 2022 and 2021, respectively.

Long-term Debt

	2022	2021
Long-term debt:		
Secured loans, net of debt issuance costs (Note 18)	**₱43,335,462**	₱46,309,450
Notes payable (Note 14)	**370,325**	338,712
	43,705,787	46,648,162
Less current portion	**6,191,481**	6,053,680
	₱37,514,306	₱40,594,482

Secured Loans

$685.00 million asset-backed securities

From 2015 to 2019, PAL obtained asset-backed securities totaling $685.00 million (₱33.35 billion) from a counterparty bank for additional working capital. The loans are secured by current and future collections from passenger sales made in the United States through designated credit card companies. The loans are repaid through monthly installment subject to interest of one-month LIBOR plus margin maturing in February 2026.

The outstanding balance of these loans amounted to ₱17.02 billion and ₱18.87 billion as of December 31, 2022 and 2021, with the current portion of the loans amounting to ₱3.61 billion and ₱3.30 billion, respectively. Total financing charges related to these loans amounted to ₱774.14 million in 2022, ₱515.14 million in 2021 and ₱612.49 million in 2020.

The debt issuance costs incurred amounting to ₱13.30 million in 2022, ₱21.77 million in 2021 and ₱18.95 million in 2020 were included in the amortization of the loans. The unamortized debt issuance costs amounted to ₱29.27 million and ₱39.20 million as of December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, there is no outstanding pledged receivables. The receivables collected through the credit card companies will be applied against the monthly installment due. As discussed in Note 12, a sinking fund amounting to ₱705.47 million and ₱82.31 million as of December 31, 2022 and 2021, respectively, was set aside to guarantee these loans. These loans are subject to certain covenants which include, among others, maintenance of a coverage ratio.

On July 30, 2021, PAL and the counterparty bank entered into a supplemental agreement to defer the next 12-month testing period of the required coverage ratio from July 25, 2022 to August 25, 2023 and to amend the final maturity date of the loan to August 25, 2027. As of December 31, 2022 and 2021, PAL is compliant with the loan covenants.

$450.00 million asset-backed securities

From 2015 to 2019, the Parent Company obtained asset-backed securities totaling ₱22.37 billion ($450,000) from a counterparty bank for additional working capital. The loans are secured by current and future passenger and cargo receivables denominated in Japanese Yen through identified agents in Japan. The loans are repaid through monthly installment subject to interest of one-month LIBOR plus margin maturing in August 2026.

In September 2021, PAL and the counterparty bank entered into a supplemental agreement to amend the original agreement. The purpose of the amendments is to extend the final maturity date of the loans and reflect the new payment terms. The final maturity date of the loans was amended to March 28, 2028.

As of December 31, 2022 and 2021, outstanding balance of these loans amounted to ₱11.71 billion and ₱13.10 billion, with current portion amounting to ₱2.23 billion and ₱2.39 billion, respectively. Total financing charges related to these loans amounted to ₱573.20 million in 2022, ₱399.38 million in 2021, and ₱467.05 million in 2020.

The debt issuance costs incurred amounting to ₱3.11 million in 2022, ₱3.16 million in 2021, and ₱8.33 million in 2020 were included in the amortization of the loans. The unamortized debt issuance costs amounted to ₱2.45 million and ₱5.20 million as of December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, the outstanding pledged receivables amounted to ₱82.63 million and ₱246.12 million, respectively (see Note 6). The receivables collected through the identified agents in Japan will be applied against the monthly installment due. As discussed in Note 12, a sinking fund amounting to ₱231.16 million and ₱211.34 million was set aside to guarantee these loans as of December 31, 2022 and 2021, respectively. These loans are subject to certain covenants which include maintenance of a coverage ratio.

On June 30, 2021, the lender granted PAL to extend the waiver period until thirty (30) business days after the date upon which the transactions contemplated under the Plan are substantially consummated including PAL's emergence from the Chapter 11 Filing. The lender will not directly or indirectly enforce its right or remedies in respect of any event of default of PAL during the waiver period. As a result of the waiver period, as of December 31, 2021, PAL was compliant with the loan covenants.

On December 30, 2022, PAL entered into an Extension Letter Agreement with the counterparty bank to extend the waiver period from December 31, 2022 to June 30, 2023 for the required coverage ratio. As of December 31, 2022, the Parent Company was compliant with the required coverage ratio.

$16.5 million term loan from a local bank
In March 2020, PAL obtained ₱839.19 million ($16.5 million) asset-backed security from a local bank. The loan requires quarterly payments of interest based on three-month LIBOR plus margin. The loan is secured by an aircraft with carrying value of ₱705.91 million and ₱721.07 million as of December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, the outstanding balance of the loan amounted to ₱668.17 million and ₱839.90 million, respectively.

Total financing charges related to this loan amounting to ₱30.19 million in 2022, ₱20.30 million in 2021 and ₱19.94 million in 2020 and debt issuance costs incurred amounting to ₱0.87 million in 2022, ₱2.40 million in 2021 and ₱2.23 million in 2020 were included under "Financing charges" in the consolidated statements of comprehensive income. The unamortized debt issuance costs amounted to ₱0.89 million and ₱1.58 million as of December 31, 2022 and 2021, respectively. On September 30, 2020, PAL and the local bank signed a supplemental agreement for a retroactive grace period for principal repayment of one year beginning June 6, 2020 until June 6, 2021.

In December 2021, PAL and the local bank entered into a loan amendment agreement. The purpose of the amendment is to extend the final maturity date of the loan to September 2024 and reflect the new payment terms.

$15.35 million term loan from a local bank
In 2019, MMET obtained a facility for ₱813.30 million ($15.35 million) from a bank to finance payments related to acquisition of vessels. The loan requires quarterly principal payments starting January 2020 until 2026 with 5% annual interest. The loan is secured by the two vessels of MMET. In 2020, MMET was not able to make principal and/or interest payments, however, on October 23, 2020, MMET and local bank signed a supplemental agreement for a retroactive grace period for principal

repayment with due dates between April 2020 until July 2021. Principal repayment resumed in October 2021 and was fully settled in cash in October 2022.

As of December 31, 2021, outstanding balance of this loan amounted to ₱746.12 million, with current portion amounting to ₱129.23 million (nil as of December 31, 2022).

$100.00 million Pre-Petition Bridge Loan from BSHI
On various dates in 2021 prior to the Chapter 11 Filing date of PAL, BSHI provided PAL a secured bridge loan amounting to ₱5.10 billion ($100.00 million) for PAL's operating cash flow requirements which was also subsequently paid (see Note 18).

$250.00 million from BSHI (DIP A Facility)
In accordance with the RSAs and the Plan, PAL and BSHI executed the DIP Credit Agreement for the DIP A Facility (the DIP A Facility Agreement) on September 17, 2021 amounting to ₱12.75 billion ($250 million), which was used for refinancing the prepetition bridge loan, payment of fees and for costs and expenses of the DIP lender, working capital requirements and administration costs of the Chapter 11 Filing and general corporate purposes of PAL. The Plan Term Sheet of the RSAs and the DIP A Facility Agreement provide the following material terms of the credit facility implemented as part of restructuring: (a) interest will apply only for the first 27 months; (b) quarterly amortization starting on the 28th month until the 63th month following the availment date; and (c) first priority security interests in eight (8) A320-200 aircraft and related engines, four (4) DHC 8-300 and two (2) DHC 8-400 aircraft and related engines, and Mabuhay Miles loyalty program contracts and related assets (collectively the Tranche A Security Package). The carrying value of the properties secured under DIP A amounted to ₱8.00 billion.

Upon the effective date of the Plan, at the sole discretion of PAL, the Tranche A Security Package had been released and the DIP A Facility was converted into an unsecured loan facility for the remainder of the original 63-month post-petition term.

As of December 31, 2022 and 2021, the outstanding balance of this loan was presented as part of noncurrent liabilities.

16. Reserves and Other Noncurrent Liabilities

	2022	2021
Deferred revenue under frequent flyer program (Note 4)	**₱5,037,353**	₱3,978,400
Provisions	**31,111**	31,612
Other noncurrent liabilities (Notes 9 and 18)	**430,094**	2,660
	₱5,498,558	₱4,012,672

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.

	2022	2021
Balance at beginning of year	**₱31,612**	₱76,665
Reversal	**(600)**	(37,892)
Settlement	**–**	(14,790)
Translation adjustment	**99**	7,629
Balance at end of year	**₱31,111**	₱31,612

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.

17. **Equity**

The Parent Company's capital stock consists of the following as of December 31, 2022 and 2021:

	No. of Shares	Amount 2021
Authorized (₱1 par value)	13,500,000,000	₱13,500,000
Issued and subscribed	11,611,003,257	₱9,799,753
Treasury stock	(25,015)	(25)
	11,610,978,242	₱9,799,728

a. Issued and outstanding shares are held by 6,854 and 6,855 equity holders as of December 31, 2022 and 2021, respectively.

b. The Parent Company has 25,015 treasury shares amounting to ₱25.00 as of December 31, 2022 and 2021. Future earnings are restricted from dividend declaration to the extent of the cost of these treasury shares.

c. The Parent Company's track record of registration of securities under the Securities Regulation Code is as follows:

Date of approval	Number of Shares Licensed	Issue/Offer Price
August 2, 1930	18,000	₱100.00
August 2, 1930	2,000,000	0.10
January 6, 1951	7,000,500	0.10
December 4, 1957	30,000,000	0.10
March 25, 1970	200,000,000	0.10
April 14, 1975	5,000,000,000	0.01
March 7, 1977	12,500,000,000	0.01

In 1996, the Philippine SEC approved the decrease in authorized capital stock from 20 billion shares to 200 million shares while the par value was increased from ₱0.01 per share to ₱1.00 per share. In 2000, the Philippine SEC approved the increase in the authorized capital stock from 200 million shares to 400 million shares with ₱1.00 par value per share. The authorized capital stock was again increased from 400 million shares to 20 billion shares in 2007.

The Parent Company's BOD and stockholders approved the increase in the Parent Company's authorized capital stock from ₱20.00 billion divided into 20.00 billion shares at ₱1.00 par value per share to ₱23.00 billion divided into 23.00 billion shares at ₱1.00 par value per share in separate meetings held on June 26, 2012 and September 28, 2012, respectively. Out of the increase in the authorized capital stock, ₱2.42 billion have been subscribed and fully paid by way of cash infusion by Trustmark. The increase in authorized capital stock and the amended Articles of Incorporation were approved by the Philippine SEC on December 12, 2012. The Parent Company incurred filing fees of ₱6.09 million and Documentary Stamp Tax (DST) of ₱85.00 million on the issuance of shares, which were recognized as a reduction from additional paid-in capital.

d. In fiscal year 2013, Trustmark subscribed to 17.00 billion shares at ₱1.00 per share amounting to ₱17.00 billion, of which 14.58 billion shares were issued out of the unissued capital stock of the Parent Company, and the balance of 2.42 billion shares were issued out of the increase in the authorized capital stock.

e. On February 4 and March 15, 2013, the BOD and the stockholders approved the increase in the Parent Company's authorized capital stock from ₱23.00 billion divided into 23.00 billion shares at ₱1.00 par value per share to ₱30.00 billion divided into 30.00 billion shares at ₱1.00 par value per share and the amendment of its Articles of Incorporation to reflect the aforementioned increase. The Parent Company's application for the increase in authorized capital stock was approved by the Philippine SEC on June 28, 2013. Out of the increase in capital stock, 2.42 billion shares were subscribed, of which, 603.75 million shares have been fully paid for. The Parent Company incurred filing fees of ₱14.14 million and DST of ₱12.08 million on the issuance of shares, which were recognized as a reduction from additional paid-in capital.

f. On September 26, 2016, the Parent Company's BOD approved and authorized the acquisition, in a share swap transaction, of PAL shares from 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 27, 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. The Parent Company incurred filing fees of ₱1.25 million and DST of ₱1.06 million on the issuance of shares, which were recognized as a reduction from additional paid-in capital.

g. On November 28, 2016, the Parent Company's BOD also approved the acquisition, through share swap transaction, of the shares of ZUMA from its 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 from its existing shareholders. The Parent Company issued 840.46 million new shares from its authorized but unissued capital stock valued at ₱5.00 per share in favor of Cosmic Holdings Corporation. Accordingly, as of December 31, 2021 and 2020, the Parent Company owns 51% of ZUMA.

   The Parent Company also incurred filing fees of ₱8.49 million and DST of ₱4.37 million on the issuance of shares, which were recognized as a reduction from additional paid-in capital in 2017.

h. 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.

i. 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 APIC of ₱25.34 billion.

j. In February 2019, ANA Holdings, Inc. (ANA HO), the parent company of All Nippon Airways (ANA), acquired 1,103,042,933 shares held by Trustmark in PHI equivalent to 9.5% of the current outstanding shares of PHI. As a result of this transaction, Trustmark's ownership in the Company decreased from 86.42% to 76.92%.

k. On March 25 and May 30, 2019, the BOD, by majority vote of the BOD, and the stockholders, owning or representing at least 2/3 of the outstanding capital stock of the Parent Company, respectively, approved the increase in authorized capital stock from 13.50 billion common shares with par value of ₱1.00 per share to 20.00 billion common shares with par value of ₱1.00 per share.

l. On October 4, 2019, PAL's BOD approved the amendment of PAL's Articles of Incorporation to increase the authorized capital stock from 13.0 billion shares with par value of ₱1.00 per share to 30.0 billion shares with par value of ₱1.00 per share. Relative to the said proposed increase in capital, PAL received deposits totaling ₱11.41 billion from BSHI.

   As of December 31, 2019, the cash received from BSHI to be used for subscription of capital stock of PAL was presented as "Deposit from non-controlling interest of a subsidiary" under noncurrent liabilities.

   On February 18, 2020, the stockholders of PAL approved to increase the authorized capital stock from 13.0 billion shares at ₱1.00 par value per share to 30.0 billion shares with ₱1.00 par value per share.

   On October 26, 2020, the BOD of PAL approved the withdrawal of the Parent Company's application for the increase in authorized capital stock with the Philippine SEC in light of the ongoing rehabilitation plan as discussed in Note 2. Accordingly, the entire balance of the cash received from BSHI amounting to ₱17.21 billion was classified as "Due to a stockholder" under "Reserves and Other Noncurrent Liabilities" in the consolidated statement of financial position as of December 31, 2020 (see Note 16).

m. On September 27 and November 25, 2021, 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, respectively, approved the increase in authorized capital stock from ₱13.50 billion divided into 13.50 billion common shares with par value of ₱1.00 per share to ₱30.00 billion divided into 30.00 billion common shares with a par value of ₱1.00 per share. On December 29, 2021, the Company submitted to the Philippine SEC its application for increase in authorized capital stock. As of March 31, 2023, the approval of the application remains outstanding.

   Relative to the said increase in authorized capital stock, the Parent Company received $75.00 million (₱3.81 billion) and $25.00 million (₱1.27 billion) on October 6 and 8, 2021, respectively, and $65.00 million (₱3.29 billion) and ₱4.47 billion on November 2, 2021, as deposits from BSHI. As of December 31, 2022 and 2021, the deposits received from BSHI to be used for subscription of capital stock of the Parent Company totaling ₱12.91 billion are presented as "Deposits for future stock subscription" under equity.

n. In accordance with the Plan of PAL, on December 31, 2021, PAL issued shares to the Supporting Creditors and the Parent Company to settle the general unsecured claims liabilities and the Tranche B DIP Facility, respectively. Consequently, the Parent Company's effective ownership in PAL was reduced to 79.49% as of December 31, 2022 and 2021, from 98.92% as of December 31, 2020 (see Note 2). The Parent Company recognized ₱275.83 million in other equity reserves for the effect of change in non-controlling interest as a result of PAL's issuance of shares to Supporting Creditors.

18. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. Key management personnel, including directors and officers of the Parent Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

The following tables present the amounts and outstanding balances of the Group's transactions with its related parties which are not eliminated:

	2022		
Transactions	**Volume**	**Outstanding Receivable (Payable)**	**Terms and Conditions**
Ultimate and immediate parent entities			
DIP A Facility (Notes 2 and 15)	**₱–**	**(₱13,938,750)**	Secured loan; To be settled in tranches
Receivables (Note 6)	–	**380,972**	Non-interest bearing; unsecured; unimpaired
Entities under common control			
Cash and money placements, including interest income (Notes 5 and 12)	**208,607**	**15,650,500**	Partly secured; unimpaired
Receivables (Note 6)	–	**9,463,282**	Non-interest bearing; unsecured; unimpaired
Accounts payable	**2,571,755**	**(3,720,144)**	Non-interest bearing; unsecured; Unimpaired
Notes payable (Note 13)			
Principal	**(1,386,879)**	–	Bears interest based on prevailing market rates;
Financing charges	–	–	secured; payable in 180 days
Sales and other income (Note 6)	**56,305**	**378,226**	Receivable in 30 days; unimpaired
Groundhandling and other charges (Notes 14 and 20)	**47,703**	**(38,221)**	Payable after 30 days
Entities under significant shareholder group			
Sales and other income (Note 6)	**7,597,996**	**450,816**	Receivable in 30 days
Aircraft maintenance and other charges (Notes 14 and 20)	**7,597,181**	**(7,722,616)**	Payable after 15 to 30 Days

Transactions	2021 Volume	Outstanding Receivable (Payable)	Terms and Conditions
Ultimate and immediate parent entities			
Deposit for future stock subscription (Note 17)	₱12,907,210	₱–	Unsecured, convertible to capital stock
Due to a stockholder (Note 17)	(18,272,279)	–	Non-interest bearing; unsecured; unimpaired
DIP A Facility (Notes 2 and 15)	2,747,500	(12,747,500)	Secured loan; To be settled in tranches
Bridge loan (Note 15)	5,099,000	–	Received and settled during the year using proceeds from DIP A facility
Receivables (Note 6)	58,767	376,767	Non-interest bearing; unsecured; unimpaired
Entities under common control			
Cash and money placements, including interest income (Notes 5 and 12)	(1,610)	3,369,160	Partly secured; unimpaired
Receivables (Note 6)	529,207	9,016,755	Non-interest bearing; unsecured; unimpaired
Accounts payable	(211,047)	(27,518)	Non-interest bearing; unsecured; Unimpaired
Notes payable (Note 13)			
Principal	(20,417,246)	(1,386,879)	Bears interest based on prevailing market rates;
Financing charges	227,496	(232,580)	secured; payable in 180 days
Sales and other income (Note 6)	13,954	19,026	Receivable in 30 days; unimpaired
Groundhandling and other charges (Notes 14 and 20)	238,204	(155,243)	Payable after 30 days
Entities under significant shareholder group			
Sales and other income (Note 6)	262,523	388,897	Receivable in 30 days
Aircraft maintenance and other charges (Notes 14 and 20)	1,988,058	(1,875,647)	Payable after 15 to 30 Days

Transactions	2020 Volume	Outstanding Receivable (Payable)	Terms and Conditions
Ultimate and immediate parent entities			
Due to a stockholder (Note 16)	₱5,794,745	(₱17,205,998)	Non-interest bearing; unsecured; unimpaired
Receivables (Note 6)	–	318,000	Non-interest bearing; unsecured; unimpaired
Entities under common control			
Cash and money placements, including interest income (Notes 5 and 12)	11,450	3,809,611	Partly secured; unimpaired
Receivables (Note 6)	(259,265)	8,487,548	Non-interest bearing; unsecured; unimpaired
Accounts payable	188,565	(527,098)	Non-interest bearing; unsecured; unimpaired
Notes payable (Note 13)			
Principal	496,239	(3,697,771)	Bears interest based on prevailing market rates;
Financing charges	204,406	(5,084)	secured; payable in 180 days
Sales and other income (Note 6)	6,308	53,378	Receivable in 30 days; unimpaired
Groundhandling and other charges (Notes 14 and 20)	493,546	(540,676)	Payable after 30 days
Entities under significant shareholder group			
Sales and other income (Note 6)	129,711	484,519	Receivable in 30 days
Aircraft maintenance and other charges (Notes 14 and 20)	5,863,603	(4,260,542)	Payable after 15 to 30 Days

Terms and Conditions of Transactions with Related Parties

Outstanding balances of accounts with related parties at year-end are unsecured, payable on demand and are settled in cash or are applied against any outstanding advances to or from the related party, unless otherwise stated. For the years ended December 31, 2022 and 2021, the Group did not make any provision for ECL relating to amounts owed by related parties. This assessment is undertaken each financial year by referring to the financial position of the related party and the market in which the related party operates.

a. In 2021, BSHI provided cash to the Parent Company as deposit for future stock subscription, which is presented as equity in the consolidated statements of financial position since the Parent Company has already filed its application for the proposed increase in authorized capital stock with Philippine SEC. The deposit for future stock subscription will be reclassified to the Parent Company's capital stock and additional paid-in capital upon approval by the Philippine SEC on the proposed increase in authorized capital stock. The proceeds from the deposit for future stock subscription were used by the Parent Company to fund the Tranche B Facility that was provided to PAL.

b. In 2021, in accordance with the Plan, BSHI condoned the amount due from PAL. The condonement of advances amounting to ₱18.27 billion was recognized as "Gain from condonation of debt" in the "Other income (charges) - net" account (see Note 20).

c. The Parent Company owns 137.3 million common shares (7.10% ownership interest) of MAC as of December 31, 2022 and 2021. Certain members of the Parent Company's BOD are also officers and members of the BOD of MAC.

d. Outstanding receivable from ultimate and immediate parent companies amounted to ₱380.97 million and ₱376.77 million as of December 31, 2022 and 2021, respectively.

e. In 2021, PAL obtained a Tranche A multi-draw term loan facility amounting to ₱12.75 billion ($250 million) from BSHI (see Note 15).

f. As of December 31, 2022 and 2021, cash and cash equivalents and security deposits (included under "Cash and cash equivalents" and "Other noncurrent assets" in the consolidated statements of financial position) with banks under common control amounted to ₱15.65 billion and ₱3.37 billion, respectively (see Notes 5 and 12). The related interest income on these investments and cash deposits amounted to ₱208.61 million in 2022, ₱1.61 million in 2021, and ₱10.05 million in 2020. These cash and cash equivalents with entities under common control include money placements for standby letters of credit amounting to nil and ₱262.70 million as of December 31, 2022 and 2021, respectively (see Note 12).

   The retirement plan assets of PAL are managed by a bank under common control (see Note 21).

g. In 2021, PAL received additional notes payable from PNB amounting to ₱20.42 billion of which ₱18.54 billion were settled on the same year. In accordance with the Plan, the Parent Company issued its common shares out of the increase in authorized capital stock to PNB to settle the notes payable amounting to ₱4.42 billion.

   The outstanding balance of the notes payable amounting to ₱1.39 billion to PNB that was not subjected to debt-to-equity conversion as of December 31, 2021 was settled with PAL's investment property in April 2022 (see Notes 11 and 13).

h. In September 2015, PAL entered into a five-year General Terms and Agreement for Maintenance, Repair and Overhaul Services (GTA) with Lufthansa Technik Philippines (LTP) covering line maintenance, component maintenance, C-check, D-check and other support services. The GTA will automatically renew unless terminated by either party.

   In 2022, LTP and PAL executed a Supplement Letter covering the Line Maintenance, Technical Management Services and Support Services effective January 1, 2022 for a duration of one year.

   Total LTP-related maintenance and repair costs charged to operations amounted to ₱5.24 billion in 2022, ₱4.57 billion in 2021, and ₱3.75 billion in 2020. In addition, related expendable parts sold to LTP amounted to ₱28.61 million in 2022, ₱7.02 million in 2021, and ₱11.60 million in 2020. As of December 31, 2022 and 2021, PAL has outstanding amounts payable to and estimated unbilled charges from LTP totaling ₱1.50 billion and ₱3.68 billion (included under "Accounts payable" in the consolidated statements of financial position), net of revolving fund and unapplied credits from and advance payments to LTP amounting to ₱90.21 million and ₱270.75 million, respectively.

   PAL, in the normal course of its business, renders various services to LTP. Revenues earned from these services are included under "Other income (charges) - net" in the consolidated statements of comprehensive income. Receivables from LTP amounted to ₱52.52 million and ₱44.87 million as of December 31, 2022 and 2021, respectively (see Note 6).

i. PAL has a ground handling and catering agreement with MacroAsia Airport Services Corporation (MASC) and MacroAsia SATS Inflight Services Corporation (MSISC), entities under common shareholder group.

   Related ground handling expenses amounted to ₱1.65 billion in 2022, ₱683.40 million in 2021 and ₱966.30 million in 2020. Outstanding payable to MASC amounting to ₱85.58 million and ₱152.81 million as of December 31, 2022 and 2021, respectively, is included under "Accounts payable" in the consolidated statements of financial position.

   Catering expenses related to MSISC amounted to ₱745.10 million, ₱278.43 million, and ₱542.00 million in 2022, 2021 and 2020, respectively. Outstanding payable to MSISC amounting to ₱58.88 million and ₱174.75 million as of December 31, 2022 and 2021, respectively, is included under "Accounts payable" in the consolidated statements of financial position.

j. APC has a ground handling agreement with MASC to provide ramp, passenger and cargo handling, and other ground services to APC. Related ground handling charges amounted to ₱6.64 million in 2022, ₱48.68 million in 2021, and ₱108.72 million in 2020. Outstanding payable to MASC amounting to ₱42.65 million and ₱86.93 million as of December 31, 2022 and 2021, respectively, is included under "Accounts payable" in the consolidated statements of financial position.

k. The compensation of key management personnel of the Group consisted of short-term employee benefits amounting to ₱72.75 million, ₱54.95 million and ₱69.31 million and retirement benefits amounting to ₱15.31 million, ₱10.09 million, ₱11.40 million in 2022, 2021 and 2020, respectively.

The following are the balances among related parties which are eliminated in the consolidated financial statements:

Assets Recognized by:	Liabilities Recognized by:	Terms	Years Ended December 31 2022	2021	2020
PAL	PHI	Noninterest-bearing, unsecured, not impaired	**₱3,600,000**	₱3,600,000	₱3,600,000
APC	PAL	Non-interest bearing, unsecured, not impaired	**8,029,710**	7,078,719	5,583,184
APC	PAL	Noninterest-bearing, due and refundable at the end of the lease term, not impaired	–	6,599	7,058
		Noninterest-bearing, due and refundable at the end of the lease term, not impaired	**162,825**	272,209	319,868
PAL	APC	Noninterest-bearing, unsecured, not impaired	**2,307,163**	2,038,910	4,063,415
APC	ZUMA	Noninterest-bearing, due and demandable, not impaired	**62,998**	62,972	62,972
APC	GUIDE	Noninterest-bearing, due and demandable, not impaired	**516**	8,772	12,708
GUIDE	APC	Noninterest-bearing, due and demandable, not impaired	–	–	26

a. As of December 31, 2022 and 2021, PAL has various aircraft and engines lease agreements with the subsidiaries of FSL covering Airbus 330-300, Airbus 321-231 and Boeing 777-300ER aircraft and spare engines (see Notes 10 and 24).

b. The transactions between APC and PAL pertain mainly to joint services and code share agreements, and maintenance services.

   Effective March 2014, PAL entered into the Code Share Agreement with APC. This arrangement superseded the existing Reciprocal Free Flow Code Share Agreement. Under the Code Share Agreement, PAL markets the codeshare flights while APC operates the flights based on agreed rates.

   As of December 31, 2022 and 2021, the Parent Company has outstanding operating lease agreements with APC covering Airbus 321-231, Airbus 320-200 aircraft, Bombardier DHC 8-300 and Bombardier DHC 8-400 aircraft, for a period of 36 to 144 months (see Notes 10 and 24). In 2022, one additional owned Airbus 320-200 was leased and two Airbus 320-200 were subleased to APC.

19. Other Comprehensive Income

Movements in other comprehensive income are as follows:

	2022	2021	2020
OCI to be reclassified to profit or loss in subsequent periods:			
Cumulative translation adjustments:			
Balance at beginning of year	**(₱613,092)**	₱3,245,445	₱2,192,693
Effect of foreign exchange translation*	**567,239**	(3,858,537)	1,052,752
Balance at end of year	**(45,853)**	(613,092)	3,245,445

(Forward)

	2022	2021	2020
OCI not to be reclassified to profit or loss in subsequent periods:			
Net changes in fair values of financial assets at FVTOCI (Note 12):			
Balance at beginning of year, net of deferred income tax effect	**₱555,902**	₱761,386	₱1,714,411
Loss on changes in fair values for the year	**(51,454)**	(205,484)	(953,055)
Deferred income tax effect on the fair value changes for the year	**–**	–	30
Balance at end of year	**504,448**	555,902	761,386
Revaluation increment (Note 10):			
Balance at beginning of year, net of deferred income tax effect	**605,205**	627,683	686,292
Revaluation increment for the year	**346,531**	–	66,457
Deferred income tax effect on the revaluation increment for the year	**(86,633)**	–	(19,937)
Transfer of portion of revaluation increment in property realized through depreciation, net of deferred income tax effect and foreign exchange adjustment	**(82,185)**	(22,478)	(105,129)
Balance at end of year	**782,918**	605,205	627,683
Accumulated remeasurement losses on defined benefit obligation (Note 21):			
Balance at beginning of year, net of deferred income tax effect	**(732,879)**	(676,553)	(610,289)
Remeasurement losses for the year	**(13,937)**	(100,773)	(83,093)
Deferred income tax effect on remeasurement losses for the year	**3,484**	44,447	16,829
Balance at end of year	**(743,332)**	(732,879)	(676,553)
	544,034	428,228	712,516
Total other comprehensive income (loss) at the end of the year	**₱498,181**	(₱184,864)	₱3,957,961
Other comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**(₱764,274)**	(₱1,308,488)	₱3,484,689
Non-controlling interests	**1,262,455**	1,123,624	473,272
	₱498,181	(₱184,864)	₱3,957,961

**Represent the effect of translating the US Dollar consolidated financial statements of PAL, a subsidiary, using the applicable year-end exchange rates of ₱55.76 ₱50.99, and ₱48.02 to US$1 as of December 31, 2022, 2021 and 2020, respectively, and the monthly average exchange rates for the years then ended.*

20. **General Expenses and Other Income (Charges) -** Net

The significant components of expenses by nature are as follows:

	2022	2021	2020
Fuel and oil (Note 27)	**₱51,663,714**	₱14,122,791	₱18,725,546
Repairs and maintenance (Notes 7 and 18)	**15,318,769**	9,792,742	11,990,307
Depreciation, amortization and obsolescence (Notes 7 and 10)	**14,262,581**	16,702,589	25,803,150
Crew and staff costs (Note 21)	**10,700,486**	9,114,628	8,668,577
Ground handling charges (Note 18)	**6,448,842**	3,309,851	3,646,314
Landing and take-off fees	**4,142,972**	2,107,982	2,330,842
Reservation and selling costs	**2,554,722**	760,229	763,064
Passenger food (Note 18)	**2,133,531**	536,162	1,077,981
Utilities	**1,631,521**	1,135,861	1,335,116
Flight amenities	**1,283,574**	555,823	801,081
Lease charges (Notes 18 and 24)	**528,003**	151,552	86,631

Fuel and oil include the effect of fair value gain (loss) on various fuel derivatives used as economic hedges of fuel cost amounting to nil in 2022, ₱2.33 billion in 2021, (₱1.84 billion) in 2020 .

The Group's other income (charges) - net are as follows:

	2022	2021	2020
Foreign exchange gain (loss) - net	**(₱936,942)**	₱875,535	₱820,176
Interest income (Notes 5, 12 and 18)	**517,877**	461,035	868,786
Reversal of (provision for) impairment losses (Notes 10 and 11)	**411,380**	3,805,770	(31,001,461)
Gain from debt settlement (Notes 13, 15, and 24)	**–**	80,043,708	–
Loss on recognition of claims liability arising from lease amendments and termination (Notes 4 and 15)	**–**	(24,766,279)	–
Gain from condonation of debt (Notes 16 and 18)	**–**	18,272,279	–
Others	**622,368**	(14,306,880)	(137,160)
	₱614,683	₱64,385,168	(₱29,449,659)

The Company recognized net gain from debt restructuring amounting to ₱73.54 billion, which comprised of the gain from debt settlement, loss on recognition of claims liability arising from lease amendments and termination, and gain from condonation of debt.

"Others" consists of depreciation of right-of-use assets and accretion of interest of lease liabilities related to aircraft that were early terminated and items that are individually immaterial.

21. Accrued Employee Benefits

Characteristics of the Plans

The Group's Retirement Plans are noncontributory defined benefit plans covering all regular employees. Benefits are based on the employees' years of service and final plan salary.

The Trustee is responsible for the administration of the plan assets and for the definition of the investment strategy.

The retirement plans meet the minimum retirement benefit specified under Republic Act 7641, *The Retirement Pay Law*.

The Group's accrued employee benefits as of December 31 consisted of the following:

	2022	2021
Regular retirement benefits	**₱5,551,802**	₱4,849,483
Other long-term benefits:		
Sick leave and vacation leave	**891,876**	821,342
Others	**6,618,069**	6,240,952
	₱13,061,747	₱11,911,777

"Others" includes benefits from pilot loyalty program, pilot occupational disability program, pilots' retirement plan and retirement benefits for foreign stations' employees.

The components of retirement costs (income) included under "Expenses" in the consolidated statements of comprehensive income are as follows:

	Regular retirement benefits			Sick leave and vacation leave benefits		
	2022	2021	2020	**2022**	2021	2020
Current service cost	**₱327,861**	₱392,147	₱459,430	**₱103,649**	₱211,643	₱45,406
Past service cost	**521,477**	–	–	**–**	–	–
Effect of curtailment	**–**	–	(397,080)	**–**	–	–
Net interest cost	**229,072**	154,164	246,230	**41,259**	27,258	(54,179)
Remeasurements on other long-term benefits	**–**	–	–	**28,045**	196,349	146,905
	₱1,078,410	₱546,311	₱308,580	**₱172,953**	₱435,250	₱138,132

Past service cost arises from the change on retirement benefit of cabin crew under the Collective Bargaining Agreement in 2022 of PAL. In addition, PAL amended the Philippine Airlines Pilots Retirement Plan effective January 1, 2022.

Remeasurement gains (losses) on regular retirement benefits recognized in OCI are as follows:

	2022	2021	2020
Defined benefit obligation	**(₱34,814)**	₱428,251	(₱169,785)
Plan assets	**14,831**	(424,981)	83,677
	(₱19,983)	₱3,270	(₱86,108)

The net amounts in the consolidated statements of financial position arising from the Group's obligation in respect of its defined benefit plan and sick leave and vacation leave benefits are as follows:

	Regular retirement benefits		Sick leave and vacation leave benefits	
	2022	2021	**2022**	2021
Present value of benefit obligation (PVBO)	**₱5,755,648**	₱5,030,692	**₱945,862**	₱871,983
Fair value of plan assets (FVPA)	**(203,846)**	(181,209)	**(53,986)**	(50,641)
	₱5,551,802	₱4,849,483	**₱891,876**	₱821,342

Changes in the PVBO are as follows:

	Regular retirement benefits			Sick leave and vacation leave benefits		
	2022	2021	2020	**2022**	2021	2020
Beginning of year	**₱5,030,692**	₱5,123,985	₱6,273,358	**₱871,983**	₱782,033	₱1,270,293
Current service cost	**327,861**	392,147	459,430	**103,649**	211,643	45,406
Interest expense	**236,878**	170,821	277,076	**43,882**	27,258	59,797
Benefits paid from retirement fund	**(326,446)**	(226,237)	(651,203)	**(66,293)**	(214,597)	(537,613)
Benefits paid from PAL's operating funds	**–**	(1,773)	(1,007,381)	**(36,129)**	–	–
Past service cost	**521,477**	–	–	**–**	–	–
Effect of curtailment	**–**	–	(397,080)	**–**	–	–
Remeasurement loss (gain) arising from:						
Financial assumptions	**(635,145)**	(321,545)	551,311	**28,770**	65,646	(55,850)
Experience adjustments	**548,870**	(106,706)	(381,526)	**–**	–	–
Change in demographic assumption	**51,461**	–	–	**–**	–	–
End of year	**₱5,755,648**	₱5,030,692	₱5,123,985	**₱945,862**	₱871,983	₱782,033

Changes in the FVPA are as follows:

	Regular retirement benefits			Sick leave and vacation leave benefits		
	2022	2021	2020	**2022**	2021	2020
Beginning of year	**₱181,209**	₱595,429	₱655,520	**₱50,641**	₱98,243	₱108,397
Interest income	**7,806**	16,657	30,846	**2,564**	3,368	5,096
Contributions	**326,446**	195,159	471,037	**71,757**	196,349	109,656
Benefits paid	**(326,446)**	(201,055)	(645,651)	**(71,757)**	(196,349)	(146,905)
Remeasurement gain (loss) arising from return on plan assets	**14,831**	(424,981)	83,677	**781**	(50,970)	21,999
End of year	**₱203,846**	₱181,209	₱595,429	**₱53,986**	₱50,641	₱98,243

The movements in accrued employee benefits are as follows:

	Regular retirement benefits			Sick leave and vacation leave benefits		
	2022	2021	2020	**2022**	2021	2020
Beginning of year	**₱4,849,483**	₱4,528,556	₱5,617,838	**₱821,342**	₱683,790	₱1,161,896
Retirement cost	**1,078,410**	546,311	308,580	**172,956**	235,533	100,107
Remeasurement losses (gains) recognized in OCI	**(49,645)**	(3,270)	86,108	**–**	116,616	(77,849)
Contributions	**(326,446)**	(195,159)	(471,037)	**(71,757)**	(196,349)	(109,656)
Benefits paid	**–**	(26,955)	(1,012,933)	**(30,665)**	(18,248)	(390,708)
End of year	**₱5,551,802**	₱4,849,483	₱4,528,556	**₱891,876**	₱821,342	₱683,790

The retirement plan's assets and investments which are being maintained by a trustee bank under common control (see Note 18), consist of the following:

- Cash and cash equivalents, which include regular savings and time deposits, earning interest at their respective bank deposit rates; and
- Investments in debt instruments, consisting of both short and long-term corporate notes of foreign commercial banks, which earn interest at 9.03% and will mature on March 15, 2029.

The major categories of the plan assets as percentages of the fair value of total plan assets as of December 31 are as follows:

	2022	2021
Cash and cash equivalents	**16%**	1%
Investment in debt securities	**82%**	98%
Accrued interest from financial assets	**2%**	1%
	100%	100%

The discount rates and future salary increase rates used in determining retirement obligation for the defined benefit plans as of January 1 are as follows:

	2022	2021	2020
Discount rates	**4.94% to 5.20%**	2.82% to 4.13%	7.09% to 7.70%
Future salary increase rate			
Ground employees	**5.00% and ₱1,500**	6.00% and ₱2,000	5% to 7%
Cabin crew	**4.69% and 6.47%**	₱3,750 to ₱4,750	₱2,500 to ₱3,500
Pilots	**5% to 6%**	₱2,500 to ₱10,000	₱2,000 to ₱10,000

As of December 31, 2022, the discount rate ranges from 7.13% to 7.37% per annum, while future salary rates range from 6.00% to 8.00%.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant actuarial assumption on the defined benefit obligation as of December 31 assuming all other assumptions were held constant:

	2022		2021	
	Increase (decrease)	**Effect on PVBO**	Increase (decrease)	Effect on PVBO
Discount rate per annum	**1.00%**	**(₱378,186)**	1.00%	(₱412,732)
	(1.00%)	**287,027**	(1.00%)	481,829
Future annual salary increase rate:				
Ground employees	**1.00%**	**135,931**	1.00%	100,579
	(1.00%)	**(119,594)**	(1.00%)	(399,851)
Cabin crew	**1.00%**	**143,123**	1.00%	216,491
	(1.00%)	**(125,114)**	(1.00%)	(226,844)
Pilots	**1.00%**	**246,158**	1.00%	78,538
	(1.00%)	**(164,031)**	(1.00%)	(36,617)

The weighted average duration of the defined benefit obligation of the Group as of December 31, 2022 is 9.7 years to 19.56 years (9.7 years to 23.01 years as of December 31, 2021). Expected contribution to the retirement plan in 2023 amounts to ₱620.89 million.

The table below shows the payments that are to be made in the future years out of the defined benefit obligation as of December 31:

	2022	2021
Within one year	**₱563,475**	₱437,350
More than one year to 5 years	**2,284,213**	1,973,790
More than 5 years to 10 years	**3,885,595**	3,118,922
More than 10 years to 15 years	**3,749,241**	3,221,341
More than 15 years to 20 years	**4,034,551**	3,040,015
More than 20 years	**11,868,049**	8,532,437

The funds are invested significantly in short-term investments and corporate and government bonds. The Group's management ensures that there will be sufficient assets to pay retirement benefits as they fall due.

22. **Income Taxes**

a. The income tax expense consists of the following:

	2022	2021	2020
Current income tax	**₱241,940**	₱12,470	₱119,220
Deferred income tax	**(28,504)**	(6,910,852)	7,094,417
	₱213,436	₱6,898,382	₱7,213,637

b. The recognized net deferred income tax assets (liabilities), all relating to PAL, as of December 31 are as follows:

	2022	2021
Deferred income tax items recognized in profit or loss:		
Deferred income tax assets on:		
Lease liabilities	**₱9,867,297**	₱10,436,531
Unrealized foreign exchange adjustments - net	**2,476,247**	2,595,212
Reserves and others	**1,259,338**	994,407
Allowance for inventory losses	**222,964**	206,713
NOLCO	**1,450,634**	–
	15,276,480	14,232,863
Deferred income tax liabilities on:		
Right-of-use assets	**(6,775,069)**	(7,752,673)
Finance lease receivables	**(503,858)**	(536,364)
Estimated breakage for unutilized passenger tickets	**(1,224,380)**	(182,952)
Prepaid commission and others	**(230,881)**	(71,233)
Changes in exchange rates related to nonmonetary assets and liabilities - net	**(1,695,677)**	(1,256,445)
	(10,429,865)	(9,799,667)
	4,846,615	4,433,196
Deferred income tax items recognized directly in OCI:		
Deferred income tax assets on remeasurement losses on defined benefit retirement plan	**394,690**	370,238
Deferred income tax liabilities on:		
Revaluation increment in property	**(312,451)**	(230,016)
Net changes in fair value of financial assets at FVTOCI	**(1,227)**	(1,020)
Investment property carried at deemed cost	**(1,115)**	(94,331)
	79,897	44,871
Net deferred income tax assets (liabilities)	**₱4,926,512**	₱4,478,067

Deferred income tax assets on lease liabilities and deferred income tax liabilities on right-of-use assets and finance lease receivables pertain to lease arrangements that are treated as operating leases for tax reporting purposes.

In accounting for deferred income tax relating to such operating leases, the Group considers both the right-of-use asset and lease liability separately. The Group separately accounts for deferred taxation on the taxable temporary difference and deductible temporary difference, which upon initial recognition are equal and offset to zero. Deferred income tax is recognized on subsequent changes to taxable and deductible temporary differences.

The utilization of the net deferred income tax assets is dependent on future taxable income in excess of the income arising from the reversal of the taxable temporary differences. The future taxable income is based on the forecast prepared by management considering the revenue enhancement programs (see Notes 2 and 4).

The Group did not recognize deferred income tax assets on the following deductible temporary differences as of December 31:

	2022	2021
NOLCO	**₱64,960,162**	₱81,954,825
Excess of MCIT over RCIT	**152,197**	66,974
Allowance for:		
ECL	**6,057,428**	5,320,68
Obsolescence	**377,909**	359,638
Impairment loss on investment property	**201,905**	184,667
Accrued retirement benefits	**11,214,316**	10,294,352
Provisions	**31,095**	41,349
Accrued expenses and others	**–**	1,836

c. As of December 31, 2022, the Parent Company's NOLCO that are available for deduction against future taxable income are as follows:

Year Incurred	Amount	Applied in 2021	Expired	Balance	Available Until
December 31 2022	₱13,583	₱–	₱–	₱13,583	December 31, 2025
December 31, 2020	12,593	(1,669)	–	10,924	December 31, 2025
December 31, 2019	11,083	(11,083)	–	–	December 31, 2022
December 31, 2018	20,177	(20,177)	–	–	December 31, 2021
	₱57,436	(₱32,929)	₱–	₱24,507	

As of December 31, 2022, PAL's outstanding NOLCO that are available for deduction against future taxable income are as follows:

Year Incurred	Amount	Applied in 2022	Expired	Balance	Available Until
December 31, 2021	₱17,419,328	₱–	₱–	₱17,419,328	December 31, 2026
December 31, 2020	30,426,443	–	–	30,426,443	December 31, 2025
December 31, 2019	8,156,673	–	–	8,156,673	December 31, 2024
December 31, 2018	10,957,696	(1,857,181)	–	9,100,515	December 31, 2023
December 31, 2017	8,758,198	(8,758,198)	–	–	December 31, 2022
	₱75,718,338	(₱10,615,379)	₱–	₱65,102,959	

As of December 31, 2022, APC and Zuma's NOLCO that can be claimed as deduction from future taxable income are as follows:

Year Incurred	Amount	Applied	Expired	Balance	Available Until
December 31, 2022	₱61,501	₱–	₱–	₱61,501	December 31, 2025
December 31, 2021	581,486	–	–	581,486	December 31, 2026
December 31, 2020	640,343	–	–	640,343	December 31, 2025
December 31, 2019	61,561	–	(61,561)	–	December 31, 2022
	₱1,344,891	₱–	(₱61,561)	₱1,283,330	

The NOLCO incurred by ZUMA in taxable years 2021 and 2020 can be claimed as deduction from the regular taxable income for the next five (5) years pursuant to the Bayanihan to Recover As One Act.

d. PAL's outstanding MCIT as of December 31, 2022 is available for application against future income tax dues as follows:

Year incurred	Amount	Expired	Balance	Available Until
December 31, 2020	₱152,197	₱–	₱152,197	December 31, 2023
December 31, 2019	60,497	60,497	–	December 31, 2022
	₱212,694	₱60,497	₱152,197	

Movement of APC's outstanding MCIT follows:

Year Incurred	Amount	Applied	Expired	Balance	Available Until
December 31, 2021	₱4,379	(₱4,379)	₱–	₱–	December 31, 2024

e. The reconciliation between the statutory tax rate and the Group's effective tax rate follows:

	2022	2021	2020
Statutory tax rate	**25.00%**	25.00%	(30.00%)
Adjustments resulting from:			
Application of NOLCO for which no DIT assets were previously recognized	**(20.75%)**	–	–
Recognition of DIT asset on NOLCO for which no DIT assets were previously recognized	**(4.25%)**	–	–
Movement in deductible temporary differences for which no deferred income tax assets were recognized	**1.32%**	(12.58%)	13.37%
Interest income subjected to final tax or exempted from tax	**(0.36%)**	(0.01%)	(0.03%)
Nondeductible portion of interest expense	**0.01%**	0.02%	0.01%
Nondeductible expenses (nontaxable income) and others - net	**(2.99%)**	4.89%	14.83%
Derecognition of deferred income tax assets on NOLCO and MCIT	**–**	–	12.77%
Nontaxable income	**–**	(30.16%)	
Effective income tax rate	**(2.02%)**	(12.84%)	10.95%

a. RR No. 10-2002 defines expenses to be classified as entertainment, amusement and recreation (EAR) expenses and sets a limit for the amount that is deductible for tax purposes, i.e., 1% of net revenue for sales of services and 0.50% of net sales for sales of goods. EAR expenses amounted to ₱6.16 million, ₱1.94 million, ₱2.53 million in 2022, 2021 and 2020, respectively.

b. As discussed in Note 1, PAL has been registered with the BOI as new operator of air transport services on non-pioneer status under the Omnibus Investment Codes of 1987 (Executive Order No. 226). For the six aircraft registered with the BOI in 2018, PAL can avail of bonus years in certain cases, if applicable, provided that the aggregate ITH entitlement (regular and bonus years) shall not exceed eight (8) years.

f. The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group:

- On February 3, 2021, the House of Representatives and the Senate have ratified the Bicameral Committee's version of the proposed "CREATE Bill".

- Provisions under the CREATE bill include reductions in corporate income tax rate from 30% to 25% for large corporations and 20% for small and medium corporations with effectivity date of July 1, 2020. PAS 12 requires the measurement of income taxes to be based on enacted or substantively enacted tax rates as of the reporting date, accordingly, the Group reflects in its financial statements the amount of income taxes calculated using the 30% corporate income tax rate on those activities not covered by the 10% corporate income tax rate under the RE Law. The CREATE bill also includes reduction of the MCIT rate from 2% of the gross taxable income to 1% with effectivity date of July 1, 2020 until June 30, 2023.

23. Notes to Consolidated Statements of Cash Flows

Changes in liabilities arising from financing activities are as follows:

For the Year Ended December 31, 2022

		Cash flows						
	December 31, 2021	**Availments**	**Payments**	**Translation Adjustment**	**Net**	**New leases**	**Others**	**December 31, 2022**
Notes payable	**₱1,386,879**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**(₱1,386,879)**	**₱–**
Current portion of lease liabilities	**11,524,696**	**–**	**(15,892,517)**	**1,074,763**	**(14,817,754)**	**–**	**17,707,975**	**14,414,917**
Current portion of long-term loans	**6,053,680**	**–**	**(7,362,500)**	**612,496**	**(6,750,004)**	**–**	**6,887,805**	**6,191,481**
Noncurrent portion of lease liabilities	**65,172,414**	**–**	**–**	**4,887,317**	**4,887,317**	**1,251,644**	**(16,800,563)**	**54,510,812**
Noncurrent portion of long-term loans	**40,594,482**	**–**	**–**	**3,785,773**	**3,785,773**	**–**	**(6,865,949)**	**37,514,306**
Total liabilities from financing activities	**₱124,732,151**	**₱–**	**(₱23,255,017)**	**₱10,360,349**	**(₱12,894,668)**	**₱1,251,644**	**(₱457,611)**	**₱112,631,516**

For the Year Ended December 31, 2021

		Cash flows						
	December 31, 2020	Availments	Payments	Translation Adjustment	Net	New leases	Others	December 31, 2021
Notes payable	₱11,381,451	₱20,417,246	(₱18,541,706)	₱705,323	₱2,580,863	–	(₱12,575,435)	₱1,386,879
Bridge loan	–	5,099,900	(5,099,900)	–	–	–	–	–
Current portion of lease liabilities	96,445,944	–	(4,899,980)	5,976,785	1,076,805	–	(85,998,053)	11,524,696
Current portion of long-term loans	23,454,387	–	(982,547)	667,015	(315,532)	–	(17,085,175)	6,053,680
Noncurrent portion of lease liabilities	55,585,964	–	–	3,444,679	3,444,679	–	6,141,771	65,172,414
Noncurrent portion of long-term loans	9,116,494	–	–	1,351,400	1,351,400	–	30,126,588	40,594,482
Total liabilities from financing activities	₱195,984,240	₱25,517,146	(₱29,524,133)	₱12,145,202	₱8,138,215	–	(₱79,390,304)	₱124,732,151

"Others" includes the effect of reclassification of the non-current portion to current due to the passage of time, the amortization of direct costs capitalized and the impact of the lease amendments and termination. The Group classifies interest paid as cash flows from operating activities.

In 2022, the outstanding balance of the notes payable amounting to ₱1.39 billion was settled using PAL's investment property as discussed in Note 13.

Noncash investing activities include unpaid acquisition of property and equipment amounting to ₱68.35 million as of December 31, 2020. No unpaid acquisition of property and equipment as of December 31, 2022 and 2021.

24. Commitments

Aircraft Purchase Agreements

Airbus aircraft

In January 2015, by virtue of an amendment to the Purchase Agreement executed in August 2012, the Group purchased two additional Airbus 321-231 NEO aircraft and revised the delivery of its firm orders of 10 Airbus 321-231 CEO aircraft from the original schedule of delivery in years 2015 to 2016 to years 2021 to 2025 and converted the same into Airbus 321-231 NEO aircraft.

In July 2021, the Group and Airbus amended the Purchase Agreement that covers amendment to certain terms and conditions including the rescheduled delivery of NEO Aircraft within 2026 to 2029. As of December 31, 2022, the remaining aircraft that are for delivery in the future include 13 Airbus 321-271 NEO.

Total predelivery payments relating to the acquisition of the remaining undelivered Airbus aircraft under the Purchase Agreements amounted to ₱3.33 billion and ₱3.18 billion as of December 31, 2022 and 2021, respectively (see Note 10). Predelivery payments amounting to ₱0.65 billion were returned in 2020 upon delivery of one Airbus A321 271 NX (neo) and two Bombardier DHC 8-400. In 2022 and 2021, there were no additional predelivery payments.

Amendment Agreement with Rolls-Royce plc.

In September 2021, PAL and Rolls-Royce plc. (Rolls-Royce), in accordance with the terms of the RSAs, amended the agreement for the maintenance services of aircraft engines . The amendments include the waiver of minimum utilization for the period commencing on September 1, 2020 up to February 28, 2022 and other applicable commercial terms.

On December 31, 2021, PAL issued its common shares out of the increase in authorized capital stock to Rolls-Royce to settle the agreed claims liability. The Group recognized the difference between the carrying amount of the claims liability and the fair value of the common shares issued by PAL to Rolls-Royce amounting to ₱4.54 billion as a gain from debt settlement in the “Other income (charges) - net” account (see Note 20).

As of December 31, 2022 and 2021, total amount due to Rolls-Royce amounted ₱1.30 billion and ₱2.66 billion, respectively, included as part of “Accrued expenses - Maintenance” in the “Accrued Expenses and Other Current Liabilities” account (see Note 14).

Aircraft and Engine Leases - Group as Lessee

The future minimum lease payments related to the lease agreements of aircraft and engines as of December 31 are as follows:

	2022	2021
Due within one year	**₱18,331,631**	₱14,914,912
Due after one year but within five years	**49,183,771**	52,593,738
More than five years	**14,880,173**	22,254,638
	₱82,395,575	₱89,763,288

Airbus aircraft
Details of Airbus aircraft under lease arrangements as of December 31, 2022 and 2021 are disclosed in Note 10. The carrying value of these Airbus aircraft under lease arrangements amounted to ₱63.70 billion and ₱65.72 billion as of December 31, 2022 and 2021, respectively (see Note 10).

In 2021, based on various Early Return Agreements and Soft Landing Agreements, PAL redelivered two Airbus 321-231 CEO, five Airbus 330-300 and two Airbus 350-900 to their respective lessors. The carrying value of redelivered Airbus aircraft amounted to ₱10.71 billion.

In addition, PAL redelivered two Airbus A350-900, one Airbus 321-231 CEO and one Airbus 330-300 in 2022. The carrying value of these redelivered aircraft amounted to ₱12.58 billion.

In January 2023, one Airbus 330-300 early returned in 2021 was leased back.

Boeing aircraft
Details of Boeing aircraft under lease arrangements as of December 31, 2022 and 2021 are disclosed in Note 10. The carrying value of these aircraft under lease arrangements amounting to ₱25.25 billion and ₱25.28 billion as of December 31, 2022 and 2021, respectively (see Note 10).

In 2022, PAL redelivered one Boeing 777-300ER with carrying value of ₱4.95 billion.

In addition, on December 7, 2022 PAL exercised its right for the Early Termination Option for the two Boeing 777-300ER aircraft under lease agreements (see Notes 10 and 15).

Bombardier aircraft
Details of Bombardier aircraft under lease arrangements as of December 31, 2022 and 2021 are disclosed in Note 10. The total carrying value of these aircraft under lease arrangements amounting to ₱4.26 billion and ₱4.12 billion as of December 31, 2022 and 2021, respectively (see Note 10).

In 2021, based on Early Return Agreement, PAL redelivered one DHC 8-400 to its lessor with a carrying amount of ₱305.99 million.

In 2022, one additional DHC 8-400 was redelivered to its lessor with a carrying amount of ₱670.23 million.

Aircraft engines
As of December 31, 2022 and 2021, the Group has various engines under lease arrangements. The carrying value of these engines amounted to ₱2.83 billion and ₱1.69 billion as of December 31, 2022 and 2021, respectively (see Note 10).

Short-term aircraft and engine leases
As of December 31, 2022 and 2021, the Group has short-term lease agreements on various aircraft and engines ranging from three to 12 months.

Manufacturer's credit
In 2022, the Group recognized manufacturer's credit amounting to ₱640.89 million under "Other income (charges) - net" in the consolidated statements of comprehensive income. There was no manufacturer's credit in 2021 and 2020.

Ground Property Leases

Minimum rental commitments under these lease contracts as of December 31 are as follows:

	2022	2021
Due within one year	**₱846,205**	₱531,999
Due after one year but within five years	**915,448**	1,112,954
More than five years	**1,114,598**	1,278,035
	₱2,876,251	₱2,922,988

PAL has an operating lease agreement with an entity under common control for the lease of a portion of the PNB Financial Center Building. The lease is for a period of 10 years commencing on November 1, 2007 and may be renewed upon mutual agreement of the parties. On November 1, 2017, the lease agreement was renewed for another 10 years. In 2022, the lease agreement was amended covering specific areas on the same building from January 13, 2021 to June 30, 2024.

In 2013, PAL entered into an operating lease agreement with Manila International Airport Authority (MIAA) for a parcel of land situated at Aviation Support Industrial Area 2 (formerly Nayong Pilipino) to be utilized as an aircraft parking facility. In 2014, PAL required additional space and entered into a lease agreement with PAGCOR for another parcel of land which is part of Airport Property for the same purpose. The leases are for a period of 25 years and 20 years commencing on December 23, 2013 and August 1, 2014, respectively, and may be renewed upon mutual agreement of the parties.

The carrying value of these ground property under lease amounted to ₱1.69 billion and ₱1.81 billion as of December 31, 2022 and 2021, respectively (see Note 10).

As of December 31, 2022 and 2021, the Group has short-term lease agreements on various ground properties ranging from three to 12 months.

Set out below are the amounts recognized in the statements of comprehensive income in relation to the Group's lease arrangement:

	2022	2021	2020
Depreciation expense of right-of-use assets	**₱14,661,011**	₱19,889,239	₱18,901,557
Interest expense on lease liabilities	**5,906,480**	6,388,033	8,278,775
Lease charges - short-term leases	**1,918,521**	1,789,657	4,006,262
Lease charges - variable lease payments	**272,019**	80,017	63,838
Total amounts recognized in profit or loss	**₱22,758,031**	₱19,889,239	₱18,901,557

25. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

For the purpose of capital management, the Group considers its issued capital stock, additional paid-in capital and deposit for future stock subscription of the Parent Company totaling to ₱22.71 billion as its capital as of December 31, 2022 and 2021. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may issue new shares or return capital to shareholders. The Group manages its capital by monitoring its cash flows and debt levels. No changes were made in the objectives, policies or processes in 2022, 2021 and 2020.

26. 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 Department

The Treasury Department 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.

In addition the Department 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 Department. The Department conducts mark-to-market valuation 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 equivalents. 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 the Group'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. The Group also uses foreign currency options to economically hedge a portion of its exposure.

The Group's significant foreign currency-denominated monetary assets and liabilities (in Philippine Peso equivalent) as of December 31 are as follows:

	2022	2021
Financial Assets and Financial Liabilities		
Financial assets:		
Cash	**₱6,824,356**	₱3,242,547
Receivables	**21,063,904**	20,788,227
Others*	**8,882,107**	1,274,612
	36,770,367	25,305,386
Financial liabilities:		
Accounts payable and accrued expenses	**(4,494,634)**	(9,944,346)
Others**	**(2,003,388)**	(1,562,150)
	(6,498,022)	(11,506,496)
Net foreign currency-denominated financial assets	**30,272,345**	13,798,890
Nonfinancial Liabilities		
Accrued employee benefits	**(12,792,985)**	(11,755,881)
Provisions	**(31,111)**	(31,619)
	(12,824,096)	(11,787,500)
Net Foreign Currency-denominated Monetary Assets	**₱17,448,248**	₱2,011,390

** Includes miscellaneous deposits and security deposits.*
*** Substantially pertaining to passenger taxes.*

The Group recognized net foreign exchange gains (losses) amounting to (₱936.94) million in 2022, ₱875.54 million in 2021 and ₱820.18 million in 2020 and 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), Hong Kong dollar (HKD), Saudi riyal (SAR) and Emirati dirham (AED).

Shown below is the impact on the Group's income before income tax of reasonably possible changes in the exchange rates of foreign currencies (CCY) against the USD, with all other variables held constant.

	December 31, 2022		
		Net Gain (Loss) Effect on Income before Income Tax	
Currency	**Movement in Foreign Exchange Rates**	**Increase in Foreign Exchange Rates**	**Decrease in Foreign Exchange Rates**
PHP	**6.91%**	**₱25,313**	**(₱25,313)**
JPY	**11.07%**	**(355,661)**	**355,661**
Others*	**0.39% to 12.55%**	**(1,078,915)**	**1,078,915**
Net		**(₱1,409,263)**	**₱1,409,263**

** Includes various currencies (i.e., CAD, EUR, AUD, SGD, CNY, THB, HKD, SAR, AED and others).*

	December 31, 2021		
		Net Gain (Loss) Effect on Income before Income Tax	
Currency	Movement in Foreign Exchange Rates	Increase in Foreign Exchange Rates	Decrease in Foreign Exchange Rates
PHP	4.87% to 5.59%	(₱357,607)	₱357,607
JPY	6.53%	(58,773)	58,773
Others*	0.82% to 9.66%	(238,813)	238,813
Net		(₱655,193)	₱655,193

** Includes various currencies (i.e., CAD, EUR, AUD, SGD, CNY, THB, HKD, SAR, AED and others).*

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 0.69:1 and 0.72:1 as of December 31, 2022 and 2021, respectively.

Income before income tax in 2022 and 2021 would either decrease by ₱2.41 billion and ₱57.19 million or increase by ₱2.41 billion and ₱57.19 million, respectively, if the USD interest rate for the periods had been higher or lower by 442 basis points and 10 basis points, respectively. There is no other impact on the Group's equity other than those already affecting profit or loss. The Group assumes concurrent movements in interest rates and parallel shifts in the yield curves.

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. The Group implements such strategies to manage and minimize the risks within acceptable risk parameters. As of December 31, 2022 and 2021, the Group had no outstanding fuel derivatives.

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 as of December 31 based on contractual undiscounted payments (principal and interest):

	2022						
	≤1 Year	**>1-<2 Years**	**>2-<3 Years**	**>3-<4 Years**	**>4-<5 Years**	**>5 Years**	**Total**
Accounts payable and accrued expenses*	**₱34,997,492**	**₱–**	**₱–**	**₱**	**₱–**	**₱–**	**34,997,492**
Lease liabilities **	**19,131,046**	**17,849,294**	**13,984,581**	**10,658,516**	**7,556,364**	**15,994,771**	**85,174,572**
Long-term debt***	**9,716,424**	**14,251,313**	**11,050,306**	**12,381,847**	**4,965,652**	**502,353**	**52,867,895**
	28,847,470	**32,100,607**	**25,034,887**	**23,040,363**	**12,522,015**	**16,497,124**	**138,042,466**
	₱63,844,962	**₱32,100,607**	**₱25,034,887**	**₱23,040,363**	**₱12,522,015**	**₱16,497,124**	**₱173,039,959**

**Excludes nonfinancial liabilities amounting to ₱4,908,602*
***Includes interest amounting to ₱16,248,843*
****Includes interest amounting to ₱9,162,108*

	2021						
	≤1 Year	>1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	>5 Years	Total
Notes payable*	₱1,412,060	₱–	₱–	₱–	₱–	₱–	₱1,412,060
Accounts payable and accrued expenses**	35,868,084	–	–	–	–	–	35,868,084
	37,280,144	–	–	–	–	–	37,280,144
Lease liabilities ***	15,421,333	16,077,231	15,445,098	12,541,878	9,642,279	23,532,724	92,660,543
Long-term debt****	8,680,795	8,056,618	12,447,683	9,853,160	11,262,772	5,086,079	55,387,107
	24,102,128	24,133,849	27,892,781	22,395,038	20,905,051	28,618,803	148,047,650
	₱61,382,272	₱24,133,849	₱27,892,781	₱22,395,038	₱20,905,051	₱28,618,803	₱185,327,794

**Includes interest amounting to ₱25,181*
***Excludes nonfinancial liabilities amounting to ₱3,728,363*
****Includes interest amounting to ₱15,963,433*
*****Includes interest amounting to ₱8,738,945*

The Group's total financial liabilities to be settled currently amounting to ₱63.84 billion and ₱61.38 billion as of December 31, 2022 and 2021, include current liabilities aggregating to ₱35.00 billion and ₱37.28 billion, respectively, that management considers as working capital. For the other liabilities totaling to ₱28.84 billion and ₱24.10 billion as of December 31, 2022 and 2021, 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 December 31 used to manage liquidity risk, particularly those financial liabilities that will mature in less than a year:

	2022						
	≤1 Year	**>1-<2 Years**	**>2-<3 Years**	**>3-<4 Years**	**>4-<5 Years**	**>5 Years**	**Total**
Cash	**₱10,049,233**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱10,049,233**
Loans and receivables:							
Cash equivalents	**8,235,693**	**–**	**–**	**–**	**–**	**–**	**8,235,693**
Short-term investments	**11,186,683**	**–**	**–**	**–**	**–**	**–**	**11,186,683**
Receivables - net*	**30,505,579**	**–**	**–**	**–**	**–**	**–**	**30,505,579**
	₱59,977,188	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱59,977,188**

**Excludes receivables arising from statutory requirements, net of allowance, amounting to ₱7,627,297 .*

	2021						
	≤1 Year	>1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	>5 Years	Total
Cash	₱9,112,236	₱–	₱–	₱–	₱–	₱–	₱9,112,236
Loans and receivables:							
Cash equivalents	14,970,219	–	–	–	–	–	14,970,219
Receivables - net*	27,434,407	–	–	–	–	–	27,434,407
	₱51,516,862	₱–	₱–	₱–	₱–	₱–	₱51,516,862

**Excludes receivables arising from statutory requirements, net of allowance, amounting to ₱5,392,642.*

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 as of December 31 after taking into account information about rights of offset and related arrangements for financial instruments subject to master netting agreements:

	2022					
	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	**₱18,383,928**	**₱–**	**₱18,383,928**	**₱–**	**₱–**	**₱18,383,928**
Short-term investments	**11,186,683**	**–**	**11,186,683**	**–**	**–**	**11,186,683**
Receivables	**38,132,875**	**–**	**38,132,875**	**–**	**1,858,927**	**36,273,948**
Margin deposits, lease deposits and others	**13,271,718**	**–**	**13,271,718**	**–**	**–**	**13,271,718**
	₱80,975,204	**₱–**	**₱80,975,204**	**₱–**	**₱1,858,927**	**₱79,116,277**

	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	₱24,154,660	–	₱24,154,660	₱–	–	₱24,154,660
Receivables	32,827,049	–	32,827,049	–	1,745,033	31,082,016
Margin deposits, lease deposits and others	2,160,095	–	2,160,095	–	–	2,160,095
	₱59,141,804	₱–	₱59,141,804	₱–	₱1,745,033	₱57,396,771

In an event of default or pre-termination of derivative contracts, the parties can apply master netting agreement. In 2022 and 2021, there was no default or pre-termination event which required the application of the master netting agreements.

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 Monitoring and Control Division, 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 carrying value of these collaterals held as of December 31, 2022 and 2021 amounted to ₱1.86 billion and ₱1.75 billion, respectively.

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

Credit quality per class of financial assets
The credit quality of receivables is managed by the Group using internal credit quality ratings. High grade accounts consist of passenger and cargo receivables from agents with good financial condition and which management believes to be reasonably assured to be recoverable. Standard grade accounts consist of passenger and cargo receivables from agents with relatively low defaults. Substandard grade accounts, on the other hand, are receivables from agents with history of defaulted payments. Accounts from these agents are consistently monitored in order to identify any potential adverse changes in the credit quality. Receivables from IATA which consist of receivables from other airlines through the IATA clearing house are deemed high grade accounts as the expectation of default is minimal.

The Group considers its other financial assets as high grade as they consist of accounts with good financial standing and with relatively low defaults.

The aging per class of receivable and the expected credit loss as of December 31 follow:

	2022							
				Past Due but not Impaired				
	High Grade	**Standard Grade**	**Substandard Grade**	**Over 30 Days**	**Over 60 Days**	**Over 90 Days**	**ECL**	**Total**
General traffic	**₱923,406**	**₱3,243**	**₱5,755,871**	**₱991,901**	**₱1,223,312**	**₱9,156,241**	**(₱2,060,338)**	**₱15,993,636**
Related parties	**218,961**	**5,679,898**	**14,334**	**15,467**	**17,621**	**4,727,015**	**(169,551)**	**10,503,745**
Non-trade	**302,428**	**245,990**	**1,225,209**	**29,327**	**331,508**	**7,271,143**	**(3,827,539)**	**5,578,066**
Total	**₱1,444,795**	**₱5,929,131**	**₱6,995,414**	**₱1,036,695**	**₱1,572,441**	**₱21,154,399**	**(₱6,057,428)**	**₱32,075,447**

	2021							
				Past Due but not Impaired				
	High Grade	Standard Grade	Substandard Grade	Over 30 Days	Over 60 Days	Over 90 Days	ECL	Total
General traffic	₱762,544	₱2,678	₱4,753,168	₱819,107	₱1,010,205	₱7,561,176	(₱1,574,600)	₱13,334,278
Related parties	197,100	5,112,818	12,903	13,923	15,861	4,255,071	(99,244)	9,508,432
Non-trade	267,216	217,349	1,082,556	25,912	292,910	6,424,552	(3,646,836)	4,663,659
Total	₱1,226,860	₱5,332,845	₱5,848,627	₱858,942	₱1,318,976	₱18,240,799	(₱5,320,680)	₱27,506,369

27. Fair Value Measurements

Fair Values

The table below presents the Group's financial instruments as of December 31 measured at fair value and financial instruments for which fair values are disclosed:

	2022		2021	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at amortized cost - margin deposits, lease deposits and others	**₱13,271,718**	**₱13,271,718**	₱4,199,341	₱4,199,341
Financial assets at FVTOCI	**794,441**	**794,441**	836,993	836,993
Financial Liabilities				
Financial liabilities carried at amortized cost:				
Lease liabilities	**68,925,730**	**78,939,936**	76,697,110	86,215,237
Long-term debt	**43,705,787**	**45,521,567**	46,648,162	50,206,476

The carrying amounts of cash and cash equivalents, short-term investments, 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 December 31, 2022 and 2021, the fair value of unquoted equity instruments 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
As of December 31, 2022 and 2021, the margin deposits, lease deposits and others are classified as current as such their carrying amounts approximate their fair values.

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 2.65% to 6.09% and 1.12% to 3.06% as of December 31, 2022 and 2021, respectively.

Fair Value Hierarchy

As of December 31, 2022

		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 (Note 12):				
Quoted equity shares	**₱681,113**	**₱681,113**	**₱–**	**₱–**
Unquoted equity shares	**113,328**			**113,328**
Property and equipment (Note 10)	**1,191,206**	**–**	**–**	**1,191,206**
Assets and liabilities for which fair values are disclosed:				
Margin deposits, lease deposits and others (Note 12)	**13,271,7183**	**–**	**13,271,718**	**–**
Lease liabilities (Note 15)	**78,939,936**	**–**	**78,939,936**	**–**
Long-term debt (Note 15)	**45,521,567**	**–**	**45,521,567**	**–**
Investment properties (Note 11)	**494,045**	**–**	**–**	**494,045**

As of December 31, 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 (Note 12):				
Quoted equity shares	₱733,908	₱733,908	₱–	₱–
Unquoted equity shares	103,085	–	–	103,085
Property and equipment (Note 10)	958,493	–	–	958,493
Assets held for sale (Note 10)	537,425	–	–	537,425
Assets and liabilities for which fair values are disclosed:				
Margin deposits, lease deposits and others (Note 12)	4,199,341	–	4,199,341	–
Lease liabilities (Note 15)	86,215,237	–	86,215,237	–
Long-term debt (Note 15)	50,206,476	–	50,206,476	–
Investment properties (Note 11)	2,792,960	–	–	2,792,960

There were no transfers between hierarchy levels during the years ended December 31, 2022 and 2021.

28. **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.

Lease income and revenue from estimated breakage for unutilized passenger tickets and related expenses reported as non-transport revenue and expenses in previous years were reclassified as part of reportable segment revenues and expenses.

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

	2022	2021	2020
Revenue	**₱139,172,618**	₱58,651,301	₱55,243,745
Interest income	**522,387**	238,893	888,522
Financing charges	**7,345,650**	6,574,970	9,843,926
Depreciation, amortization and obsolescence	**14,262,581**	16,702,589	25,803,150
Net income (loss)	**13,702,960**	(3,796,912)	(7,729,478)
Reportable segment assets	**206,036,923**	193,846,554	227,899,364
Reportable segment liabilities	**193,214,040**	192,156,928	296,005,919

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

	2022	2021	2020
Total segment revenue of reportable operating segments	**₱139,172,618**	₱58,651,301	₱55,243,745
Non-transport revenue	**65,467**	49,410	20,221
Total revenue	**₱139,238,085**	₱58,700,711	₱55,263,966

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

	2022	2021	2020
Total segment income (loss) of reportable segments	**₱13,702,960**	(₱3,796,912)	(₱7,729,478)
Add (deduct) unallocated items:			
Non-transport revenue and other income	**–**	49,410	20,221
Non-transport expenses and other charges	**(3,130,760)**	(16,080,156)	(58,160,866)
Net gain from debt restructuring (Note 20)	**–**	73,540,751	–
Income tax benefit (expense)	**(213,436)**	6,898,382	(7,213,637)
Net income (loss)	**10,358,764**	60,611,475	(73,083,760)
Other comprehensive income (loss)	**765,230**	(4,120,347)	79,981
Total comprehensive income (loss)	**₱11,123,994**	₱56,491,128	(₱73,003,779)

The Group's major revenue-producing asset is the fleet owned by the Group, which is employed across its route network (see Note 10).

Disaggregation of Revenue

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

SGV
Building a better working world

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INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
PAL Holdings, Inc.
8F PNB Financial Center
Pres. Diosdado Macapagal Ave.
CCP Complex, Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of PAL Holdings, Inc. and its subsidiaries (the Group) as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, included in this Form 17-A and have issued our report thereon dated March 31, 2023. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Albert R. Bon

Albert R. Bon
Partner
CPA Certificate No. 0121479
Tax Identification No. 255-491-830
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 121479-SEC (Group A)
Valid to cover audit of 2019 to 2023 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-135-2023, January 25, 2023, valid until January 24, 2026
PTR No. 9369785, January 3, 2023, Makati City

March 31, 2023

PAL HOLDINGS, INC. AND SUBSIDIARIES
Schedule A. Financial Assets
December 31, 2022
(Amounts in Thousand Php)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Income Received and Accrued
MacroAsia Corporation	137,280	672,672	-
Golf La Moraleja	2	4,237	-
Medical Doctors, Inc.	10,164	11,095	-
Societe Internationale de Telecommunications (SITA)	30	39,753	-
Tanah Merah Country Club (L corp)	1	9,088	-
Everest Investment Holdings Ltd	1,109,495	45,385	
Others	63,291	12,211	-
		794,441	-

See Note 12 of the Notes to Consolidated Financial Statements

PAL HOLDINGS, INC. AND SUBSIDIARIES
Schedule B. Amounts Receivable from Directors, Officers and Employees, Related Parties and Principal Stockholders
December 31, 2022
(Amounts in Thousand Php)

Name and Designation of Debtor	Balance at Beg. of Period	Additions	Amounts Collected	Amounts Written-off	Forex Adjustments	Current	Non-current	Balance at End of Period
Various Pilot Trainees - Employees	11,098	-	(3,644)	-	-	7,454	-	7,454
Receivable from Various Employees	5,652	13,092	(13,348)	-	-	5,396	-	5,396
	16,750	13,092	(16,992)	-	-	12,850	-	12,850

PAL HOLDINGS, INC. AND SUBSIDIARIES
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
December 31, 2022
(Amounts in Thousand Php)

Name and Designation of Debtor	Balance at Beg. of Period	Net Movement	Current	Non- current	Balance at End of Period
PAL Holdings, Inc.	3,600,000	-	3,600,000	-	3,600,000
Philippine Airlines, Inc.	7,078,719	950,991	8,029,710	-	8,029,710
Philippine Airlines, Inc.	6,599	(6,599)	-	-	-
Philippine Airlines, Inc.	272,209	(109,624)	162,585		162,585
Zuma Holdings Management Corporation	62,972	26	62,998	-	62,998
GuidetothePhilippines, Inc.	8,772	(8,256)	516		516
Air Philippines Corporation	2,038,910	268,253	1,051,243	1,255,920	2,307,163

Please refer to Note 18 of the Consolidated Financial Statements

PAL HOLDINGS, INC. AND SUBSIDIARIES
Schedule D. Long-term Obligations
December 31, 2022
(Amounts in Thousand Php)

Type of Obligation	Amount Shown as Current	Amount Shown as Long-term	Total	Interest Rates	Maturity Dates
Lease liabilities	14,414,917	54,510,812	68,925,730	8.14% discounted rate 1.89% to 6.58% and 3-month LIBOR plus margin	Various dates through 2033
Long-term debts	6,191,481	37,514,306	43,705,787	1-month LIBOR plus margin	Various dates through 2028
	20,606,398	92,025,118	112,631,517		

PAL HOLDINGS, INC. AND SUBSIDIARIES
Schedule E. Indebtedness to Related Parties (Long-term Obligations)
December 31, 2022
(Amounts in Thousand Php)

Name of Related Party	Balance at Beginning of Period	Balance at End of Period	Remarks
Buona Sorte Holdings, Inc.	12,747,500	13,938,750	Pertains to Debtor-in-possession (DIP) A facility.
Philippine National Bank	1,386,879	-	Notes payable settled in 2022

See Note 18 of the Notes to Consolidated Financial Statements

PAL HOLDINGS, INC. AND SUBSIDIARIES
Schedule F. Guarantees of Securities of Other Issuers
December 31, 2022

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
NOT APPLICABLE				

PAL HOLDINGS, INC. AND SUBSIDIARIES
Schedule G. Capital Stock
December 31, 2022

Title of Issue	No. of Shares Authorized	No. of Shares Issued and Outstanding	No. of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by		
				Related Parties	Directors, Officers and Employees	Others
Common Stock	13,500,000,000	11,610,978,242	-	9,308,939,760	1,995,053	2,300,043,429

See Note 17 of the Notes to Consolidated Financial Statements

PAL HOLDINGS, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION (ANNEX 68-D)
FOR THE YEAR ENDED DECEMBER 31, 2022
(Amounts in Thousands)

Deficit, beginning	(₱88,021)
Add net income actually incurred during the year:	
Net Income for the year	8,154,360
Deduct equity in net income of subsidiaries	(8,168,661)
Net income actually earned for the year	(14,301)
Deficit, ending	(₱102,322)

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMETARY SCHEDULE ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
PAL Holdings, Inc.
8th Floor, PNB Financial Center
President Diosdado Macapagal Ave.
CCP Complex, Pasay City

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

SYCIP GORRES VELAYO & CO.

Albert R. Bon

Albert R. Bon
Partner
CPA Certificate No. 0121479
Tax Identification No. 255-491-830
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 121479-SEC (Group A)
Valid to cover audit of 2019 to 2023 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-135-2023, January 25, 2023, valid until January 24, 2026
PTR No. 9369785, January 3, 2023, Makati City

March 31, 2023

PAL HOLDINGS, INC. AND SUBSIDIARIES

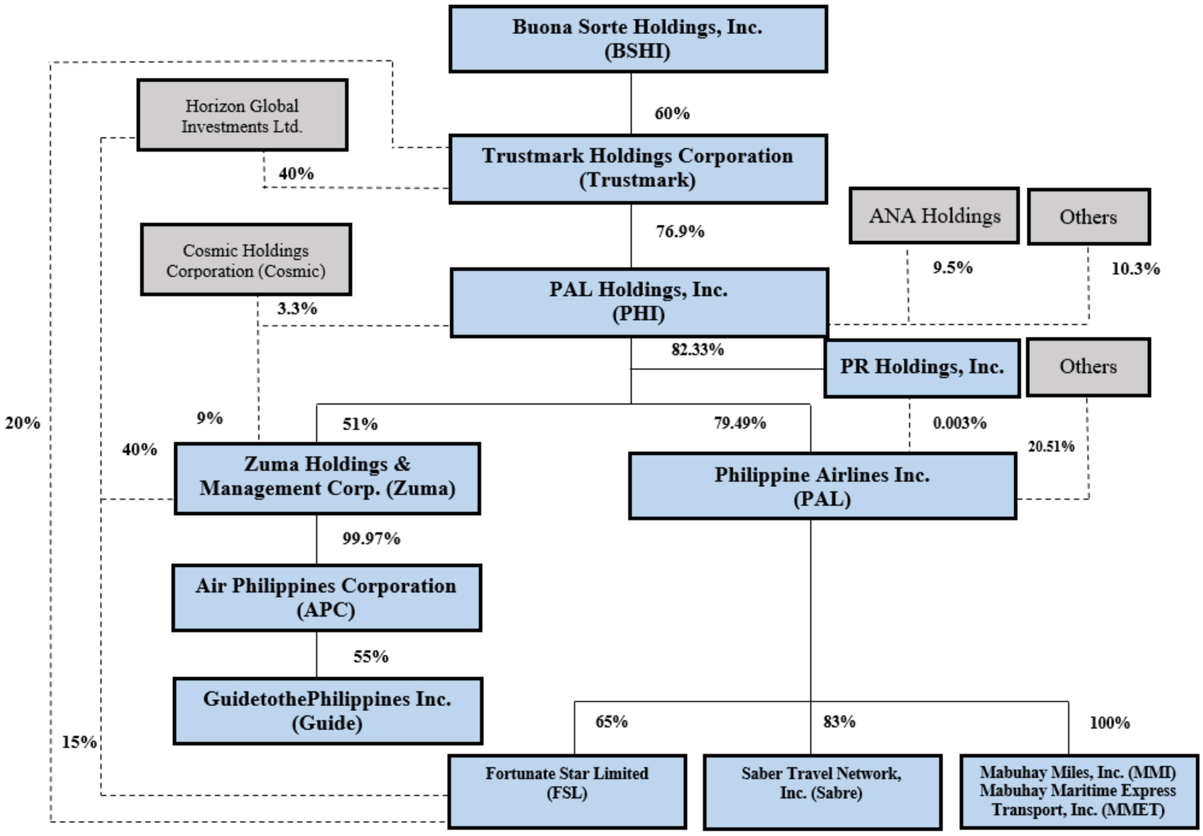
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS (ANNEX 68-E)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Ratio	Formula	Dec-22	Dec-21
Current Ratio	Current Assets / Current Liabilities	0.88	0.84
Quick Asset Ratio	(Cash and Cash Equivalents + Receivables) / Current Liabilities	0.61	0.73
Debt-to-Equity Ratio	Total Debt* / Total Equity	8.78	73.82
Asset-to-Equity Ratio	Total Assets / Total Equity	16.07	114.73
Receivable Turnover	Revenues /Average Trade Receivables	8.45	5.43
Number of Days Sales in Receivables (General Traffic)	365 Days / Receivable Turnover	43.20	67.22
Interest Rate Coverage Ratio	EBIT / Interest Expense	2.44	9.17
Solvency Ratio	Net Income (Loss) + Depreciation / Total Debt*	0.21	0.64
Profitability Ratios:			
Profit Margin	Net Income (Loss) / Revenues	0.07	1.03
Return on Assets	Net Income (Loss) / Total Assets	0.05	0.31
Return on Equity	Net Income (Loss) / Total Equity	0.81	35.87

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

PAL HOLDINGS, INC. AND SUBSIDIARIES

CORPORATE ORGANIZATIONAL CHART
AS OF DECEMBER 31, 2022



FLYING TO NEW DISCOVERIES

PAL HOLDINGS, INC.
2022 SUSTAINABILITY REPORT

Philippine Airlines

Heart for Generations

Bridging wholehearted service now and into the future

The Philippine Airlines Group continues to act boldly to achieve sustainable growth now and for future generations, with a heart of service for our employees, customers, and environment.

We fly Filipinos home, help build the Philippines as a strong tourist and business destination, and connect the country to the world economy. We will strengthen our ties to the communities we serve, who depend on air services to sustain their livelihood.

CONTENTS OF THE REPORT


Busan, Korea

DR. LUCIO C. TAN
Chairman and CEO

CHAIRMAN'S MESSAGE

To our dear stakeholders,

We began 2022 by completing our financial restructuring and welcoming a new generation of leaders. Re-energized by these initiatives, our people came together to tackle the long-term recovery process and embarked on a transformational journey to position Philippine Airlines as the flag carrier that is up to the task of fulfilling its public service mission and bringing its stakeholders to new discoveries of a sustainable world.

Throughout the year, we gradually reactivated our fleet, rebuilt our network, and dealt with the enormous difficulties of rebuilding an efficient airline in the midst of global economic and geopolitical disruptions. The year 2022 ended with good financial results, exceeding our forecasts and giving us the chance to give back to our stakeholders - the flying public, our employees, and our communities - with gross revenues of over PHP139 billion and net income of over PHP10 billion.

Our aim to assist the Filipino people remains our primary concern. We helped bring Filipinos home, revived Philippine tourism, reunited families here and abroad, and flew tourists to their dream destinations as the world began to open up in 2022. We operated with a new sense of purpose: to serve and connect not only our fellow countrymen but the entire world, in order to create economic opportunities and realize aspirations.

We found ourselves on the verge of extinction as a result of the recent challenges we faced. But those trying times also brought the best in us. We showed tenacity and offered our unwavering support for the country's economic recovery. Through the support of our customers, employees, partners, and other stakeholders, our journey to new discoveries has been made possible.

With a grateful heart, a legacy of 82 years of meaningful connections, and a renewed commitment to sustainability and service, our people march firmly up the path to full recovery.

Thank you for your faith and support to our national flag carrier.

ABOUT PAL HOLDINGS, INC.

A Subsidiary of Trustmark Holdings Corporation

MAY 10, 1930

PAL Holdings, Inc. (referred to in this report as the PAL Group or the Company) was incorporated in the Philippines to engage in the business of a holding company.

OCTOBER 5, 1979

The Philippine Securities and Exchange Commission (SEC) granted the Company an extension of its corporate life for another 50 years from May 1980.

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

SUBSIDIARIES

PHI's subsidiaries are primarily engaged in air transport of passengers and cargo within the Philippines as well as to various international destinations.

The PAL Group operates through its major subsidiaries: Philippine Airlines, Inc. (PAL), the Philippine national flag carrier, and Air Philippines Corporation (PALex), a subsidiary under common control that was indirectly acquired through Zuma Holdings Management Corporation in 2017.

PHILIPPINE AIRLINES, INC.

PAL

1931
Andres Soriano, co-founder, established the Philippine Aerial Taxi Company
The business closed down in 1939 and was replaced with Philippine Air Line in 1941

March 15, 1941
PAL's inaugural flight with only five passengers from Makati to Baguio

1959
Designated as the "National Flag Carrier" pursuant to RA 2232

1970s & 1980s
PAL was brought under government ownership

Early 1990s
PAL was reverted to private ownership

2021
Voluntarily filed for pre-negotiated Chapter 11 Restructuring in the US
Emerged successfully in less than 4 months

2022
PAL's year of recovery, revival, and rebirth

- International Air Transport Association (member)
- Association of Asia Pacific Airlines (member)
- Air Carriers Association of the Philippines (member)
- Flight Safety Foundation (member)
- United for Wildlife (member)
- Philippine Eagle Foundation (sponsor)

AIR PHILIPPINES CORPORATION

PALex

February 1995
Incorporation of Air Philippines Corporation (APC)

February 1996
First commercial flight from Manila to Zamboanga

February 1999
The Lucio Tan Group of Companies took over management of APC

April 2008
APC was rebranded as PAL Express

August 2019
Awarded as one of Asia's Top 100 Employers

2022
Continues to bring communities together and support economic growth

- Air Carriers Association of the Philippines (member)
- People Management Association of the Philippines (member)
- Philippine Society for Quality (member)
- Employers Confederation of the Philippines (member)
- Philippine Society for Talent Development (member)


Kuala Lumpur, Malaysia


Vancouver, Canada


Sydney, Australia

COMPANY HIGHLIGHTS

20 Widebody aircraft

44 Narrowbody aircraft

16 Turboprop aircraft

Years in service
82 PAL
28 PALex

9.31M Passengers carried

5,920 Employees

IOSA certified
PAL 17
PALex 9
years

ISO 9001 certified
PALex
4 years

24.86B Revenue passenger kilometers

2.89B Revenue ton kilometers

31 Domestic destinations

37 International destinations

38,767 Roundtrips operated

41 International routes

47 Domestic routes

CEBU ON THE RISE

The COVID virus nearly brought our nation to a standstill for almost three years. Vaccines that saved lives were made available in 2021, and since then, borders have been re-opened to facilitate the revival of air travel, tourism, and economic growth. The demand for travel increased, resulting in more flights and higher frequencies.

Cebu is at the heart of this national comeback. Like many other regions of the country, the Queen City of the South has traditionally relied on tourism as a steady source of income. Now, tourism plays an important role in rebuilding the island's economy.

The PAL Group is leading this comeback by focusing on the restoration and development of the PAL Cebu Network Hub. The Company's decision to station multiple De Havilland Dash 8 aircraft at Mactan-Cebu International Airport has progressively increased domestic and international flights to and from the Queen City, benefiting both locals from Cebu and visitors from around the world.

We are going full speed ahead in making Cebu the "Queen of Gateways", an affirmation of the country's revival as a tourist and business destination, with Cebu at the forefront.

CEBU HUB OPERATIONS

17 Domestic destinations

3 International destinations

BANGKOK | TOKYO (NARITA) | OSAKA (KANSAI)

BACOLOD | BORONGAN | BAGUIO | BUSUANGA
BUTUAN | CAGAYAN DE ORO | CATICLAN
CLARK | COTOBATO | DAVAO | ILOILO | MANILA
PUERTO PRINCESA | SIARGAO | TACLOBAN
TAWI-TAWI | ZAMBOANGA

PAL RETURNS TO BAGUIO

CEBU – BAGUIO – CEBU
4x a week

PAL's inaugural flight from Manila to Baguio last March 15, 1941 officially marked the beginning of the Philippine Aviation Age. Now, after a 24-year hiatus, PAL returns to its first destination with renewed enthusiasm and commitment for the entire region.

Over the years, a variety of PAL aircraft types, including Douglas DC-3, Fokker 27, Hawker Siddeley HS748, NAMC YS11, Fokker 50, Shorts SD 360, and Boeing 737, have all flown into and out of Baguio. Early on, PAL also established connections between Baguio and other locations in Northern Luzon including Cauayan, Tuguegarao, Aparri, Laoag, and Basco.

With this return, the company also ushers a new age of air travel experience as PAL now offers a more convenient access to the Summer Capital for its customers from the central and southern regions of the Philippines. Four PAL flights arrive weekly at Baguio's renowned Loakan Airport. Our Dash 8 aircraft, which offers jet-like comfort and speed, carries our flyers with ease to one of our longest turboprop sectors.

AWARDS AND RECOGNITION

PAL Senior Financial Advisor Ian Reid (fourth from the left) accepted the restructuring awards at the awarding ceremonies held in Dublin, Ireland.

ASIA PACIFIC'S RESTRUCTURING DEAL OF THE YEAR

AIRLINE ECONOMICS AVIATION 100 AWARDS

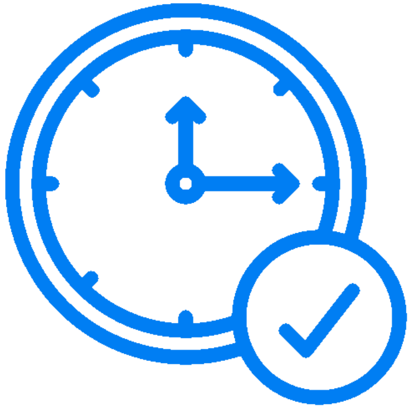
DEAL OF THE YEAR

AIRFINANCE JOURNAL AWARDS

These European awards recognized the success of PAL's financial restructuring through a breakthrough series of cross-border agreements with major aircraft and bank creditors, aviation manufacturers, and other stakeholders.

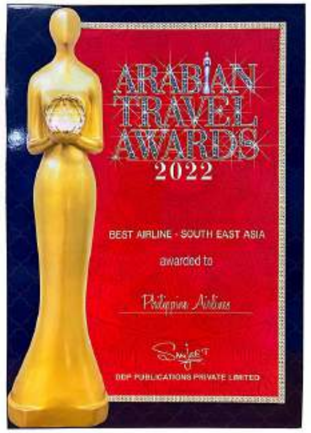
ON-TIME PERFORMANCE TOP PERFORMER

CIRIUM 2022 ON-TIME PERFORMANCE REVIEW



PAL ranked among the five network winners in the Asia Pacific region for achieving the fourth-best percentage of on-time arrivals. In 2022, PAL operated a total of 76,308 flights, 76.42% of which arrived on time.

ARABIAN TRAVEL AWARD

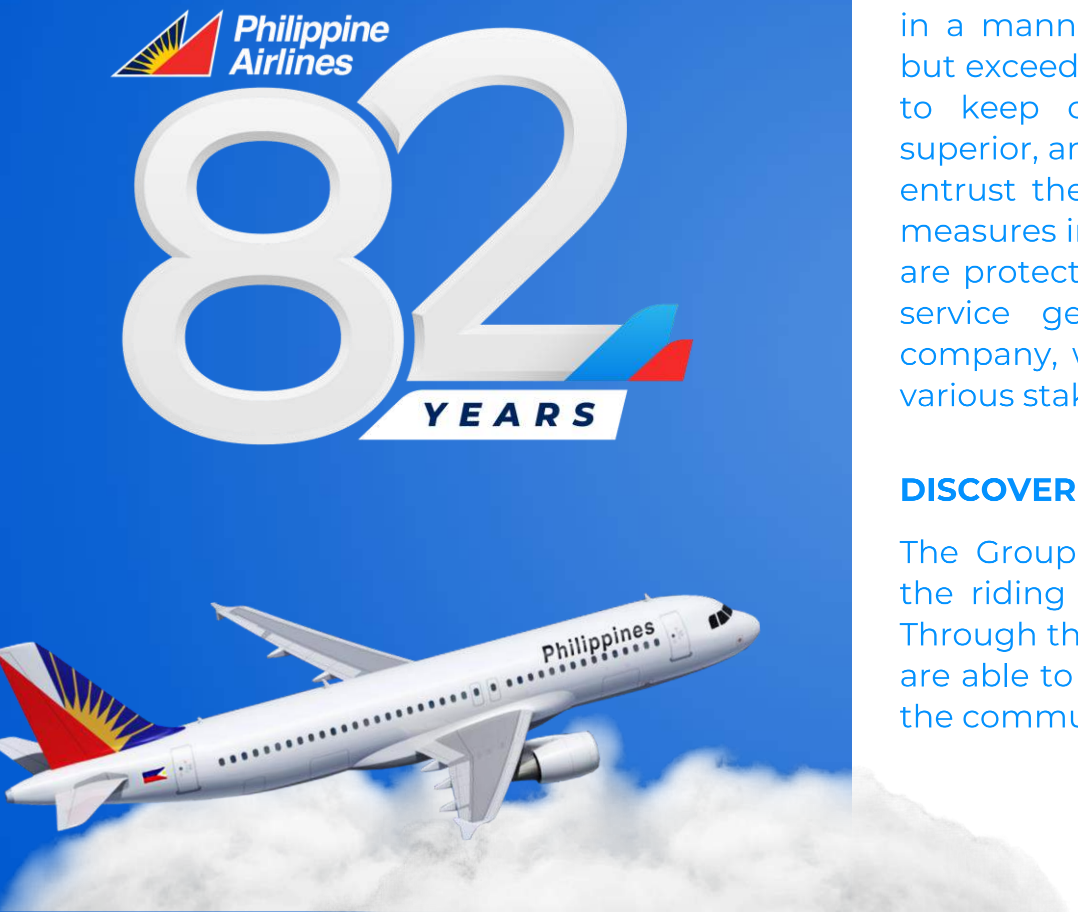


PAL was lauded for the company's efforts to revive travel and tourism. Specific to PAL's initiatives to overcome the effects of the epidemic and relaunch travel between Saudi Arabia and the Philippines, PAL was given the Arabian Travel Award.

The Arabian Travel Awards, held recently in Dubai, recognized the trailblazers of travel, tourism, and the hospitality industry in the region. Ammar Sajwani, Director of Tourism Development Department UAE, Ministry of Economy, presented the awards to the stars of the night.

From left: San Jeet - Director DDP Group, Josh Vasquez - PAL UAE Area Manager, Ammar Sajwani - Director of Tourism Development Department UAE, Ministry of Economy, Shiela Yuliong - PAL Regional Head - EMEA & Oceania, and Sumeera Bahl - Director DDP Group

EXECUTIVE SUMMARY



PAL is now in its 82nd year, an impressive milestone only a select few airlines have reached. The worst of PAL's several turbulent times in our illustrious history was the COVID-19 pandemic. However, with the unshakable support of our lessors, financiers, suppliers, employees, and stockholders, PAL successfully concluded the US Chapter 11 Restructuring in 2021, resulting in the conversion of a portion of the liabilities owed to lessors into equity effective December 31, 2021. Also, the company received additional equity from our largest stakeholder, giving us a fresh start for 2022.

DISCOVERING FOR OUR CUSTOMERS

We are in the business of serving our customers in a manner that not only satisfy their needs, but exceed their expectations as well. We strive to keep our operations safe, our products superior, and our services pleasing to those who entrust themselves to our care. We have put measures in place to ensure that customer data are protected and kept secure. Ultimately, our service generates economic value for the company, which then redounds to benefit our various stakeholders.

DISCOVERING FOR OUR COMMUNITY

The Group recognizes that we not only serve the riding public but the community as well. Through the PAL Foundation, Inc. programs, we are able to reach out to other various sectors of the community and extend a helping hand.

DISCOVERING FOR OUR PEOPLE

Behind the service we provide are a group of committed, hardworking, and well-trained people. The Group has developed and implemented programs to ensure the safety and well-being of our personnel. Compliance with applicable laws and regulations is a priority primarily to provide for the welfare of the employees, who are our most vital instruments in overcoming challenges, thus, allowing us to reach another milestone.

DISCOVERING FOR THE ENVIRONMENT

We realize that as our operations grow, we inevitably impact the environment within which we operate. Hence, we have made it our commitment to minimize our negative impact on the environment by being mindful of the use of limited resources and, in the process, reduce our waste and emissions.

Celebrating 82 years of service is likely an unmatched achievement as we are the first airline in Asia to reach this milestone. We enter our 82nd year with new discoveries, a new look, and new reasons to fly. We are rolling out new routes and working on fleet expansion, digital innovations, customer service enhancements, and a last-mile cargo delivery service.

NEW LOOK

Travelers will see more of PAL's refreshed look in airports and on digital platforms, echoing our dynamism and energy with 82 years of service and experience.

NEW REASONS TO FLY

Travelers may explore new destinations and travel experiences as we continue to expand our global flight route network to serve growing passenger demand and support the recovery of tourism and business.

We are upgrading our widebody fleet to significantly improve the experience of traveling on long-haul flights. Additionally, we are reactivating more aircraft that had been parked during the pandemic, with our entire fleet of 75 aircraft expected to be operational in Q4 2023.

NEW EXPERIENCES

Our port-to-door Service allows our cargo customers to have their shipments delivered to their doorsteps, hassle free.

Our expansive and new Mabuhay Lounge for international departures at Manila airport's Terminal 1 will feature a contemporary design and a younger, trendier vibe.

YourPAL. a reworked customer service hub that allows our passengers to search for information such as luggage restrictions, safety protocols, check-in and boarding procedures, and many more.

In 2022, the Board of Directors and senior management reviewed the company's vision, mission, and values.

The Group's vision remains to be the airline of choice in the markets we serve, and to this end, we reaffirm our unwavering promise of providing *Buong Pusong Alaga* (wholehearted service) to all our passengers. Nevertheless, this has now been broadened to ensure that our trademark service is given to both our external customers and internal stakeholders in order to demonstrate our new corporate value, Heart and Mind in Service.

OUR VISION

To be the **Airline of Choice** in the markets where we serve

OUR CORPORATE VALUE

Heart and Mind in Service

The Board and management have also adopted a new approach to deliver the Group's mission, aligned to our greater purpose and value to society. We understand and acknowledge the need to consider the interests of all our stakeholders thus, the transition to a Purpose Statement, consistent with our Sustainability Policy.

As the country's flag carrier, we play a vital role in serving and connecting our world as well as bringing communities together and sustaining the economy. We also take pride in connecting our fellow Filipinos to a world of opportunities and bringing them home to their families and loved ones.

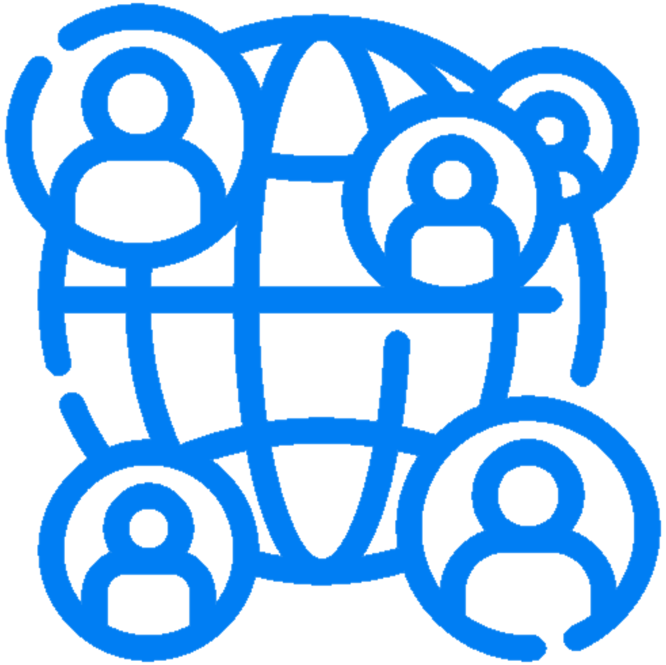
Mindful of our scale and impact in the country, we strive to build enduring relationships with all our stakeholders and contribute positively to our country's path to sustainable development.


Clark, Philippines


Cebu, Philippines

OUR PURPOSE

To serve and connect our world, so that **opportunities are create and aspirations are realized**



SUSTAINABILITY MANAGEMENT GROUP

SUSTAINABILITY GOVERNANCE

Each director, officer, and employee of the Company has a duty to promote, contribute to, push, and carry out the Group's sustainability objectives.

Our Board-level Enterprise Risk Management Committee provides the overall direction and vision for all sustainability-related matters. Supported by the Sustainability Office and Audit Department, our Sustainability Management Executive Committee executes the directive given by the Board and develops sustainability projects and programs.

At the core, we have identified action teams for each sustainability pillar. Each team is responsible in creating work plans, strategies, and targets aligned to the Group's overall corporate sustainability goals.

OUR SUSTAINABILITY DNA

At the core of our operations and sustainability commitment is our Sustainability DNA which underscores how our impact on our People, Customers, and the Environment allows us to advance the United Nations Sustainable Development Goals (UN SDGs). Our Sustainability DNA captures our essence and identity in terms of sustainability.

Our People – We aim to provide work-life balance, equal opportunity, higher learning, decent work environment, and access to superior health and wellness for our employees. We believe that taking care of the needs of our people, they will be able to provide exemplary service to our customers.

Our Customers – In all aspects of our operations, safety comes first. With this in mind, our customers are assured that they are well taken cared of and their travel experience with PAL will be as smooth as possible.

This safety-in-mind concept also benefits our suppliers and passengers. As a result, there is less direct and indirect financial loss due to events, claims, and accidents, which promotes business growth and higher profitability.

The Environment – We recognize that our operations has a negative impact on the environment and thus, we are working to mitigate this. By practicing environmental stewardship and adopting technological advancements, we are able to demonstrate our commitment to minimize our impact on nature.

OUR SUSTAINABILITY BLUEPRINT

Our Sustainability Blueprint is our program of action that represents how we plan to achieve our sustainability objectives. It captures the contributing factors of the relevant UN SDGs to our business and our desired outcome.

The SDGs are carefully positioned to illustrate their purpose and our involvement in achieving them. Furthermore, they are arranged so that their connection to the components of our Sustainability DNA - our People, Customers, and the Environment - are reflected.

Through this Blueprint, we believe that we will achieve new milestones while continuing to operate and provide service. Additionally, we will consistently strive to produce results that are sustainable and have a positive impact on our commitments.

OUR COMMITMENT TO SUSTAINABILITY

We aim to deliver a safe, reliable, efficient and pleasant travel experience to our customers while conducting our business in a sustainable and responsible manner. Anchored on our vision, purpose, Sustainability DNA, and Blueprint, top management has adopted a Sustainability Policy which outlines our commitments. Our Policy also enables us to cultivate a strong corporate sustainability culture among our stakeholders, informing them of their accountability and responsibility in the following areas:

Manage our assets in a sustainable manner for increased productivity and efficiency

Source materials from local suppliers as far as practicable

Create mutually beneficial and lasting relationships with local communities

Ensure the safety of our passengers and employees

Provide our employees with access to continuous training to help them understand the effects of our corporate actions and inspire them to adopt best practices to help build a sustainable future

Offer our people with a variety of training programs that are focused on their professional development

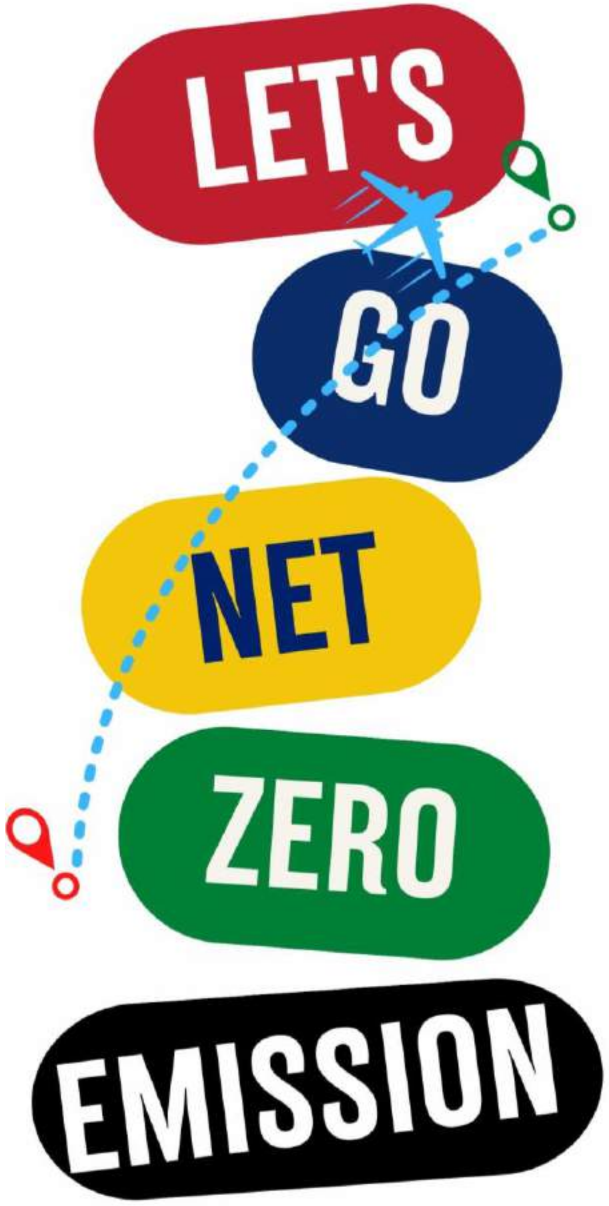
Reduce our carbon footprint, adopt innovations on energy and water conservation, lower food waste, and aim to seek sustainably sourced-resources

Set periodic reviews of our sustainability policy, programs, records, as well as metrics and targets to drive continuous improvement

SUSTAINABILITY TRAINING

An online Introduction to Sustainability Course was developed and integrated into our Group's internal learning platform to develop a sustainability mindset among our people across the organization. As part of their onboarding process, all new hires are required to complete the course. As of end 2022, 93% of all our personnel have successfully completed the training.

FLY NET ZERO



PAL is poised to attain net zero carbon emissions by 2050 in support of international agreements for climate action, including the Paris Agreement and the Glasgow Climate Pact.

This is in line with PAL's commitment as a member of the International Air Transport Association (IATA) in a resolution passed last October 4, 2021.

To contribute to meeting this long-term goal, we implemented CO_2 reduction initiatives such as fuel conservation and making use of fuel-efficient equipment, which has proven successful in decreasing consumption thereby reducing emissions. In addition to the reduction in our energy consumption since 2019, our major facilities have shifted to renewable energy sources which has also contributed to reduction on our CO_2 emissions.

We have likewise commenced the collection of data to calculate our baseline emissions by performing the following activities:

- Track fuel consumption of aircrafts
- Monitor all equipment and document regular use and consumption of energy in our corporate offices and operational hubs
- Conduct employee carbon footprint surveys

ABOUT THE REPORT

Palawan, Philippines

SCOPE AND COVERAGE

Flying to New Discoveries: 2022 Sustainability Report details PAL's and PALex' accomplishments and contributions to sustainable development based on the economic, environmental, social and governance pillars for the period beginning January 1 to December 31, 2022. Financial information is mainly obtained from the latest audited financial statements.

REPORTING STANDARDS AND PROCESS

This report was prepared in accordance with the Securities and Exchange Commission (SEC) Sustainability Reporting Guidelines and included disclosures that were referenced from the Global Reporting Initiative (GRI) Standards. When applicable, we aligned our programs with the UN SDGs. The relevant business units and teams provided all the information that was disclosed in this report, with the PAL and PALex Corporate Governance Committees giving the disclosures its final approval.

FEEDBACK

We enjoin our stakeholders to send their feedback regarding matters in this Sustainability Report via email to PHI_SR@pal.com.ph.

SUSTAINABLE DEVELOPMENT GOALS

The PAL Group supports the UN SDGs through the management of our material sustainability topics and the corresponding disclosures found in this report.

We have included the icons of the SDGs throughout this report where they are relevant.

MATERIALITY ASSESSMENT

Rating Guide
- Negligible – 3.00 to 3.20
- Moderate – 3.20 to 3.40
- Significant – 3.40 to 3.60
- Major – 3.60 to 3.80

The PAL Group conducted an online materiality assessment survey in 2022 to rank the topics and issues that matter to our stakeholders and the business. The results were validated by our Board of Directors, executives, and Sustainability Management Executive Committee.

IMPORTANCE TO STAKEHOLDERS \ IMPACT TO PAL GROUP	Negligible	Moderate	Significant	Major
Major				• CUSTOMER MANAGEMENT (Health and Safety) • COMPLIANCE WITH LAWS AND REGULATIONS • WORKPLACE CONDITIONS (Occupational Health and Safety) • CUSTOMER MANAGEMENT (Customer Satisfaction) • DATA SECURITY • ECONOMIC PERFORMANCE • CUSTOMER MANAGEMENT (Customer Privacy) • EFFECTIVE, ACCOUNTABLE, AND TRANSPARENT GOVERNANCE • CUSTOMER MANAGEMENT (Marketing and Labelling)
Significant			• EMPLOYEE MANAGEMENT (Diversity, Equal Opportunity, and Anti-Discrimination) • ANTI-CORRUPTION (Incidents of Corruption) • EDUCATION FOR SUSTAINABLE DEVELOPMENT • EMPLOYEE MANAGEMENT (Labor Management Relations) • SUPPLY CHAIN MANAGEMENT • RESOURCE MANAGEMENT (Energy) • ENVIRONMENTAL IMPACT MANAGEMENT (Air Emissions – GHG)	• ETHICAL AND LAWFUL BEHAVIOR • WORKPLACE CONDITIONS (Labor Standards and Human Rights) • ENVIRONMENTAL COMPLIANCE • EMPLOYEE MANAGEMENT (Employee Hiring and Benefits - Earnings, Wages, and Benefits) • EMPLOYEE MANAGEMENT (Equal Remuneration) • EMPLOYEE MANAGEMENT (Employee Training and Development)
Moderate		• ANTI-CORRUPTION (Training on Anti-Corruption Policies and Procedures) • RELATIONSHIP WITH COMMUNITY (Significant Impacts on Local Communities)	• RESOURCE MANAGEMENT (Water) • ENVIRONMENTAL IMPACT MANAGEMENT (Air Emissions – Nitrogen, Sulfur Oxides, Particulate Matter) • ENVIRONMENTAL IMPACT MANAGEMENT (Effluents) • PROCUREMENT PRACTICES (Proportion on Spending on Local Suppliers) • ECONOMIC PERFORMANCE (Climate-Related Risks and Opportunities) • RESOURCE MANAGEMENT (Materials)	
Negligible		• ECOSYSTEM & BIODIVERSITY (Watersheds, Marine, IUCN / Key Biodiversity Areas)		

Our material topics, arranged according to the results of our latest materiality assessment survey, reflect our most significant impacts and those which our stakeholders have deemed important to them. On the succeeding sections, we describe our approach to manage each material topic and also provide the metrics to illustrate our performance.

Customer Health and Safety

How we ensure the safety and wellbeing of our customers throughout their journey with us

Compliance with Laws and Regulations

How we ensure compliance with applicable local and foreign laws and regulations

Occupational Health and Safety

How we set up safeguards and safety precautions to prevent sickness and injuries in the workplace

Customer Satisfaction

How well our products meet our customers' expectations and needs

Data Security

How we protect corporate data and prevent loss due to unauthorized access

Economic Performance

How we measure the economic value we generate and how we distribute it to our stakeholders

Customer Privacy

How we collect, use, and process our customers' personal information and respect, their rights

Effective, Accountable, and Transparent Governance

How we promote accountability throughout the organization and keep our stakeholders informed

Marketing and Labelling

How efficiently we keep our customers abreast of latest updates affecting their travel

Ethical and Lawful Behavior

How we adhere to ethical standards and legal mandates in all our dealings

Labor Standards and Human Rights

How we comply with labor laws in the conduct of our business

Environmental Compliance

How we comply with applicable environmental laws and aim for zero fines and sanctions

Employee Hiring and Benefits
How we ensure a diverse pool of candidates is considered for all vacancies and benefits as required by law are timely and adequately provided

Employee Training and Development
How we ensure our personnel are adequately equipped to perform their job functions

Diversity, Equal Opportunity, and Anti-Discrimination
How we practice inclusion to ensure workplace diversity which is key to broaden our team's' experiences and knowledge

Anti-Corruption and Incidents of Corruption
How we ensure our employees deal with stakeholders professionally, fairly, and in good faith

Labor Management Relations
How we maintain a harmonious labor management relationship to discuss and address employee concerns ensuring a positive work environment

Supply Chain Management
How we obtain the necessary materials that are vital to an effective and efficient operation

Resource Management
How we transition to more sustainable practices and sources to minimize our environmental impact

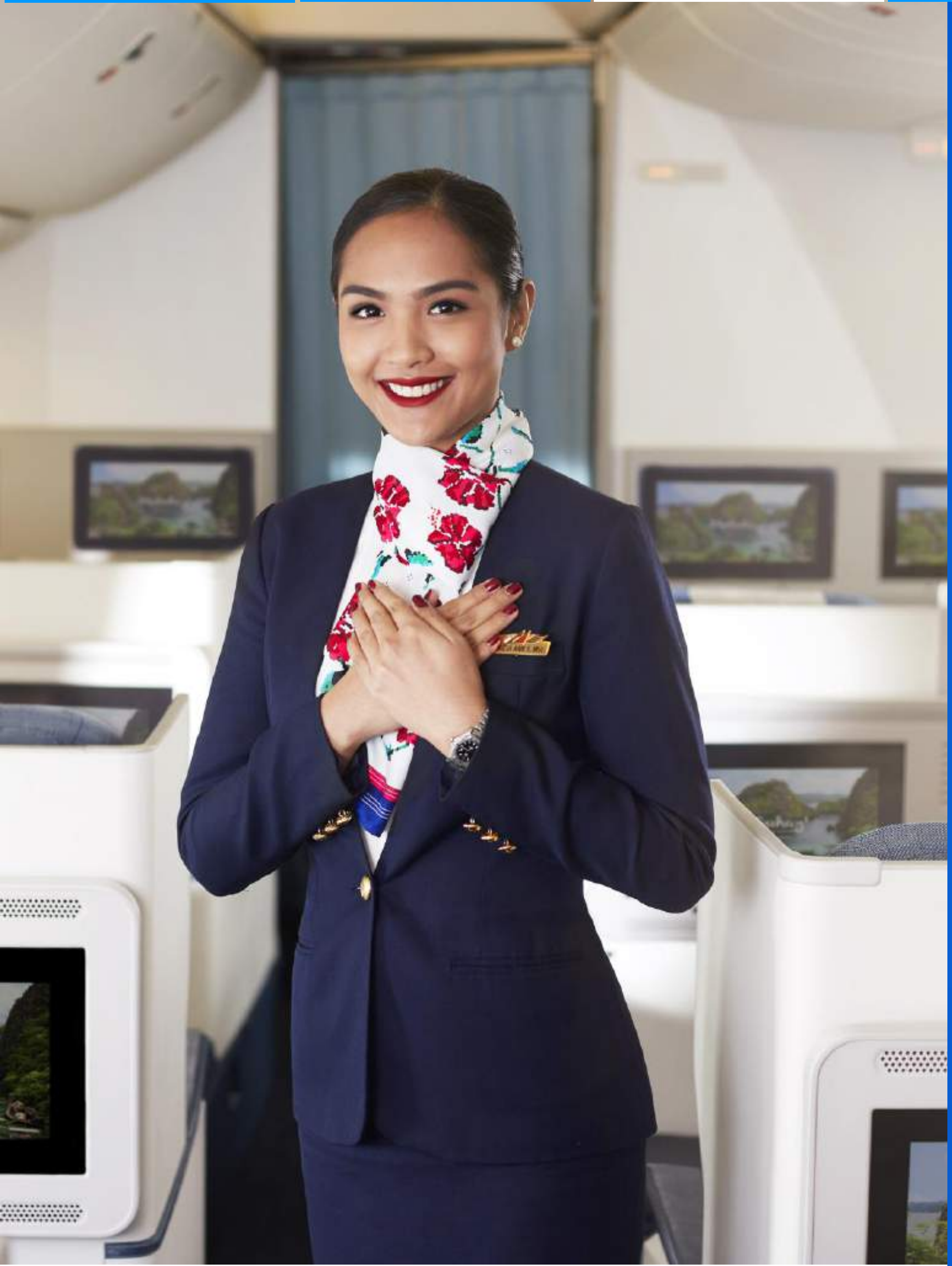
Environmental Impact Management
How we manage and monitor the environmental impact of our operations and activities

Proportion on Spending on Local Suppliers
How we support local small and medium-sized enterprises and contribute to the economic activities in local communities

Climate-Related Risks and Opportunities
How we identify and manage risks and implement measures to comply with regulatory requirements

Significant Impacts on Local Communities
How we serve and provide assistance to our communities around the country

Ecosystem and Biodiversity
How we contribute to stopping illegal wildlife trade



CODE OF BUSINESS CONDUCT AND ETHICS

We aim to establish, promote, and uphold the highest standards of ethical behavior among our directors, officers, consultants, employees, suppliers, trainees. and third-party agents ("Covered Persons").

In the spirit of our shared and corporate values, we hold all Covered Persons in esteem and believe in protecting their rights and implementing discipline with firm but fair actions.

We expect each of the Covered Persons to respect the rights of fellow Covered Persons at all times and strive to uphold these shared values in conducting personal and business affairs.

All employees are required to undergo the initial introductory training and complete the annual mandatory refresher courses to ensure that our values and standard norms of behavior are instilled throughout the entire PAL Group. The training is also a prerequisite for all new hires as part of their onboarding process.

COMPLIANCE WITH LAWS AND REGULATIONS

All Covered Persons shall conduct business in full compliance with all applicable laws and regulations. Covered Persons are encouraged to consult with the company's Compliance Officer or the Legal Department whenever there is any doubt concerning the legality of any matter. Any suspected criminal violations will be reported to the appropriate authorities. Non-criminal violations will be investigated and addressed as appropriate. In 2022, we did not receive any confirmed incidents nor were there any ongoing cases of violations of applicable laws or regulations.

EFFECTIVE, ACCOUNTABLE, AND TRANSPARENT GOVERNANCE

Covered Persons are expected to:

- observe fairness, accountability, transparency, respect, and integrity
- treat everyone with respect and act in good faith
- serve with integrity and sense of professionalism
- always deal fairly with stakeholders

ETHICAL AND LAWFUL BEHAVIOR

Our Code of Business Conduct and Ethics provides the standards of behavior expected from Covered Persons. Everyone is encouraged to come forward and raise serious concerns about all actual or perceived wrongdoing, malpractice, or risk involving PAL. Reports may be made through email address via ethicshotline@pal.com.ph or mobile number +63917-508-8942.

ANTI-CORRUPTION INCIDENTS AND TRAINING

The PAL Group's Code of Business Conduct and Ethics provides guidelines on anti-bribery and anti-corruption. All our consultants and contractors are likewise required to act in accordance with these principles and embody these values when conducting their personal and business affairs.

The Code generally prohibits its employees from accepting gifts or invitations of any form from any of its supplier, customer, or business partner or from any third person or entity with existing or intended business dealings with the Company. Exceptions are allowed if the gift is directly attributable to purely familial or personal relationship; of nominal value, not exceeding PHP 1,000 and considered as a simple promotional item; or part of the supplier's marketing, customer management or public relations program.

0

cases of bribery or corruption reported to the Group's Ethics Hotline or via other channels

DISCOVERING FOR OUR CUSTOMERS

CUSTOMER HEALTH AND SAFETY

CUSTOMER SATISFACTION

DATA SECURITY AND CUSTOMER PRIVACY

ECONOMIC PERFORMANCE

MARKETING AND LABELLING

SUPPLY CHAIN MANAGEMENT

PROCUREMENT PRACTICES WITH LOCAL SUPPLIERS

We commit to improving customer satisfaction by continuously improving our passengers' experience and exceeding our customers' expectations. To achieve this, we"

- Comply with health and safety requirements imposed by the relevant domestic and international authorities
- Implement measures to safeguard sensitive company data and personal information of our customers and employees
- Provide customers with timely and accurate information
- Focus on increasing revenues and reducing costs to ensure economic viability
- Partner with suppliers that engage in ethical and sustainable business practices
- Support local producers and farmers

CUSTOMER HEALTH AND SAFETY

Disclosure	2020	2021	2022
No. of substantiated complaints on health and safety	7	3	5
No. of complaints addressed	7	3	5

The PAL Group has implemented a comprehensive health and safety policy to address the health and safety concerns of both our customers and employees throughout the stages of our operations.

We adhere to both international standards and widely recognized initiatives in the aviation industry, such as the World Health Organization (WHO) guidelines, the International Air Transport Association (IATA) health and safety protocols, and the regulations set by the Philippine government and the Civil Aviation Authority of the Philippines (CAAP).

The effectiveness of our program is regularly evaluated through internal audits and assessments, customer feedback, and ongoing review and updating of procedures and protocols. We are committed to ensuring that our health and safety procedures are effective and aligned with the latest industry standards.

The Group's Safety Management System (SMS), Quality Management System (QMS) and Security Management Systems (SeMS) work hand in hand to ensure the efficiency, as well as the safety and security of the Group's operations.

SAFETY MANAGEMENT SYSTEM

We implemented our SMS with the safety of our customers as the priority. All programs under SMS are designed to detect, analyze, and control safety risks encountered in our day-to-day operations.

QUALITY MANAGEMENT SYSTEM

To monitor compliance with all applicable civil aviation regulations, we leverage on internal requirements, SMS program, and other standards. Through this approach, we are able to ensure safe operations and airworthiness of our aircraft.

SECURITY MANAGEMENT SYSTEM

SeMS allows us to manage the security threats across our operations.
We deployed various programs to identify, assess, and control such security threats.

SAFETY MANAGEMENT SYSTEM (SMS)

43
SMS Level 2 & 3 Training
Executives

2,952
SMS Level 1 Training
Pilots, cabin crew, ground personnel and service providers undergo the training

PAL
0
Fatal accidents for the last **26** years

Non-fatal accidents for the last **6** years

PALex
0
Fatal accidents for the last **22** years

Non-fatal accidents for the last **3** years

676
Flight & Cabin Crew
Responded to the fatigue monitoring survey

88
Safety Investigations
Conducted to identify systemic safety deficiencies and prevent recurrence

124
Safety Bulletins and Email Blast
Released to enhance the safety awareness of pilots, cabin crew, ground personnel, maintenance and service providers

3 GOOD HEALTH AND WELL-BEING
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Webinars conducted during the Safety Awareness Month:

384 Participants

BOEING & PAL INSTRUCTOR

Human Factors & the Dirty Dozen

163 Participants

AIR TRAFFIC SERVICES

Proper Radio Phraseology
Flight Vectoring
Managing the Increasing Traffic

347 Participants

AIRBUS

Safety Beyond Standards
Safety By Design
How to Deal with Power Distance Index

215 Participants

STARR CONSULTANCY

Fatigue Management

231

Safety Inspections
Flights, cabin and ground operations identify and mitigate the hazards and monitor compliance of the Company's standards

252

Pilots Coached
Flight data analysis program resulted to the coaching of pilots to enhance their situational awareness and landing techniques

3 GOOD HEALTH AND WELL-BEING
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

QUALITY MANAGEMENT SYSTEM(QMS)

178 Audits

27 External/SAFA Audit

We continued to implement our audit program and resumed on-site audits. Unannounced surveillances and unscheduled audits were also conducted to explore and examine significant changes in the operations, technologies used, or regulatory requirements affecting the operations.

100 Surveillance

We performed surveillance activities using the Safety Assessment of Foreign Aircraft (SAFA) checklists to ensure compliance with ICAO standards. External SAFA, audit, and assessments were also executed on PAL and PALex by foreign and local regulators.

3,684 Customer Touchpoint Assessments

Additional customer satisfaction-related quality control procedures known as the Customer Touchpoint Assessment that were initiated in 2021 were continued in 2022. Investigating the client experience from booking via contact center or ticket offices, checking in, boarding, and arrival is the goal of this new quality control activity.

IOSA-CERTIFIED CARRIERS

In November 2022, the PAL Group completed the onsite IOSA-Certification renewal audit. In May 2006, PAL passed its initial IOSA audit, becoming the country's first IOSA-certified carrier while in 2014, PALex passed its initial examination, becoming the country's second IOSA-certified carrier.

33 Quality Bulletins

35
US TSA Security Inspections

9
Onsite Inspections of foreign stations

Security Awareness Training

1,187
Attended by employees
And service providers

36
Security Bulletins

7,529
Intercepted items
Confiscated security prohibited items

SECURITY MANAGEMENT SYSTEM (SEMS)

A Security Management System is in place to protect our customers, staff, assets, and facilities from threats across operations.

Threat Assessment and Risk Management (TARM) is conducted to reduce our vulnerability and mitigate risks arising from potential threats.

Inspections are regularly performed in our areas of operations to examine the implementation of relevant provisions in the Security Program and PAL Security Manual (PSM) and determine compliance to PAL Group's security measures. Local and foreign regulators also conduct frequent inspections annually to evaluate our level of security within PAL.

Internal regular inspections are also conducted in our various global and local stations. To enhance our security measures, we:

- Utilize our own x-ray equipment and screening personnel at the Redundancy Screening Checkpoints (RSCP) for North America and Oceania flights
- Provide our own x-ray equipment at our various domestic stations
- Deploy K-9 as an added layer of security. And Explosive Trace Detection (ETD) machines at the PAL Cargo Terminal (PCT) for threat resolution purposes
- Installed CCTV cameras in major areas and facilities including Terminal 2 and PCT to actively monitor activities and effectively identify threats in operations
- Deploy a Quick Reaction Team (QRT) to respond to security incidents quickly and efficiently to regain control as well as eliminate and minimize loss or damage to the Company

CUSTOMER SATISFACTION

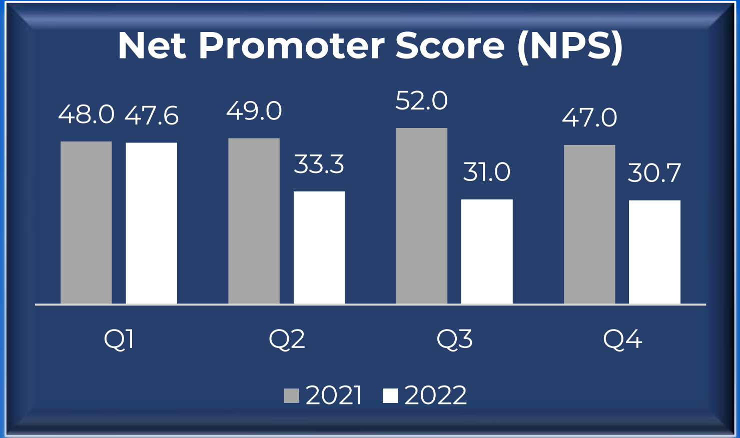
We are in the business of providing safe and reliable service to our customers in and around the world, with a goal of not just meeting, but exceeding their expectations. Customer satisfaction is the main objective in creating experiences for our passengers, from booking their flight until after arriving at their destination.

Our passengers continued to have a great experience with our service, especially with the consistent display of our frontliners' *Buong Pusong Alaga* (BPA) behaviors, especially our inflight teams. However, we saw an eight-percentage point decline in overall customer satisfaction rating in 2022, according to a post-trip survey of 50,669 passengers. The primary reason for the lower ratings was the cancellation or delay of flights, which was attributed to issues related to aircraft rotation, including maintenance, and other factors.

We have implemented measures to address these concerns and enhance the customer experience, including better aircraft rotation and alignment of published capacity with available aircraft. We recognize that the increased demand for flights in 2022 may have contributed to the operational issues that led to delays or cancellations.

CSAT	
57%	49%
2021	2022

NPS	
48.4	34.8
2021	2022



We are committed to improving our service standards and providing passengers with a more personalized and efficient travel experience. To this end, we have established a dedicated Customer Touchpoint Governance Team to audit service standards and enhance the passenger experience at every touchpoint. Additionally, we are investing USD 4.2 million in a state-of-the-art Customer Relationship Management tool to track passengers' journeys and offer tailored services and offers.

We are also upgrading the inflight services, offering new meal options, expanding entertainment offerings, and upgrading seats and cabins. We have improved communication with passengers, providing them with timely and accurate flight information and real-time updates on changes.

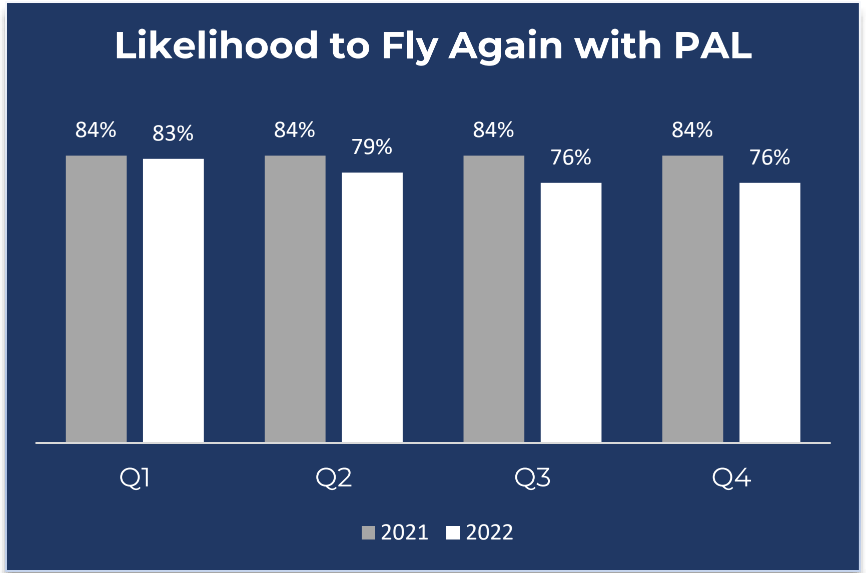
We believe these actions will demonstrate our commitment to providing a world-class travel experience and improving customer satisfaction.

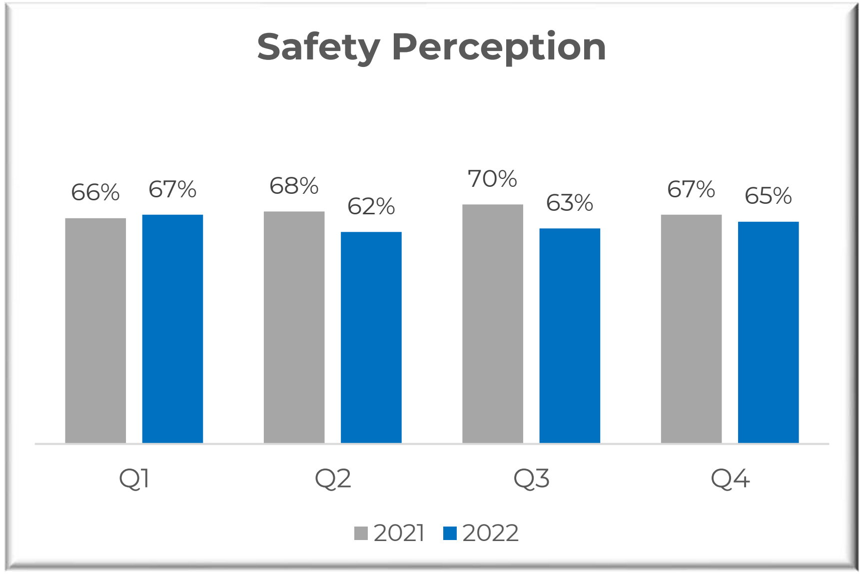
Intent to Fly

84% 2021 | **78%** 2022

Safety Perception

68% 2021 | **64%** 2022





myPAL Flavors

Enhance your inflight dining experience in economy

Choice Seats

Get the best seats in Economy with Extra Legroom or Forward Seats

Flight Upgrade

Get next level comfort with Business Class or Premium Economy

DATA SECURITY AND CUSTOMER PRIVACY

Type of Incidents and/or Occurrences	2020	2021	2022
Reported Phishing Incidents	472	1,015	1,699
Malware Occurrences	1,004	773	211

Data security remains of utmost concern of companies, particularly in the airline industry, wherein we process and handle significant amount of sensitive and valuable information from our customers.

Our Information Security Manual is regularly reviewed and revised to keep it up to date with evolving best practices and standards in cybersecurity and safeguard data against data loss or theft.

The Cybersecurity Operations Center constantly monitors, responds, and remediates threats affecting computing resources in the Group's network. Security awareness campaigns are regularly disseminated to equip employees with the knowledge to identify potential incidents and report them to the proper channels.

The PAL Group is committed to the highest standards of data privacy and information security to protect the personal information of our employees, passengers, and customers from unauthorized access and processing pursuant to applicable data protection laws in the various jurisdictions and affected nationalities.

Last May 2022, PAL received its Payment Card Industry Data Security Standards Level 1 Certification. As the first Philippine airline to be certified, this further highlights the importance we place on ensuring our customers' cardholder data is secure in all our systems wherever they are processed, stored, and transmitted.

We have recently revised and updated our Privacy Management Program (PMP) to ensure compliance with newly enacted privacy laws and regulations applicable to our business. Enhancements to the PMP include emphasis on the importance of conducting privacy impact assessments to ensure thorough review of all risks involved in the implementation of processes and the establishment of a team in charge of handling privacy-related matters.

Our employees have recently undergone a data privacy and security briefing through our online learning management system to further emphasize the importance of securing our customers' and company's information. Likewise, we constantly remind and ensure our service providers to operate in compliance with applicable data privacy laws and regulations.

Disclosure	2020	2021	2022
No. of substantiated complaints on customer privacy	12	12	51
No. of complaints addressed	12	12	51
No. of customers, users, and account holders whose information is used for secondary purposes	0	0	0
Number of data breaches, including leaks, thefts and losses of data	0	0	1

ECONOMIC PERFORMANCE

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

Our economic performance illustrates our direct economic impact to our key stakeholders who help sustain our business. As a result, we were able to generate sufficient revenue through our passenger and cargo transportation services, as well as ancillary business, which in turn enables us to compensate our employees, suppliers, and creditors for their service and investment in our company. We recognize that our operations will have a direct impact on the value we distribute to our workforce, the government, suppliers, and the communities we serve. Thus, we continuously explore approaches to ensure the economic viability of our business.

With the reopening of travel and tourism, the Group had witnessed a turnaround in 2022 as revenue generated more than doubled to PHP139 billion. As COVID-19 become an endemic, travel restrictions that hampered the airline business have begun to ease in 2022, hence, we have seen a tremendous improvement in our passenger traffic. The increase in economic value generated enabled us to distribute and channel it back to our key stakeholders which serves as the backbone of our entire operations.

For information on the consolidated financial performance of the company, please refer to the 2022 Audited Financial Statements.

PHP139 billion

Revenue Generated

Economic Value Distributed	PHP 131 billion
Operating costs	112.2 billion
Employee wages and benefits	9.3 billion
Payments to suppliers, other operating costs	1.9 billion
Interest payments to loan providers	7.3 billion
Investments to community (e.g. donations and other CSR activities)	317 thousand plus foregone ticket sales and cargo space for CSR activities
Taxes given to government	640 million

MARKETING AND LABELLING

As the country opens to travel, we teamed up with the Department of Tourism (DOT) to launch the **"We Are Open"** campaign which aimed to encourage the public to visit domestic destinations and support the yearning for revenge travel.

The campaign celebrates the reopening of borders and return of holiday travel by air, with the hope of stimulating the recovery of Filipino communities that depend on tourism. We will invest our resources to focus on promoting and advertising different destinations around the country, reassuring visitors that the Philippines is open, alluring, and safe.

All marketing and advertising materials undergo rigorous review by concerned departments to ensure correctness of information and compliance with the rules and regulations set by the Civil Aviation Board (CAB) and the Department of Trade and Industry, thereby avoiding complaints on false advertising and penalties from regulators.

0

substantiated complaints in marketing and labelling

We endeavor to always publish information accurately and timely.

Our goal is to update our customers on latest developments in services, flight information, travel requirements imposed by different government agencies globally, as soon as practicable. This allows our passengers to make appropriate decisions regarding their travel plans and minimizing their inconvenience.

Travel advisories and announcements are issued as often as necessary throughout the year to keep passengers informed of changes in flight schedules, disruptions, or cancellations.

The COVID-19 Travel Guide in PAL's website is updated regularly and provides passengers with information on travel requirements, safety protocols, and options available to passengers in case of changes in their travel plans.

SUPPLY CHAIN MANAGEMENT

Our operations is dependent upon the support of a robust and reliable supply chain management system for the efficient and effective delivery of service to its passengers and cargo customers.

The Supply Chain Management Group is responsible for:

- procuring materials and services needed for aircraft maintenance
- ensuring that fuel is supplied for each flight
- providing various company materials across all departments, contracting services for ground handling, security, or even cleaning
- ensuring that the goods and services needed for the day-to-day operation of the company are available

Furthermore, our Supply Chain Management Policy ensures that our suppliers comply with the Labor Code of the Philippines and that no human rights are violated.

We have assigned a group in charge of reporting non-compliance across our operations, highlighting that non-conformity to the policy would affect one's performance assessment. Grievances are then addressed by our Legal Department.

Supplier Accreditation Policy

No dealings with suppliers engaged in unauthorized or illegal practices particularly:

- Forced Labor
- Human Rights Violation
- Child Labor
- Bribery and Corruption
- Environmental Risk

PROCUREMENT PRACTICES FOR LOCAL SUPPLIERS

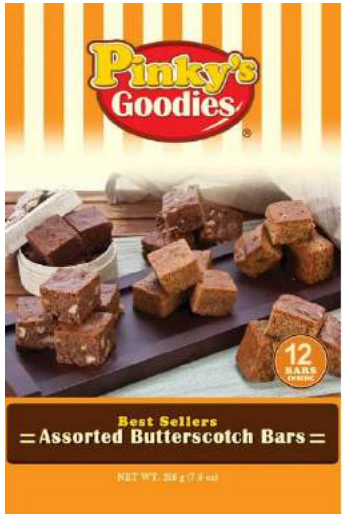
50% Non-fuel procurement budget spent on local suppliers

50% Fuel consumption purchased from local suppliers

SUPPORTING LOCAL SMES

We are committed to promoting Philippine products to international destinations and markets. To this end, part of our operational budget is allocated to local small and medium enterprises (SMEs) and suppliers of Philippine products.

The non-fuel procurement budget spent on local suppliers increased from 34% in 2021 to 50% in 2022.

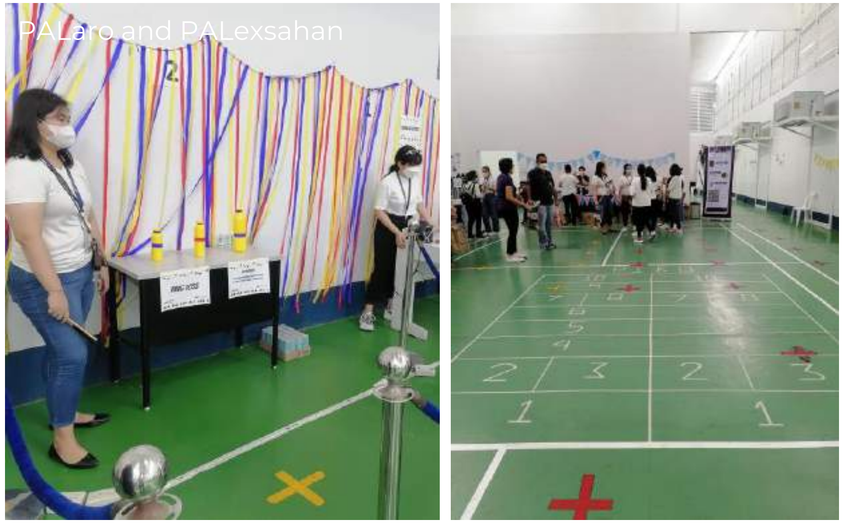


SUPPORTING LOCAL FARMERS

Starting 2022, we have also committed to supporting local farmers of coffee and cacao, and dairy entrepreneurs from the northern and southern regions of the country. We are currently promoting local coffee, chocolates, and cheese products for consumption in our domestic and international flights. Sourcing of locally produced inflight and airport items such as coffee cups, monoglasses, inflight trays, boarding passes, and thermal baggage tags has also been explored.

We continuously review our supply agreements and assess the product quality to ensure competitiveness in the global market.


Davao, Philippines



PALaro and PALexsahan

Blood Donation Drive

Employee Engagement Summit 2022

DISCOVERING FOR OUR PEOPLE

We treat our personnel as part of a large family whose individual roles are key in the success of the organization. We therefore commit to:

- Ensure the health, safety, and well-being of all are prioritized
- Provide comprehensive benefits and policies
- Implement workplace diversity emphasizing inclusion regardless of cultural background, gender, ethnicity, personality, age, and education
- Focus on the training and development of our employees to ensure continuous learning and capacity building
- Maintain a harmonious labor management relationship through constant dialogues
- Ensure everyone are treated fairly and in compliance with applicable labor laws

OCCUPATIONAL HEALTH AND SAFETY

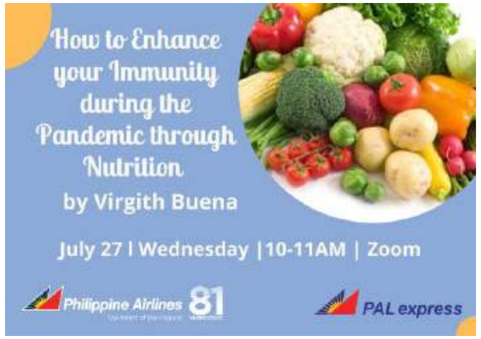
EMPLOYEE HIRING AND BENEFITS

DIVERSITY AND EQUAL OPPORTUNITY

EMPLOYEE TRAINING AND DEVELOPMENT

LABOR MANAGEMENT RELATIONS

LABOR STANDARDS AND HUMAN RIGHTS



OCCUPATIONAL HEALTH AND SAFETY

EMPLOYEE WELLNESS

We have a comprehensive wellness program which enables us to provide our employees with the necessary resources to help promote their psychosocial, physical, financial, and spiritual well-being.

HEALTH SERVICES

To provide our employees with optimal care, our Medical Sub-department has a roster of certified occupational and safety physicians, dentists, nurses, qualified first-aiders, and ambulance driver. Our facilities include emergency treatment rooms equipped with medical supplies and facilities. Likewise, we have satellite clinics to cater to the needs of employees in different locations.

First-aiders must complete the First Aid course conducted by the Philippine National Red Cross. Mandatory occupational and safety courses are likewise required for all health personnel.

OCCUPATIONAL SAFETY AND HEALTH (OSH) TRAINING

We have an ongoing OSH training through the company's learning management system which provides a detailed overview of OSH, hazard recognition, and the application of control measures in the workplace.

	PAL	PALex
Safe Man-Hours	5,257,321	2,387,088
Work-Related Injuries	14	29
Work-Related Ill-health	45	49
Work-Related Fatalities	0	0
Safety Drills	3	3

WORK-RELATED HAZARDS

HAZARD REPORTING SYSTEM

We implement a system-wide hazard reporting system, inspection program, and conduct regular safety meetings to identify hazards in the workplace.

IDENTIFICATION AND RISK ASSESSMENT PROGRAM

Upon identification of hazards, levels of risk mitigation and controls are determined. Personnel tasked to conduct these risk assessments continuously undergo training to keep them informed of best practices and ensure our occupational health and safety program is up to date.

SAFETY BULLETINS

EMERGENCY BRIGADE GROUP FIRE FIGHTING TRAINING

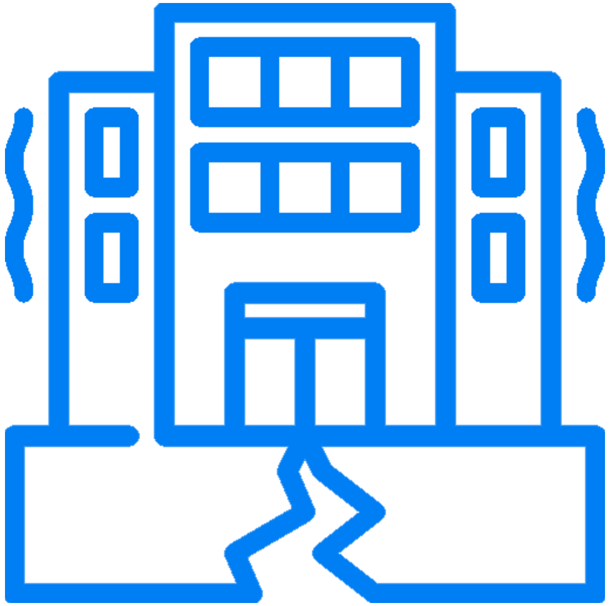
3,043

Underwent Cabin Fire and Smoke Training

FIRE SAFETY BRIEFING AND EMERGENCY EVACUATION DRILL

EARTHQUAKE DRILL

The PAL Group actively participates in the emergency drills conducted by the National Disaster Risk Reduction and Management Council. For 2022, there were three drills held in the months of March, June, and September.



72
SAFETY BULLETINS
posted to prepare employees of an impending typhoon, volcanic eruption, earthquake, and prevent work-related injuries

69
WORKPLACE SAFETY INSPECTIONS
performed to proactively identify hazards and manage the risk before they cause an injury

61
SAFETY HEALTH AND ENVIRONMENT COMMITTEE (SHEC) MEETINGS
held in different offices to address and mitigate safety and health concerns as well as to provide a forum for COVID-19 prevention

EMPLOYEE HIRING AND BENEFITS

PAL		PALex
2,473	Total female employees	455
2,335	Total male employees	657
10%	Attrition rate (voluntary and involuntary)	5%
100%	Ratio of lowest paid against minimum wage	107%

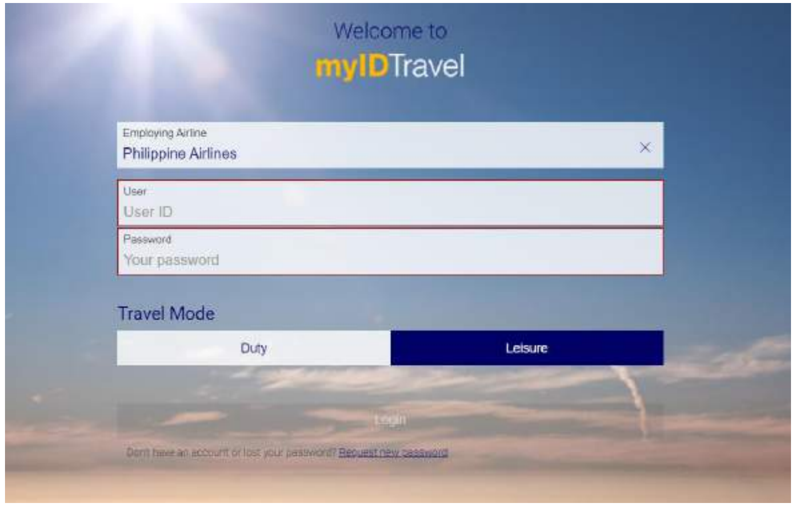
To remain at par with global standards, we benchmark and implement best practices in the field of talent acquisition.

We partner with hiring departments in identifying the skillset of candidates to fill the role.

Technology is used with digitalization contributing largely to the improvement of processes, management of employee records and documents, and ensuring the data and personal information are secured.

Employee Benefits	Yes or No	PAL		PALex	
		Employees benefit availment in 2022			
		Female	Male	Female	Male
SSS (Calamity and Salary Loan)	Y	8%	2%	17%	11%
PhilHealth	Y	2%	5%	11%	8%
Pag-IBIG (Calamity Loan and Multi-Purpose Loan)	Y	2%	2%	9%	10%
Parental Leaves	Y	0%	1%	1%	0%
Sick Leaves	Y	35%	31%	19%	23%
Vacation Leaves	Y	43%	41%	24%	29%
Medical Benefits (aside from PhilHealth)	Y	47%	44%	Data not available	
Housing Assistance (aside from Pag-IBIG)	Y	As needed			
Retirement Fund (aside from SSS)	Y	Based on Company Policy			
Further Education Support	Y	As needed			
Company Stock Options	N	-	-	-	-
Telecommuting	Y	As needed		1.38%	0.49%
Flexible Working Hours	Y	Data not available		30%	30%
Others (Emergency Leaves)	Y	9%	5%	-	-

The Group launched two systems namely iFly and myIDtravel which provide an end-to-end automation of travel benefits and allows employees to access their travel privilege online with ticketing, payment, and refund processing.



DIVERSITY AND EQUAL OPPORTUNITY

Employee Classification by Gender

49% (2,928)

51% (2,992)

229
Senior Citizens

0
Persons with Disability

33
Solo Parents

The PAL Group abides by the following laws which promote diversity and equal opportunity:

- Republic Act No. 6725, An Act Strengthening the Prohibition on Discrimination against Women
- Republic Act No. 10911, An Act Prohibiting Discrimination Against Any Individual in Employment on Account of Age

Our workforce emanates from different regions, cities, and municipalities across the Philippine archipelago. We ensure that candidates from various backgrounds, gender, ethnicity, education, and status are considered for all job vacancies.

Traditionally, in the aviation industry, majority of pilots are men. However, we are slowly working towards bridging the gap by including more female pilots in our roster.

At PAL, we believe that employee diversity enables a work culture that puts a premium on our corporate value of *Buong Pusong Alaga*.

PAL

PALex

	Female	Male
	63% 68%	37% 32%
Cabin Crew		
	7% 12%	93% 88%
Pilots		

	Female	Male
Vice Presidents / Senior Vice Presidents	31% 0%	69% 100%
Assistant Vice Presidents / Senior Assistant Vice Presidents	39% 25%	61% 75%
Managers	57% 38%	43% 62%

EMPLOYEE TRAINING AND DEVELOPMENT

	Total Training Hours		Average Training Hours per Employee	
	2021	2022	2021	2022
	76,068	100,345	23	34
	87,824	86,257	21	29

As an integral component of the success of the organization, the PAL Group places a great deal of importance in employee development. We do not only equip our employees with trainings mandated by law and regulation and those required to develop their technical know-how, but also provide our people with courses that would further enhance their soft skills.

There has been a significant increase in the total training hours and average training hours per employee from 2021. This is attributable to the recovery of our operations and the opening of various local and foreign destinations for travel after restrictions imposed during the pandemic eased. As a result, cabin crew and pilots were hired and had to undergo requalification training.

The advancement and availability of technology also contributed to the increase as we were able to maximize the use of our online learning platforms, where applicable and appropriate. This has allowed us to make more courses available to our employees to be taken at their own pace and time.

4 QUALITY EDUCATION 5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH

BEHAVIORAL AND TECHNICAL TRAINING

2022 Total Courses Offered

26 Behavioral

4 Technical (Reservations and Ticketing)

	Total Training Hours	Average Training Hours per Employee
Female	3,527	1.17
Male	2,797	0.92

The Organization Effectiveness and Learning and Development (OELD) unit under the Human Capital Department is responsible in designing and delivering both technical and behavioral courses for employees and external service providers.

The team regularly conducts training needs analysis with client departments to determine appropriate courses to address their developmental needs. Aside from conducting courses onsite and online, other learning interventions such as videos, courses through the learning management system, and podcasts were made available to all our employees. A hub was created to house these learning interventions for the employees to easily access.

The technical courses are aligned with the contents of the various manuals used in our operations. These courses also meet the requirements of different regulatory bodies in the fields of transportation and aviation.

PILOT TRAINING

The PAL Aviation Training Center (PATC) is accredited by CAAP as an Approved Training Organization Certificate (ATOC) and handles the training and development of our flight deck crew and flight dispatchers.

The training center ensures all training and qualification requirements of pilots and dispatchers are compliant with CAAP, ICAO, IATA Operational Safety Audit (IOSA) and other requirements of the Flight Operations Department (FOD), Integrated Operations Control Center (IOCC), and Safety Department.

PATC currently has five (5) instructors for Pilot Ground Training and 43 Instructor Pilots for Flight Training. Courses are taught both in a classroom environment and online, when appropriate.

Recurrent Courses per Pilot

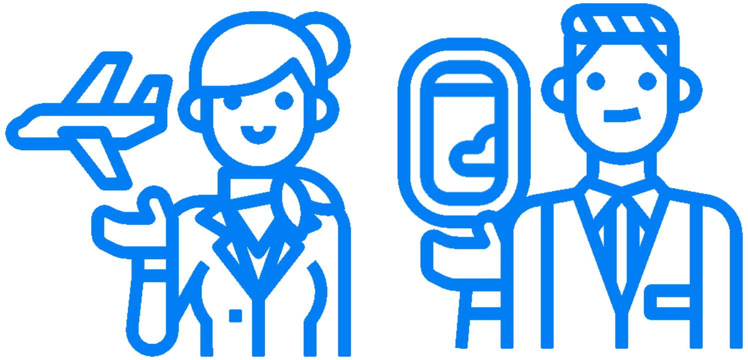
PAL	PALex
29	19

CABIN CREW TRAINING

Our Cabin Crew Training programs are guided by the Philippine Civil Aviation Regulation and IATA to ensure the highest level of safety standards are maintained. Other requirements of the WHO, Transportation Security Administration (TSA), Office of the Transport Security (OTS), and other regulatory bodies and associations are also included in the crews' training program.

Aside from ensuring all mandatory company and regulatory requirements are met, we also provide our crew with training in Knowledge, Skills, Values, and Attitudes (KSVA) to enable them to perform a *Buong Pusong Alaga* service.

The trainers constantly undergo capacity building to ensure they are adequately equipped and competent to train the crew.



	PAL		PALex
Training Classes Held	184		43

LABOR MANAGEMENT RELATIONS

PAL recognizes two local labor unions and foreign labor unions in the United States, Singapore, and Japan. The company complies with existing labor laws, collective bargaining agreements, and company policies and procedures.

There is no employee union in PALex but an Employee-Management Cooperation and Collaboration (E=MC2) exists which serves as a venue for management and staff to meet and openly discuss employees' concerns.

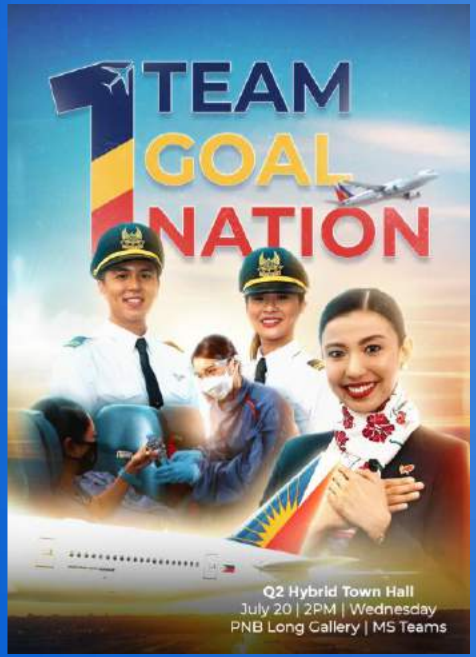
44%

of all PAL employees are covered by a Collective Bargaining Agreement

PAL		PALex
10	consultations conducted with employees concerning employee-related policies	30

The Group's management continues to conduct regular townhall meetings to keep the employees apprised of the status and plans of the companies. Employees are also given the opportunity to raise questions before and during the event.

To enable further opportunity for improvement of the event as well as promote and enhance the employee-management relationship, surveys are conducted after each townhall meeting to allow employees to voice their views and concerns.



LABOR STANDARDS AND HUMAN RIGHTS

0 Legal action or employee grievance involving forced or child labor

We comply with all applicable local and international laws and regulations. The airline industry is highly regulated, and the Group is governed by the Philippine government through the Civil Aviation Board regarding new routes, tariffs, schedules, and passenger rights and through the CAAP for aircraft and operating standards. PAL also conforms to the standards and requirements set by different foreign civil aviation authorities in countries where the airline operates.

We likewise ensure compliance with labor laws, both local and foreign, which protects the rights of our personnel. Our policies and programs are consistent with international standards and norms found in the Universal Declaration of Human Rights and the core conventions of the International Labor Organization. PAL Group recognizes the rights of its employees to organize, to collective bargaining, and to collective action and allows legitimate activities of registered labor unions.

We continuously review our policies and programs and keep ourselves informed with updates on human rights principles and labor laws.

The PAL Group has policies that disallow:

- Forced Labor and Child Labor
- Harassment
- Bullying
- Violation of Human Rights

DISCOVERING FOR THE ENVIRONMENT

ENVIRONMENTAL COMPLIANCE

RESOURCE MANAGEMENT
Energy | Water | Materials

ENVIRONMENTAL IMPACT MANAGEMENT
Air Emissions
Solid & Hazardous Waste
Effluents

CLIMATE-RELATED RISKS AND OPPORTUNITES

ECOSYSTEM AND BIODIVERSITY

To illustrate our commitment to utilizing and managing our resources responsibly, we:

- Ensure compliance with all applicable environmental laws
- Exert efforts to transitioning to more sustainable practices to minimize our negative environmental impact
- Implement measures to manage the impact of our operations and activities on the environment
- Manage climate-related risks and identify opportunities
- Contribute to eliminating illegal wildlife trade

ENVIRONMENTAL COMPLIANCE

0

Monetary fines

Non-monetary sanctions

Cases resolved through dispute resolution mechanism

Among the domestic, regional, and international laws and regulations we are required to comply with, we take particular focus on those that aim to manage and protect our planet. We have a mechanism in place to encourage our employees to report environmental incidents for proper handling.

This includes environmental laws implemented and required by the Department of Environment and Natural Resources-Environmental Management Bureau, National Water Resources Board, Laguna Lake Development Authority, and the Civil Aviation Authority of the Philippines.


ENVIRONMENTAL BULLETIN
A Publication of Safety Department
Philippine Airlines 81
July 2022

Environmental Incident Reporting

What is an Environmental Incident?
These are incidents that has caused or has the potential for causing pollution to the environment

What Environmental Incidents do I need to report?

- Breakdown of wastewater treatment plan
- Breakdown of air pollution control device
- Release of chemicals to environment media
- Release of hazardous waste to environment media
- Exceedance to effluent standards
- Exceedance to emission standards

Notify Industrial and Ground Safety Division (IGSD) immediately or within **12 hours** of the incident through:

Tel: (02) 8404-3324
Email:
- IGSD@pal.com.ph
- Safety@pal.com.ph

Fill out the Environmental Incident Report Form by scanning the QR code

https://forms.office.com/r/xACkmBzyJj

Environmental Reports will be evaluated and assessed against the requirement of DENR- Environmental Management Bureau (EMB). **Non-Reporting** of environmental incidents may result to fines and penalties to our organization

Let us work together to protect our environment

Industrial and Ground Safety Division

IGSD Bulletin 2022

ENVIRONMENTAL LAWS AND REGULATIONS

PD 1586 – Philippine Environmental Impact Statement System

RA 8749 – Philippine Clean Air Act of 1999

RA 9003 – Ecological Solid Waste Management Act of 2000

RA 9275 – Philippine Clean Water Act of 2004

RA 6969 – Toxic Substances, Hazardous and Nuclear Waste Control Act of 1990

PD 1067 – Water Code of the Philippines

CAAP AC 01-1 8 - Carbon Offsetting and Reduction Scheme for International Aviation

RA 11898 – Extended Product Responsibility Act of 2022

RESOURCE MANAGEMENT

ENERGY

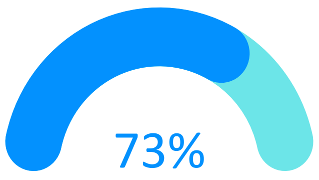
ELECTRICITY CONSUMPTION

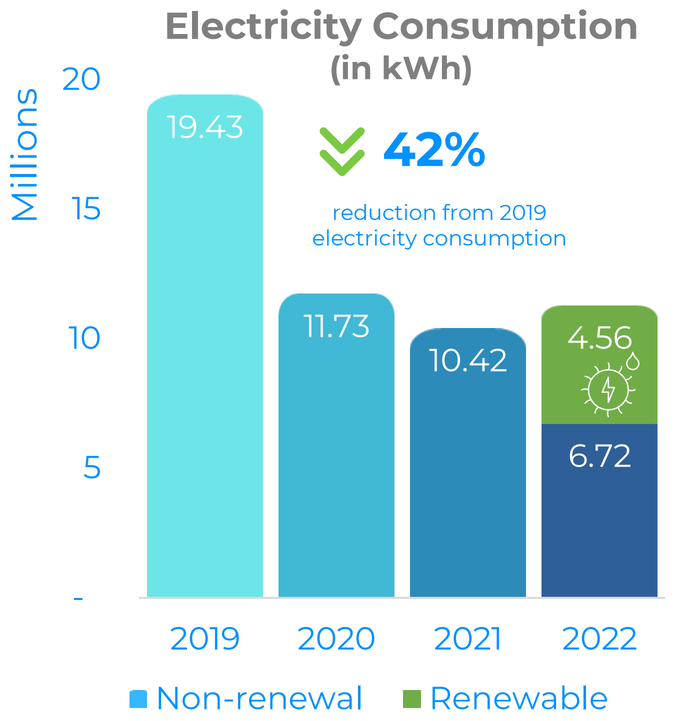
In 2022, we consumed a total of 11.29 million kilowatt hours (kWh) of electricity representing a 42% decrease from 2019, and thereby allowing us to meet our 5% annual energy reduction target versus the 2019 baseline. By shifting to renewable energy by the end of August 2022, we recorded 4.56 million kWh of energy use from renewable sources during this reporting period.

Outlined below are our energy conservation measures that allowed us to meet our energy reduction targets.

- Optimize power use and comfort by setting thermostat to 24-25°C
- Regular cleaning of filters and preventive maintenance as well as replacement of defective air conditioning units to inverter type
- Three-day work from home arrangement for eligible offices and merging of office location
- Shift to light emitting diode (LED)

LED Lights Replacement



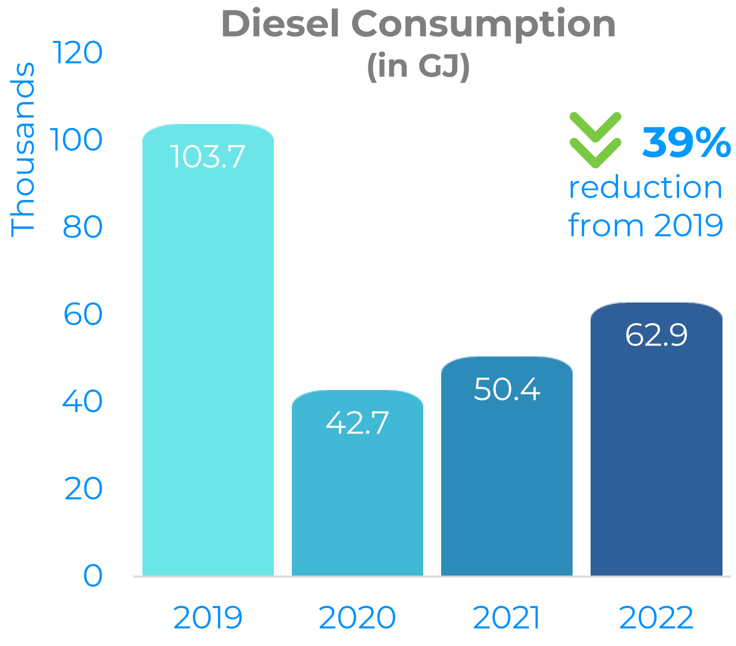


11,286,970 kWh
2022 Electricity Consumption

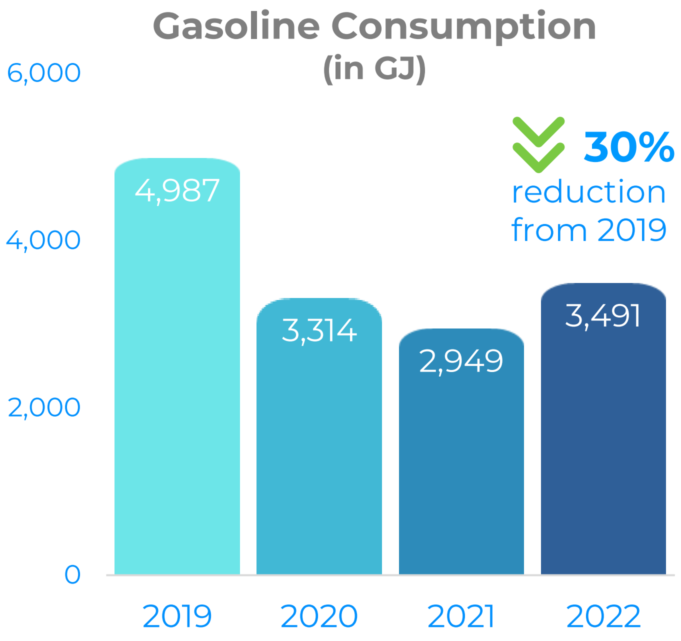
FUEL CONSUMPTION

We use fossil fuels in our operation to power our aircraft, ground service equipment, service vehicles, and standby generator sets. Diesel and gasoline supply are compliant with the mandated biofuel blend of 2% biodiesel and 5% bioethanol blend, respectively.

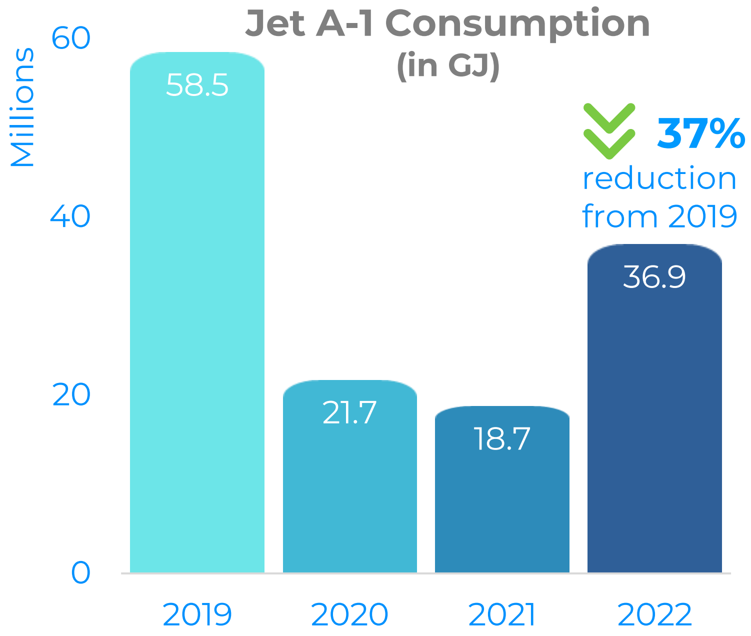
All departments implement fuel conservation measures to minimize the use of fossil fuels. Significant fuel consumption reductions were noted compared to 2019 baseline data. Jet A-1 fuel efficiency for 2022 improved to 34g/Revenue Passenger Kilometer (RPK) from 45g/RPK last year.



62.9K Gigajoule
2022 Diesel Consumption



3,491 Gigajoule
2022 Gasoline Consumption

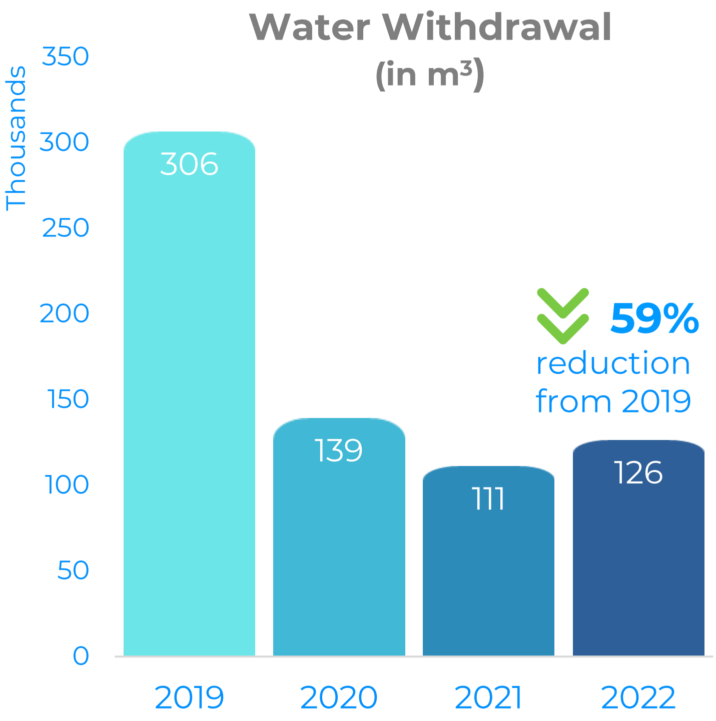


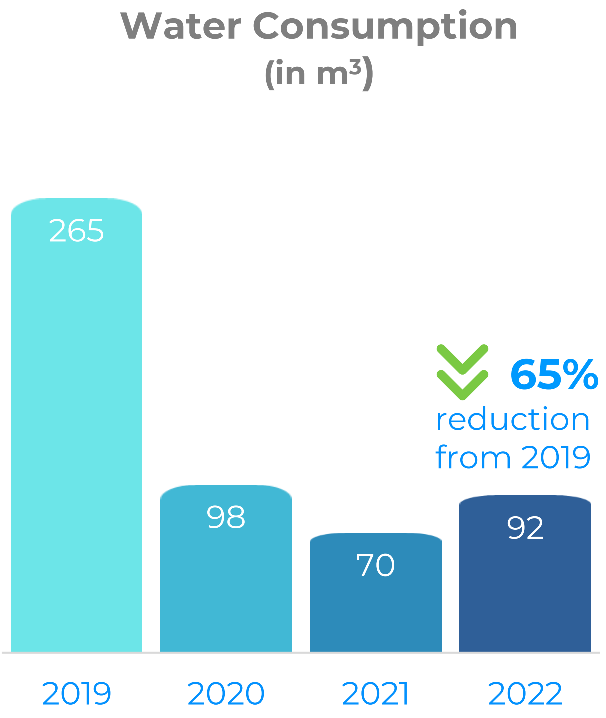
36.9M Gigajoule
2022 Jet A-1 Fuel Consumption

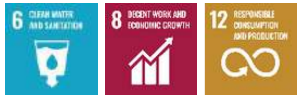
WATER

We ensure that we have adequate supply of clean water to use for our operations. Water is mainly used to supply potable water in our aircraft, cleaning and sanitation of offices, and in the meal preparations of our caterers.

We rely mainly on our water concessionaire for our water supply and unfortunately, there are times we experience service interruption due to shortage of raw water, repairs, or water quality issue. As a contingency, we ensure that we have adequate storage of water needed in our operations. We also implement conservation measures to ensure that no water is wasted.







The Facilities and Management Division is actively posting posters to campaign for water conservation in our buildings. We constantly remind our employees to avoid the use of water on unnecessary activities and encourage our employees to report water leaks observed. We also conduct regular inspections to check for defective water fixtures and leaking pipelines that should be fixed.

126K m³
2022 Water Withdrawal

92K m³
2022 Water Consumption

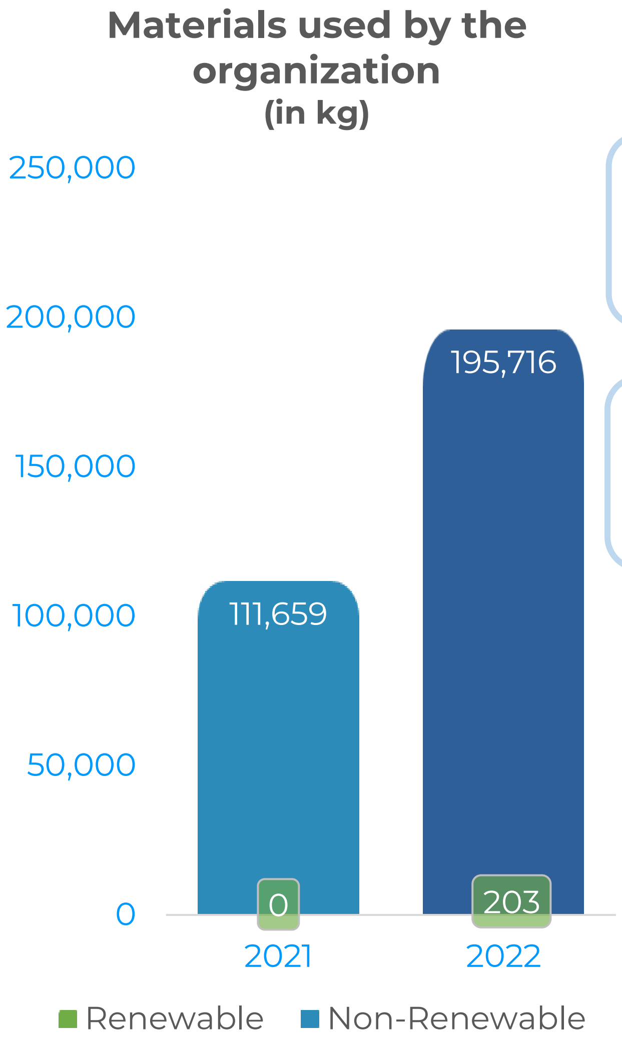
MATERIALS

We are committed to reducing our plastic consumption and find alternative eco-friendly and sustainable materials.

In 2022, we started transition from the use of the plastic coffee stirrer which was identified as a non-environmentally acceptable product by the National Solid Waste Commission. We have replaced it with a sustainably sourced bamboo stirrer.

Our Sustainability, Catering Operations, Procurement and Logistics, Marketing Teams oversee our transition to alternative sustainable materials. When sourcing out materials, we give priority to materials that are reusable and with recycled source content. We also ensure that the materials will be recovered and recycled after use and composted.

We also ensure that the materials are properly marked and labeled to provide guidance on the proper handling and disposal.



195,716 kg
2022 Non-renewable Materials

203 kg
2022 Renewable Materials

Data from 2019 and 2020 is not available as monitoring of materials used only commenced in 2021.

ENVIRONMENTAL IMPACT MANAGEMENT

AIR EMISSIONS

As part of our industry's commitment, we are working towards the achievement of Net Zero Emission (NZE) by 2050, bringing air transport in line with the Paris Agreement to limit global warming to 1.5°C. Our plan will be holistic and comprehensive, covering both flight and ground operations.

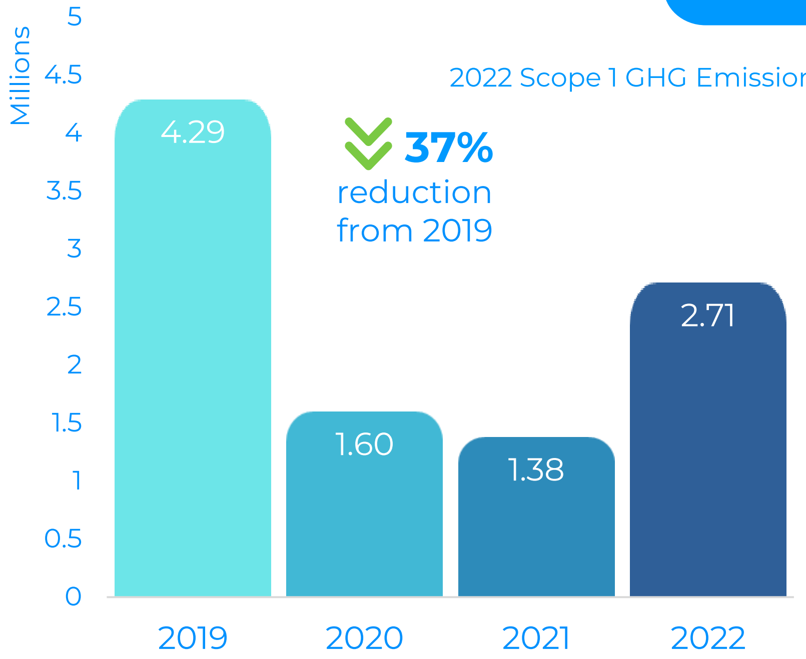
We are continually improving our operational efficiency by implementing fuel efficiency initiatives such as Single Engine Taxi In (SETI) and Reduced Acceleration Altitude (RAAL) that help reduce CO_2 emissions while adhering to strict safety standards. In the long term, we seek to develop a robust NZE strategy and take substantive actions to foster a more earth-friendly aviation environment based on scientific best practices.

Our Scope 1 Greenhouse Gas (GHG) emissions includes those emissions from stationary sources (generator sets) and mobile sources (aircraft, service vehicles, and ground equipment).

Scope 1 GHG Emission (in tons)

2.71M tons CO_2

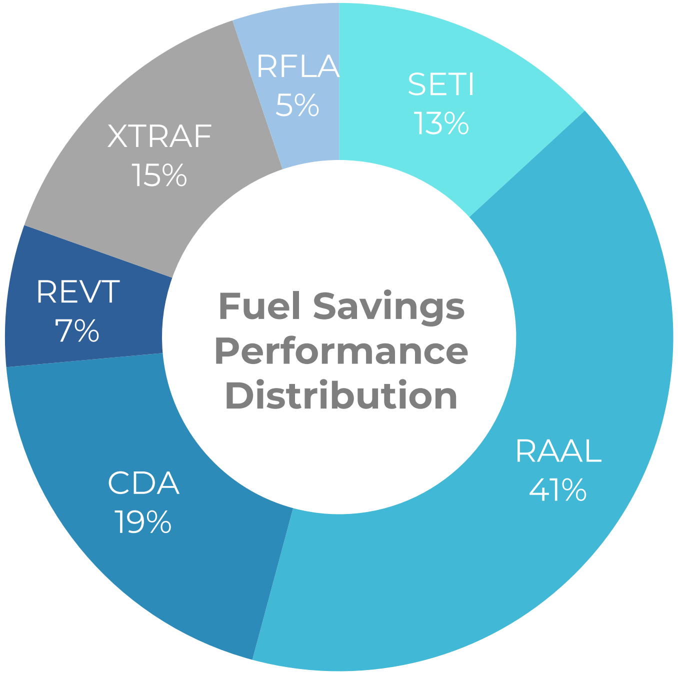
2022 Scope 1 GHG Emission



OPERATIONAL EFFICIENCY IMPROVEMENT

In 2022, we implemented six fuel savings initiatives for flight operations. These initiatives have been implemented at different phases of flight and are aimed at reducing fuel consumption and emissions.

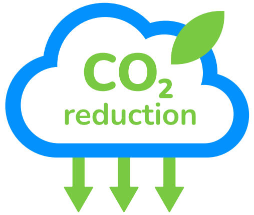
Through the application of fuel-saving best practices and the utilization of Skybreathe and MyFuelCoach, not only were we able to achieve cost savings for the company, but we were also able to make a positive impact on the environment.



228K Gigajoule

Jet A-1 Fuel saved

16.7K metric tons



Raising Pilot Awareness on Fuel Savings and its relation to CO_2 emission reduction

We have also taken proactive steps to increase awareness of the various fuel savings initiatives implemented by the department. Several webinars were organized for pilots, namely:

- Fuel Savings Initiative Webinar
- Briefing on MyFuelCoach
- Maximizing fuel efficiency through Skybreathe and MyFuelCoach

We also placed posters in the pilot's lounge to promote the initiative.

OPERATIONAL EFFICIENCY IMPROVEMENT

Engine core wash is conducted at defined intervals to improve engine performance which leads to fuel savings (EGT Margin recovery and cruise fuel flow improvement) and prolonged engine on-wing life.

In 2022, we completed modifications on our fleet to improve its fuel efficiency and operation.

44K Gigajoule

Jet A-1 fuel saved by conducting engine core wash in our fleet in 2022

A330
Air Management Function that optimizes airflow and temperature in the cabin based on the number of passengers during the flight

B777
Boeing Performance Improvement Package for weight reduction, improves outboard wing, improves aerodynamic efficiency, and reduces drag

A320/ A321CEO
Enable to perform SETWA: Single Engine Taxi with APU off

B777
WXR Processor Upgrade to Hazard 2.0 for wider range of weather detection

PAL Group Fleet Age

(average in years)

as of 31 December 2022

B777-300ER | 9.1

A350-900 | 4.1

A321 CEO | 8

A321 NEO | 4

A330-300 | 8.7

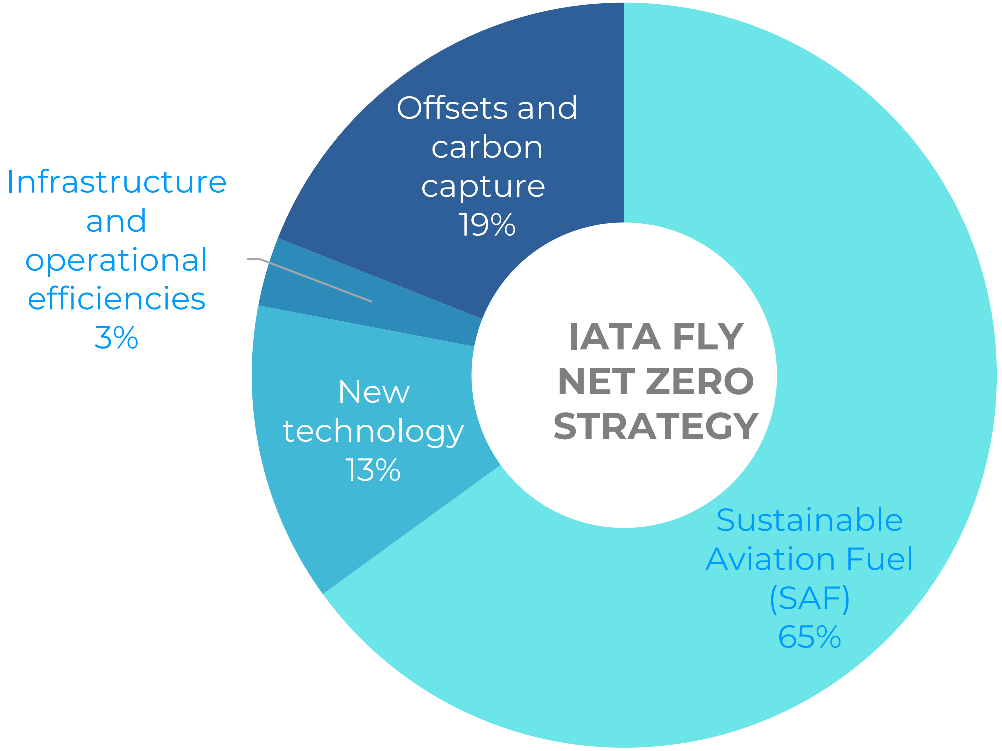
A320-200 | 13.2

DHC 8-400 NG | 4.5

8.3 years
AVERAGE FLEET AGE

SUSTAINABLE AVIATION FUEL (SAF)

Achieving our net zero goal relies greatly on the use of sustainable aviation fuel. All PAL aircraft can use SAF without additional technical requirements on the aircraft if the SAF is produced to ASTM D7566 and certified to ASTM D1655 / Jet A/A-1. We plan to use SAF that are CORSIA eligible.



IMPROVEMENT ON INFRASTRUCTURE

We are in close coordination with the Air Traffic Management for enhancements on navigational procedures. Operational Flight Plan (OFP) preparation using Jet Planner with Wind Updates aids in the generation of the flight plans utilizing optimum routes for fuel and cost-efficient operations.

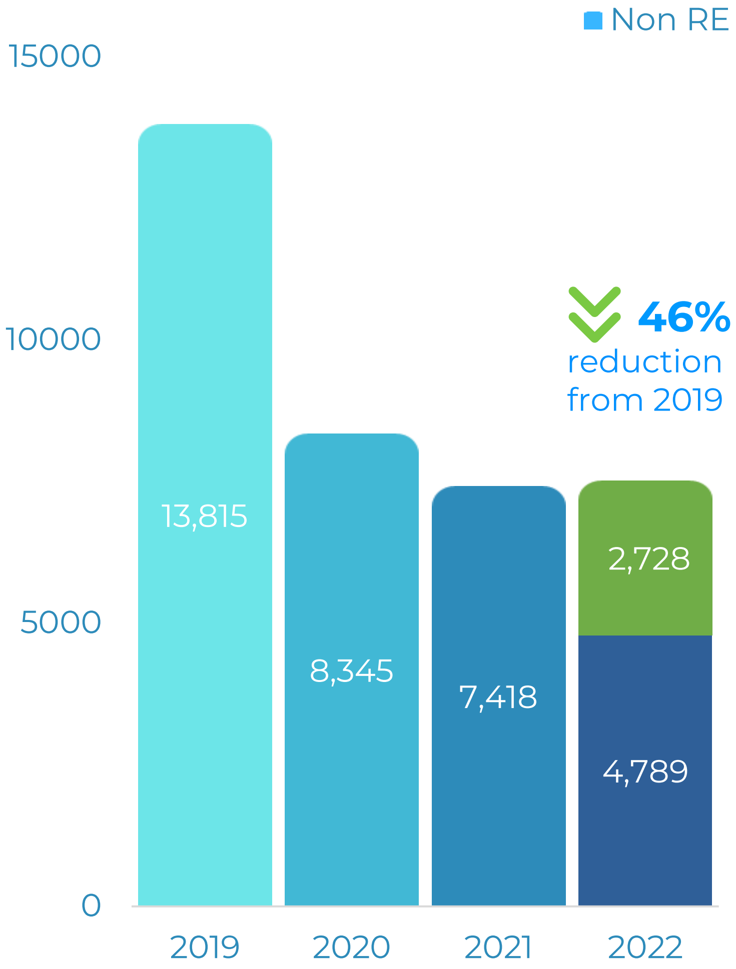
CARBON OFFSETTING AND REDUCTION SCHEME FOR INTERNATIONAL AVIATION (CORSIA)

Philippines through the Civil Aviation Authority of the Philippines (CAAP) voluntarily participated to CORSIA which requires airlines to submit annual Emission Report and offset emission. Last June 2022, we have completed the verification of our 2021 Emissions Report.

STATIONARY COMBUSTION SOURCE

Our stationary combustion GHG emissions come from the use of our standby diesel generator sets which are used in case of power interruption which rarely occurs.

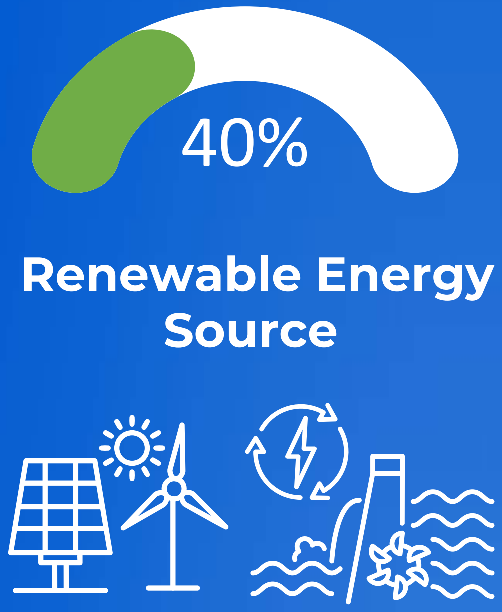
Scope 2 GHG Emission
(in tons)



Our Scope 2 Greenhouse Gas (GHG) emissions are the corresponding indirect emissions from attributable to our use of purchased electricity.

7,157 tons CO_2

2022 Scope 2 GHG Emission



Renewable Energy Source

Shell ENERGY

CONFIRMATION OF RENEWABLE ENERGY SUPPLY

This certifies that 100% of the imported energy requirement of the facility of

Philippine Airlines Inc – In Flight Carrier and Maintenance Base Complex

was supplied by Shell Energy Philippines, Inc. RES License No. RES-7-2021-0076RS from renewable energy sources as define in DOE DC2009-05-0008 for the period August 26, 2022 to February 25, 2023.

Certificate No.: SEPH-20657-001
Date: March 8, 2023

Last August 26, 2022, we shifted to a cleaner energy source (hydropower) which contributed to the decrease of our Scope 2 GHG emissions. Two of our major facilities in Pasay City, Philippines were able to shift by participating in the Green Energy Option Program of the Department of Energy which gives consumers the power to choose renewable energy sources for their energy requirements. As a result, we have already met our target of shifting to renewable energy ahead of our 2030 timeline.

DISPOSAL OF SOLID WASTE

Our operations generate solid wastes mainly from our in-flight catering services.

In order to reduce our generation of wastes and efficiently recover recyclable materials, we implement waste reduction programs and promote proper disposal in our operations.

10%
Composted

Biodegradables are composted using Vermicompost, Bokashi and Black Soldier Fly methods

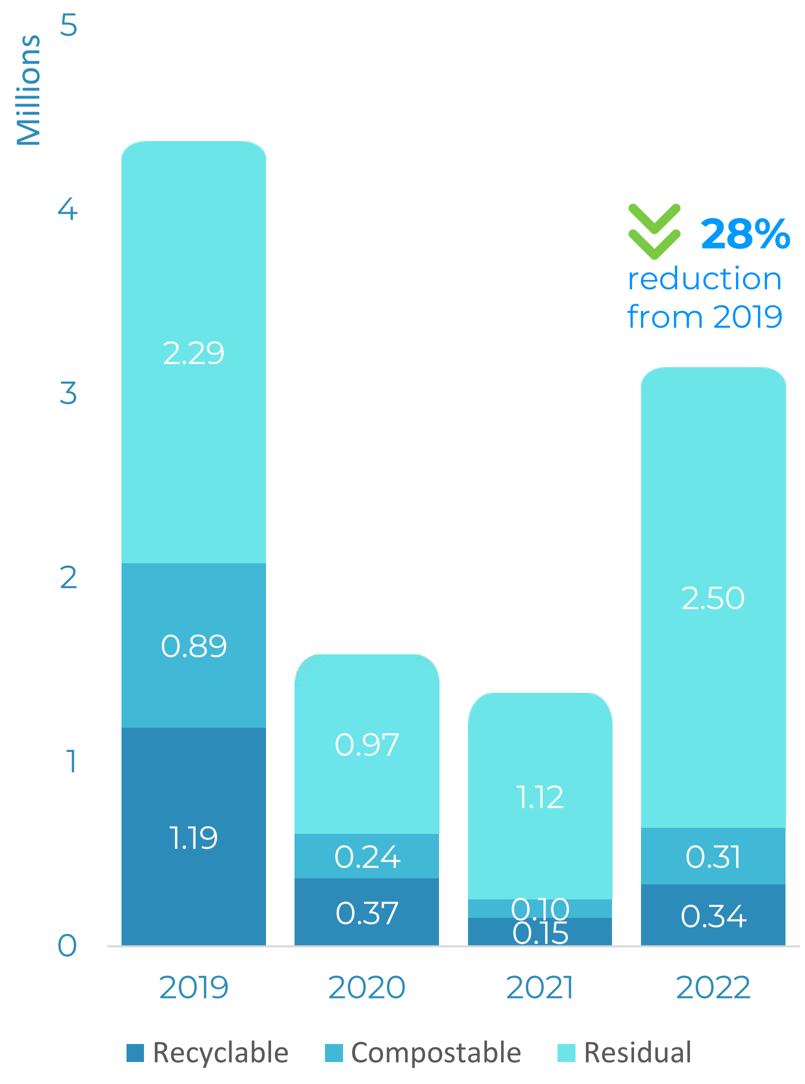
11%
Recycled

Recovered recyclable waste are collected by our DENR-accredited hauler and transported to their partner recycling facilities

79%
Sent to Landfill/ Cement Manufacturing

Residuals are sent to the sanitary landfill, and some are diverted and used as fuel in cement manufacturing

Solid Waste Generated and Transported (in kg)



HAZARDOUS WASTE

We comply with RA 6969 or the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 in handling our hazardous waste and only engage with DENR-accredited Transporter and Treatment, Storage and Disposal Facilities (TSDF). We secure a permit to transport and an online manifest prior to the transportation and treatment of our hazardous waste.

We also availed of the Radioactive Waste Management Services of the Philippine Nuclear Research Institute (PNRI) for the proper disposal of defective explosives trace detector (ETD) containing radioactive materials (Three units of Nickel 63 and two units of Americium 243).

Used lead acid batteries
D406

Busted fluorescent lamps
D407

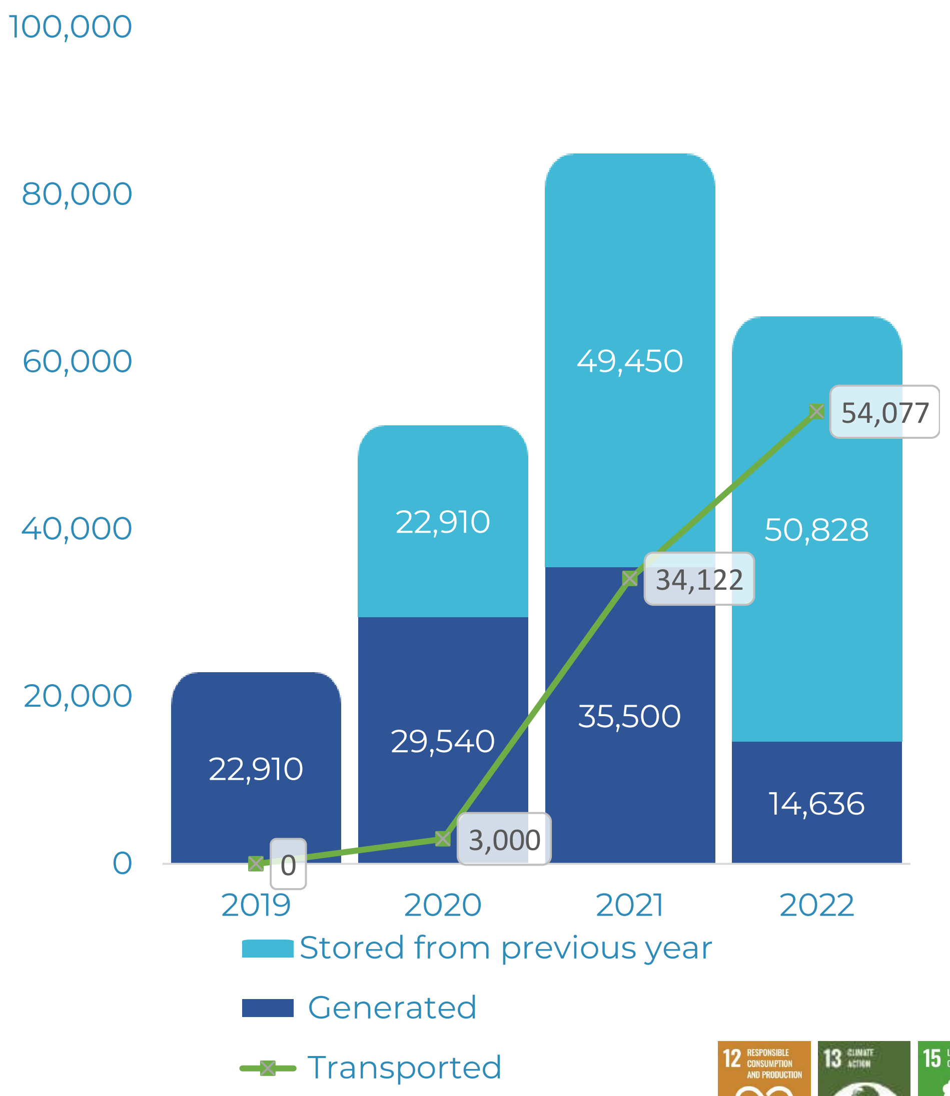
Used industrial oil
I101

Infectious waste
M501

Pharmaceutical waste
M503

Electronic and electrical equipment
M506

Hazardous Waste Generated and Transported (in kg)



34,547 m³

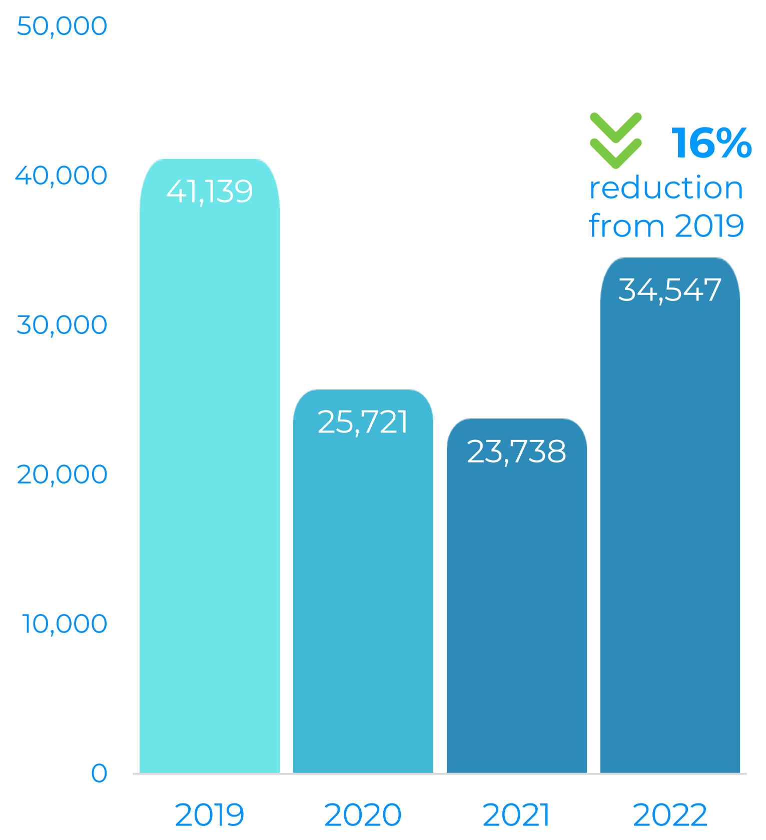
Discharged in 2022

EFFLUENT

Wastewater generated in our operations is mainly from our aircraft lavatories, offices, and catering operations. We comply with the Clean Water Act of the Philippines and ensure that wastewater generated in our operations is treated and disposed in accordance with the effluent standards.

Lavatory waste from our aircraft is treated in the sewage treatment plant of Manila International Airport in Parañaque City. We also have a sewage treatment plant to treat wastewater generated for our catering operations.

Effluent Discharged
(in m³)



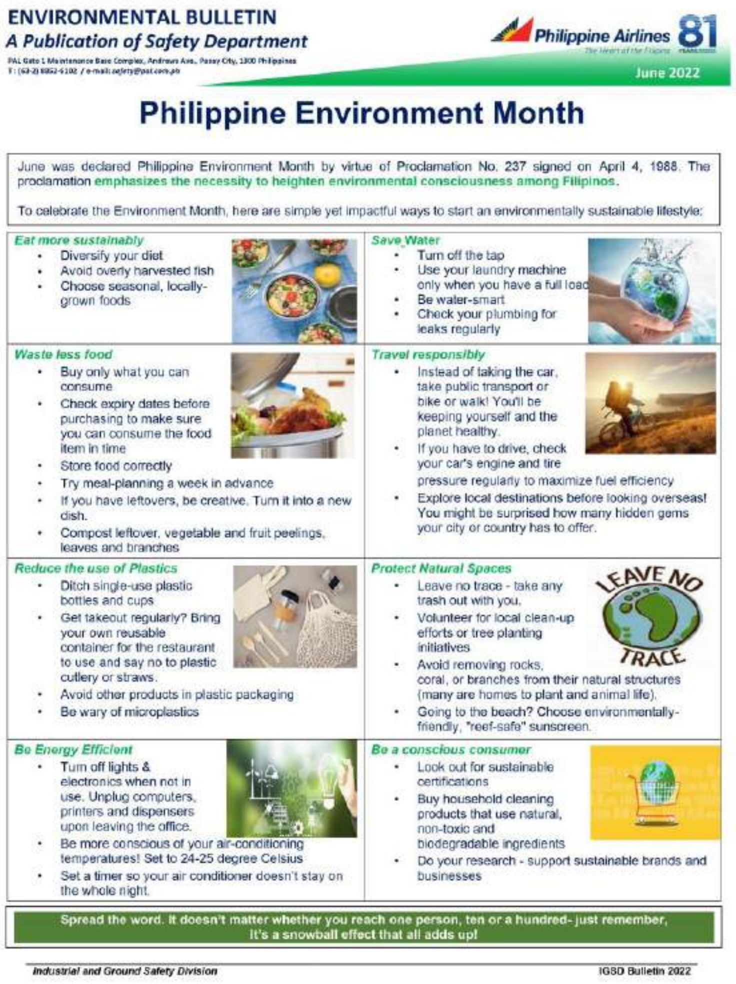
CLIMATE-RELATED RISK AND OPPORTUNITIES

With the exposure of our operations to climate-related risks, we are determined to go beyond compliance. We implement programs to better manage these risks and provide the necessary human and financial resources to help achieve our environmental targets.

Material Disclosure	Climate-Related Risk	Opportunity
Energy Consumption and GHG Emissions	Continuous use of non-renewable energy can lead to depletion of resources. Depletion of resources will increase the cost of buying fuel and electricity needed for the operation. GHG emissions contributes to global warming which causes the identified climate risks.	• Shift to renewable energy sources such as solar power, biofuels, and sustainable aviation fuels • Improve energy efficiency using available new technology • Reduction of unnecessary fossil fuel usage and GHG emission, operational, and maintenance cost
Water Consumption	Extreme drought will cause water shortage which may temporarily stop PAL's operations and coastal Erosion due to excessive ground water extraction (which can also lead to salt-water intrusion) and affect our food supply.	• Efficient use of water resources for the use of next generation
Solid and Hazardous Waste	Improper disposal will lead to contamination of land and body of water and can also cause flooding.	• Improve recovery of waste and use reusable and recyclable materials to help divert waste disposal from landfills

ENVIRONMENTAL AWARENESS

We regularly release environmental bulletins to all employees to increase awareness and encourage participation in initiatives that will contribute to reduce the effects of climate change.



ENVIRONMENTAL BULLETIN
A Publication of Safety Department
Philippine Airlines 81
June 2022

Philippine Environment Month

June was declared Philippine Environment Month by virtue of Proclamation No. 237 signed on April 4, 1988. The proclamation **emphasizes the necessity to heighten environmental consciousness among Filipinos.**

To celebrate the Environment Month, here are simple yet impactful ways to start an environmentally sustainable lifestyle:

Eat more sustainably
- Diversify your diet
- Avoid overly harvested fish
- Choose seasonal, locally-grown foods

Save Water
- Turn off the tap
- Use your laundry machine only when you have a full load
- Be water-smart
- Check your plumbing for leaks regularly

Waste less food
- Buy only what you can consume
- Check expiry dates before purchasing to make sure you can consume the food item in time
- Store food correctly
- Try meal-planning a week in advance
- If you have leftovers, be creative. Turn it into a new dish.
- Compost leftover, vegetable and fruit peelings, leaves and branches

Travel responsibly
- Instead of taking the car, take public transport or bike or walk! You'll be keeping yourself and the planet healthy.
- If you have to drive, check your car's engine and tire pressure regularly to maximize fuel efficiency
- Explore local destinations before looking overseas! You might be surprised how many hidden gems your city or country has to offer.

Reduce the use of Plastics
- Ditch single-use plastic bottles and cups
- Get takeout regularly? Bring your own reusable container for the restaurant to use and say no to plastic cutlery or straws.
- Avoid other products in plastic packaging
- Be wary of microplastics

Protect Natural Spaces
- Leave no trace - take any trash out with you.
- Volunteer for local clean-up efforts or tree planting initiatives
- Avoid removing rocks, coral, or branches from their natural structures (many are homes to plant and animal life).
- Going to the beach? Choose environmentally-friendly, "reef-safe" sunscreen.

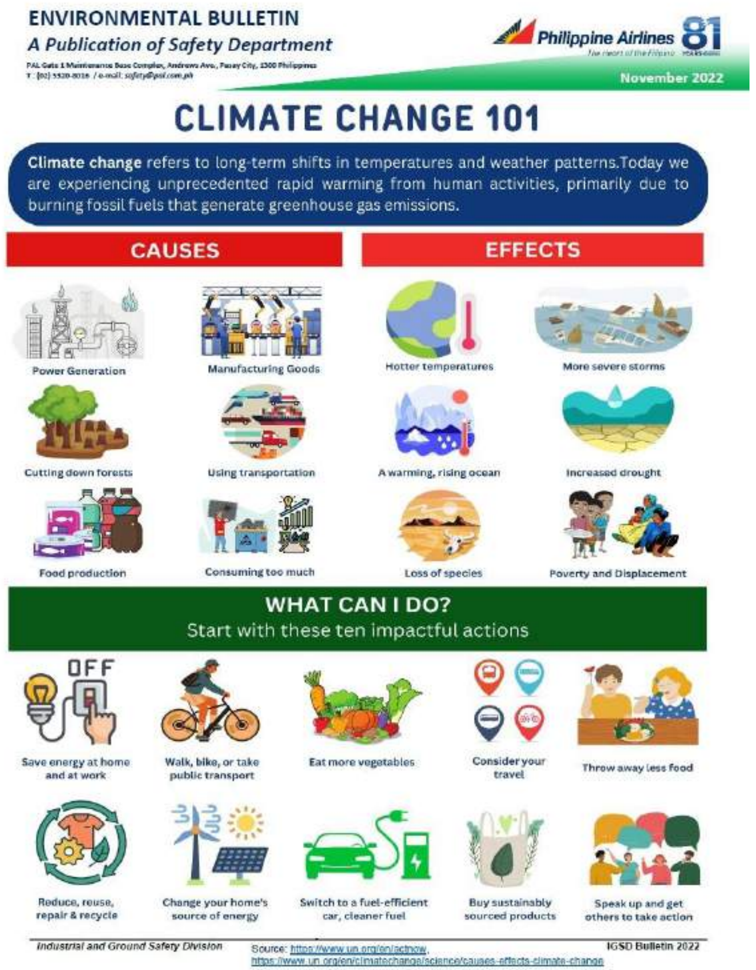
LEAVE NO TRACE

Be Energy Efficient
- Turn off lights & electronics when not in use. Unplug computers, printers and dispensers upon leaving the office.
- Be more conscious of your air-conditioning temperatures! Set to 24-25 degree Celsius
- Set a timer so your air conditioner doesn't stay on the whole night.

Be a conscious consumer
- Look out for sustainable certifications
- Buy household cleaning products that use natural, non-toxic and biodegradable ingredients
- Do your research - support sustainable brands and businesses

Spread the word. It doesn't matter whether you reach one person, ten or a hundred- just remember, it's a snowball effect that all adds up!

Industrial and Ground Safety Division IGSD Bulletin 2022



ENVIRONMENTAL BULLETIN
A Publication of Safety Department
Philippine Airlines 81
November 2022

CLIMATE CHANGE 101

Climate change refers to long-term shifts in temperatures and weather patterns. Today we are experiencing unprecedented rapid warming from human activities, primarily due to burning fossil fuels that generate greenhouse gas emissions.

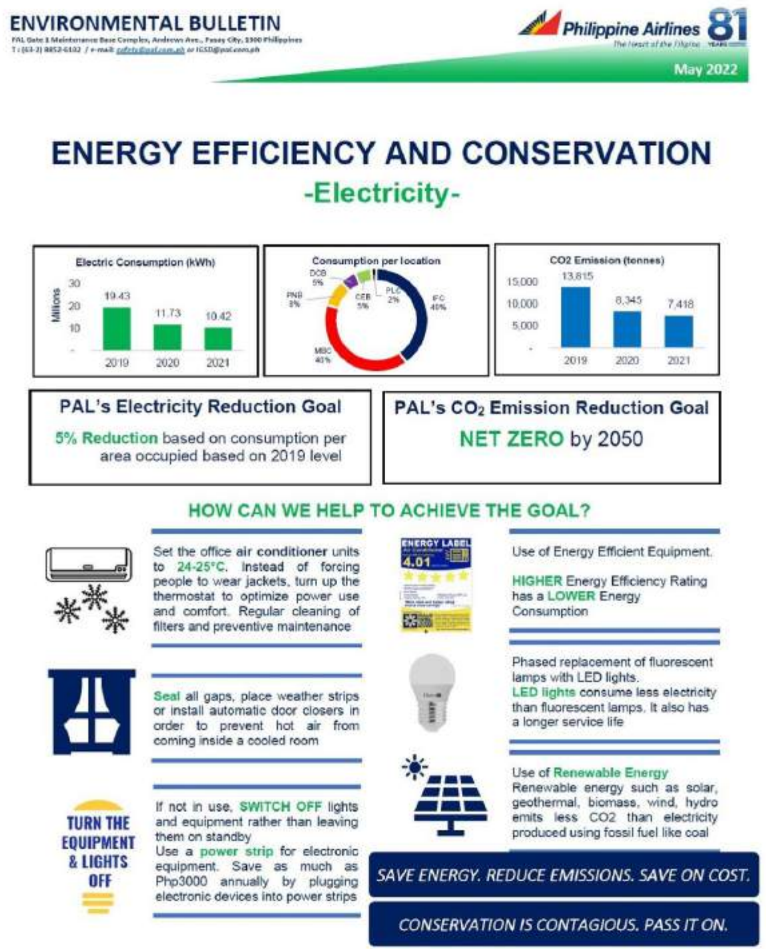
CAUSES: Power Generation; Manufacturing Goods; Cutting down forests; Using transportation; Food production; Consuming too much

EFFECTS: Hotter temperatures; More severe storms; A warming, rising ocean; Increased drought; Loss of species; Poverty and Displacement

WHAT CAN I DO?
Start with these ten impactful actions

Save energy at home and at work; Walk, bike, or take public transport; Eat more vegetables; Consider your travel; Throw away less food; Reduce, reuse, repair & recycle; Change your home's source of energy; Switch to a fuel-efficient car, cleaner fuel; Buy sustainably sourced products; Speak up and get others to take action

Industrial and Ground Safety Division Source: https://www.un.org/en/actnow, https://www.un.org/en/climatechange/science/causes-effects-climate-change IGSD Bulletin 2022



ENVIRONMENTAL BULLETIN
Philippine Airlines 81
May 2022

ENERGY EFFICIENCY AND CONSERVATION
-Electricity-

Electric Consumption (kWh): 2019 19.43; 2020 11.73; 2021 10.42 (Millions)

Consumption per location

CO2 Emission (tonnes): 2019 13,815; 2020 8,345; 2021 7,418

PAL's Electricity Reduction Goal
5% Reduction based on consumption per area occupied based on 2019 level

PAL's CO_2 Emission Reduction Goal
NET ZERO by 2050

HOW CAN WE HELP TO ACHIEVE THE GOAL?

Set the office air conditioner units to 24-25°C. Instead of forcing people to wear jackets, turn up the thermostat to optimize power use and comfort. Regular cleaning of filters and preventive maintenance

Use of Energy Efficient Equipment.
HIGHER Energy Efficiency Rating has a LOWER Energy Consumption

Seal all gaps, place weather strips or install automatic door closers in order to prevent hot air from coming inside a cooled room

Phased replacement of fluorescent lamps with LED lights.
LED lights consume less electricity than fluorescent lamps. It also has a longer service life

TURN THE EQUIPMENT & LIGHTS OFF

If not in use, SWITCH OFF lights and equipment rather than leaving them on standby
Use a power strip for electronic equipment. Save as much as Php3000 annually by plugging electronic devices into power strips

Use of Renewable Energy
Renewable energy such as solar, geothermal, biomass, wind, hydro emits less CO2 than electricity produced using fossil fuel like coal

SAVE ENERGY. REDUCE EMISSIONS. SAVE ON COST.

CONSERVATION IS CONTAGIOUS. PASS IT ON.

We support the DENR to combat wildlife trafficking and help protect species from illegal trade in compliance with RA 9147 otherwise known as the Wildlife Resources Conservation and Prevention Act.

We have educated all relevant personnel (ground handlers, cargo acceptance teams, passenger, baggage and cargo screeners, cabin crew, and pilots about wildlife trafficking, the common methods used by wildlife traffickers, what to look out for, and how to report suspected wildlife trafficking. Procedures are in place for the proper reporting in case of a suspected or confirmed found illegal wildlife trade. We have also identified our key contacts with government agencies (Bureau of Customs, DENR-Wildlife Trafficking and Monitoring Unit) where to report these incidents.

Generally, we require permits to be presented for every wildlife shipment. We coordinate with monitoring government agencies if there are shipments that requires verification.

ECOSYSTEM AND BIODIVERSITY


Siargao, Philippines


Manila, Philippines


Tacloban, Philippines

DISCOVERING FOR OUR COMMUNITY

As the Philippine economy began to reopen in the early part of 2022, PAL's corporate social responsibility arm, PAL Foundation (PALFI), gradually reactivated its programs to provide humanitarian assistance to more communities from underprivileged sectors, including victims of calamities and COVID-19.

The Foundation also conducted programs to aid PAL Group employees who needed help and continued to collaborate with partners in the conservation of the environment.

The Foundation was able to conduct its activities with support and assistance of the PAL Group and Lucio Tan Group of Companies.

- DISASTER RELIEF
- EMPLOYEE SUPPORT
- ASSISTANCE TO THE UNDERPRIVILEGED AND THE YOUTH
- REPRESENT PINOY
- COVID ASSISTANCE
- MEDICAL TRAVEL GRANT
- HUMANITARIAN CARGO GRANT
- ENVIRONMENTAL CONSERVATION

DISASTER RELIEF

COLLABORATION WITH LASALLIAN FAMILY FOR TYPHOON ODETTE VICTIMS

In April 2022, Philippine Airlines flew members of the Lasallian community to Siargao, where they ran a relief operation for the island's typhoon victims.

The mission, coordinated by the social action team of the De La Salle Brothers, provided spiritual and psychological support for families affected by Typhoon Odette.

Relief goods, educational kits, and other vital supplies for the residents of Siargao were flown in as humanitarian cargo via PAL's Manila-Butuan flights. From Butuan, the cargo was transported to Siargao.

The Lasallian Brothers and team members worked with the Municipality of Del Carmen LGU in Siargao to carry out emergency preparedness activities and needs assessments.

The humanitarian program partnership was made possible through the Office of the PAL President & COO, PAL Foundation, Mabuhay Miles, and PAL Cargo Department.

PAL President & COO Stanley K. Ng and Bro. Armin Luistro

Arriving in Manila from Siargao after their humanitarian mission, the Lasallian team was welcomed by PAL Director Lucio Tan III, PAL President & COO Capt. Stanley K. Ng, PAL SVP Legal and General Counsel Atty. Carlos Luis Fernandez and Lasallian Brother and former Education Secretary Bro. Armin Luistro

PARTNERSHIP WITH GMA KAPUSO FOUNDATION

PAL Foundation joined hands with GMA Kapuso Foundation (GMAKF) in conducting disaster assistance and humanitarian projects last April 2022.

The two foundations collaborated to help rebuild communities that were affected by typhoons Odette and Agaton which struck in December 2021 and April 2022, respectively.

In support of GMAKF's Silong Kapuso project, PAL Foundation turned over donations for relief and rebuilding efforts in areas that bore the brunt of both typhoons including Siargao, Bohol, Cebu, Puerto Princesa, Tacloban, and Iloilo.

The Foundation also helped facilitate the airlifting of donations through its Humanitarian Cargo Grant program, in support of GMAKF's Operation Bayanihan for Typhoon Odette victims.

The two foundations partnered in facilitating the airlift of donations to persons with disabilities, calamity-stricken areas, and underprivileged communities.

The joint efforts were made possible with support from Mabuhay Miles and PAL Cargo Business.

JOINT RELIEF MISSION FOR TYPHOON KARDING VICTIMS

Together, PALFI and Tan Yan Kee Foundation, the Lucio Tan Group of Companies' corporate social responsibility division, distributed help to those affected by Super Typhoon Karding which devastated Luzon in September 2022.

Typhoon Karding, one of the strongest storms to hit the country, brought violent winds and torrential rains that caused severe damage in several provinces in Northern and Central Luzon. More than 700,000 people were affected, including farmers and fisherfolk, resulting in significant damage to agriculture in Luzon, as well as to parts of Western Visayas that likewise suffered storm-related flooding, amounting to Php3.12 billion.

To assist affected communities in recovery efforts, the Tan Yan Kee Foundation and PAL Foundation carried out a joint relief mission in Dingalan, Aurora, one of the areas hardest hit by Typhoon Karding.

Officers of the foundations led the distribution of rice, assorted food, and hygiene items, sleeping materials, and other supplies to about 750 residents of Barangays Paltik, Yakal, and Amaciga whose main livelihood is fishing.

Among the donors of goods were PAL's Corporate Logistics Services Department and Human Capital Department, as well as the PALex' Human Resources Department.

EMPLOYEE SUPPORT

GIFT-GIVING WITH SERVICE PROVIDERS

In July 2022, the Tan Yan Kee Foundation donated family packs of rice and vegetables from the LCT Legacy Forest Farms in Nueva Ecija to the PAL Foundation. PALFI then distributed the TYKF donations, along with PAL hygiene and children's activity kits sponsored by the PAL Corporate Logistics Services Division, to about 350 personnel of third-party service providers of the Philippine Airlines Group (PAL and PALex) in an activity at the PAL Maintenance Base Center in Pasay City.

A special personalized card from PAL Chairman Lucio C. Tan was attached to each pack with a note that thanked the recipients for their dedicated service. The happy recipients expressed their appreciation for the kind gesture.

For the second year in a row, PAL Foundation hosted a community pantry in partnership with the Tan Yan Kee Foundation and PAL Group offices to help alleviate the impact of the pandemic on aviation industry service workers. The distribution also served as a thanksgiving project for Dr. Tan's birthday.

ASSISTANCE TO THE UNDERPRIVILEGED AND THE YOUTH

PAL - ABS-CBN JOINT UNDERTAKING FOR CHILD PROTECTION

PALFI provided support to ABS-CBN Foundation's Bantay Bata 163 campaign for the protection and welfare of Filipino children.

PAL Foundation donated miles that were converted into tickets for ABS-CBN attendees to the 10th International Consultation of Child Helplines last September 27 - 29 in Stockholm, Sweden. The event, keynoted by Queen Silvia of Sweden, brought to light emerging trends on child protection and mental well-being.

PALFI has long been a supporter of the network's child protection program.

SUPPORT FOR DFA IMMERSION PROGRAM

PAL provided support to the Department of Foreign Affairs during its annual immersion program which gives high-performing and the next generation Filipino-Americans the opportunity to meet and dialogue with policymakers and industry leaders in the Philippines.

Through its Mabuhay Miles with a Mission program, PAL provided travel assistance to this year's delegates of the Filipino Young Leaders Program (FLYPro) spearheaded by the Philippine Embassy in the US in partnership with the Ayala Foundation.

DONATIONS TO PWDS

PAL Foundation turned over ambulatory devices to different organizations catering to the needs of persons with disabilities (PWDs).

In partnership with the PALCorporate Logistics and Services Department, the Foundation donated more than 100 wheelchairs, walking canes, and crutches to the Philippine Orthopaedic Center (POC), Tahanang Walang Hagdan (TWH), and Goodwill Industries of the Philippines GIP).

The donations benefited charity patients confined at POC, with some devices going to indigent outpatients.

The items turned over to TWH were distributed to selected beneficiaries. TWH is a non-government organization that provides services to help improve the quality of life of PWDs.

Donations for GIP beneficiaries included clothes, linens, and books to support its livelihood programs benefitting about 10,000 PWDs in Metro Manila.

REPRESENT PINOY

PAL Foundation provides travel assistance to underprivileged yet outstanding Filipinos who represent the country for global competitions in the fields of sports, arts, and academics to serve as inspiration to the younger generations.

PALFI AND VMC FOUNDATIONS SUPPORT PH TEAM IN 1ST SEA DEAF GAMES

PAL Foundation and Victorias Milling Company Foundation (VMC Foundation) joined hands in supporting the Phil-Sports Federation of the Deaf (PSFD) as they competed in the 1st South East Asian (SEA) Deaf Games held in Kuala Lumpur in November 2022.

Nineteen delegates of PSFD flew to Malaysia to compete in the SEA Deaf Games, with PALFI providing extra baggage allowance for PSFD's sports equipment and VMC Foundation providing cash allowances to support the athletes.

The Philippines, through the PSFD athletes, finished 5th place with four silvers and three bronzes.

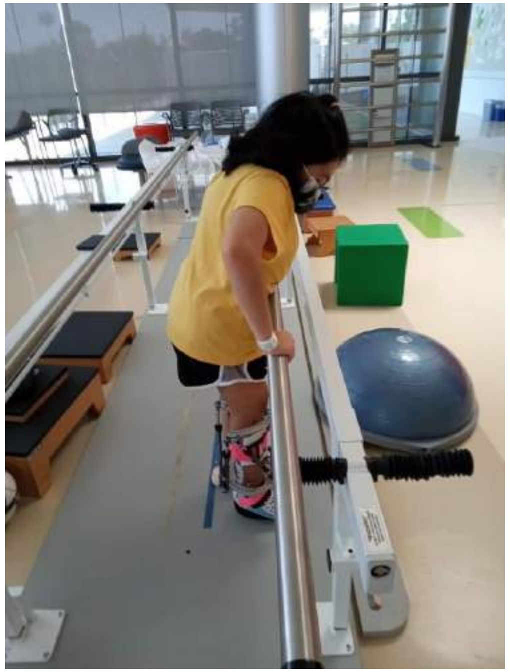
PALFI completed the turnover of donations to the Philippine General Hospital Medical Foundation, Inc. (PGHMFI) in Manila last July 2022 as part of PAL Foundation's support for the country's biggest COVID-19 referral center.

This serves as a culmination of PAL Foundation's donation efforts to PGHMFI which began in July 2021. The program facilitated the turnover of more than 15,000 overnight or hygiene kits (toothbrush, lotion, cologne, socks, etc.) and about 1,500 five-liter bottled water items for PGH's COVID and non-COVID charity patients, as well as to support hospital medical frontliners staying in dormitories.

PAL Corporate Logistics and Services and Inflight Catering Departments sponsored the donations.

COVID ASSISTANCE

MEDICAL TRAVEL GRANT



A teenager from Lipa, Batangas flew to the United States in January 2022 to fulfill her wish of healing, with help from generous PAL Mabuhay Miles members.

Kasandra Laya, 17, who has congenital scoliosis and a leg length discrepancy condition, flew to Los Angeles via Philippine Airlines flight PR 102 to undergo leg-lengthening surgery, an operation which is not yet available in the Philippines.

A beneficiary of Philippine Airlines' Mabuhay Miles with a Mission program, Kasandra was escorted by her father Troadio for the healing journey capped by an orthopedic surgical procedure called "limb lengthening" at the Shriners for Children Medical Center, a non-profit philanthropic treatment facility in Pasadena, California.

HUMANITARIAN CARGO GRANT

ASSISTANCE TO TAWI-TAWI COMMUNITIES

PALFI aided the Alpa Phi Omega – Lipa Chapter who conducted a grand humanitarian mission in Tawi-Tawi in November 2022. Travel and cargo assistance was extended to a group of doctors and other volunteers who participated in the activity which benefited more than 12,000 individuals.

SUPPORT FOR FILIPINO WAR VETERANS

PALFI facilitated the free airlifting of wheelchairs and supplies to Filipino war veterans in the provinces.

In October 2022, PAL flew wheelchairs to Tacloban for turnover to veterans in Leyte province, as part of a US Congressional Gold Medal (USCGM) Ceremony at the Provincial Capitol in Palo, Leyte. In September, PAL carried wheelchairs to Tagbilaran for veterans in Bohol who were recipients of the USCGM.

The turnover of donations is a program of the Department of National Defense (DND) - through the Philippine Veterans Affairs Office (PVAO).

ENVIRONMENTAL CONSERVATION

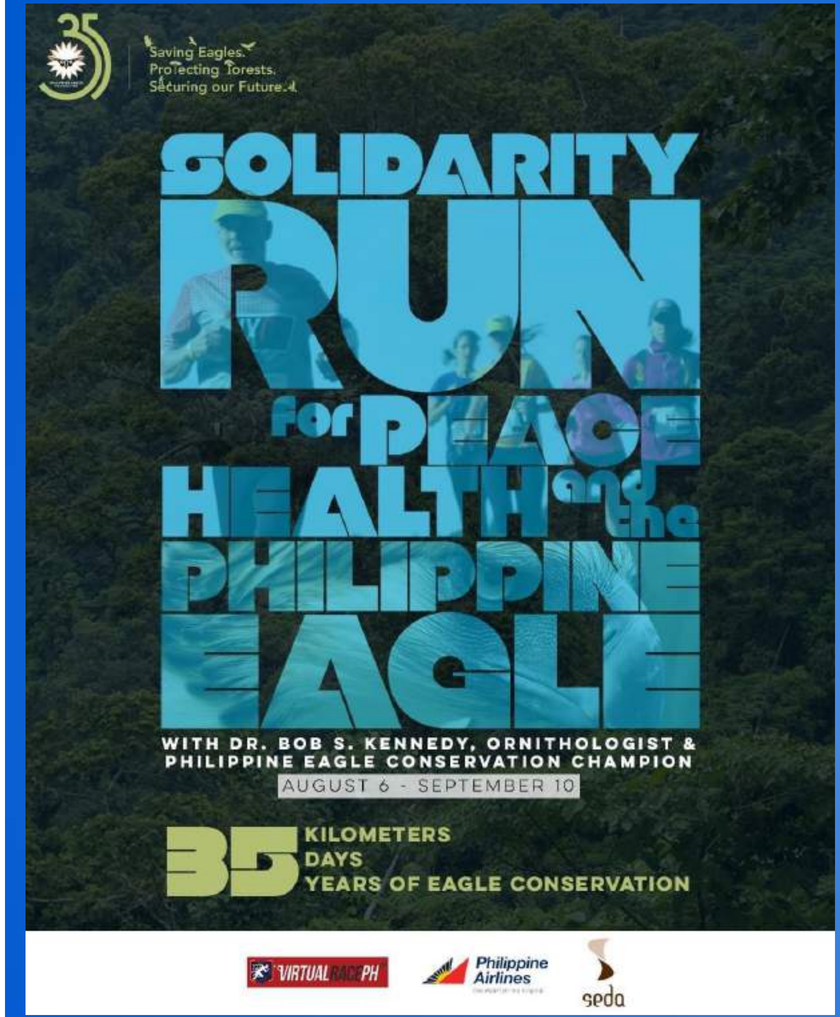
PHILIPPINE EAGLE FOUNDATION

PAL, through PALFI and its Mabuhay Miles with a Mission program, supported vital conservation efforts for the Philippine Eagle as a sponsor of the '*Solidarity Run for Peace, Health, and the Philippine Eagle*' spearheaded by the Philippine Eagle Foundation (PEF).

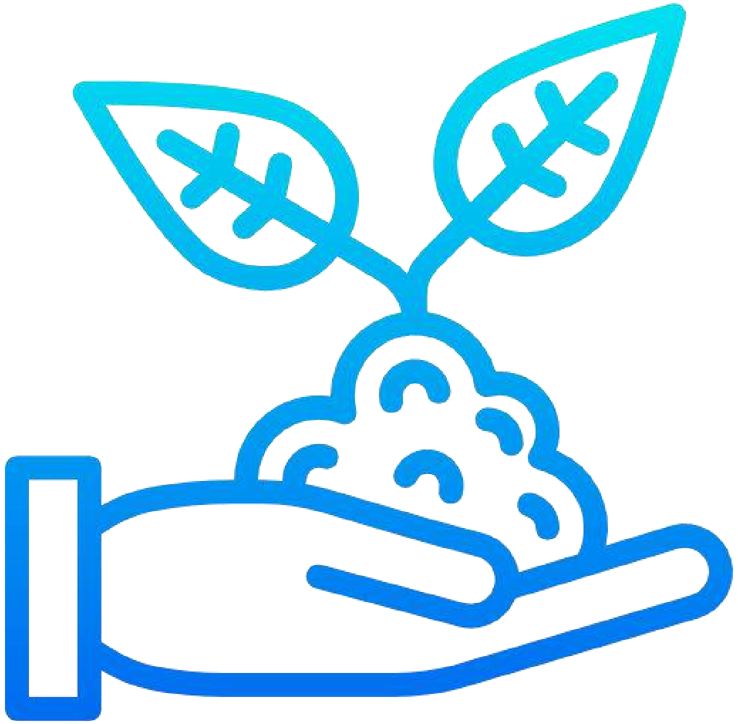
The PEF's virtual solidarity run was held from August 6 to September 10, 2022, with participants running actual marathons at any location in the Philippines or abroad. Proceeds supported PEF's continuing efforts to ensure the survival of the iconic Philippine eagle and protect the national bird's natural habitat.

The solidarity run was led by Dr. Bob Kennedy, a US-based ultramarathoner and champion of the monkey-eating eagle conservation program, and his Filipino-American ultramarathon companion, JC Santa Teresa. Kennedy and Santa Teresa took the Bataan Death March route.

Meanwhile, PEF announced that PAL's adopted eagle, "Sinag", is fully a breeding eagle. He is now a semen donor whose samples can be used for cooperative artificial insemination. As of now, there are 17 breeding eagles out of the 33 eagles under the care of PEF. Sinag was adopted by PAL in 2016 to demonstrate the flag carrier's commitment to the preservation of the Philippine eagle.



PAL – MASTERCARD PARTNERSHIP



PAL joined the Priceless Planet Coalition (PPC), a sustainability project of Mastercard that aims to bring together consumers, corporations, and government partners to take action against climate change.

PPC uses a reforestation model that does not only focus on planting trees, but also on re-growing forests in geographies with the greatest need and most potential for a positive climate, community, and biodiversity impact. PPC is working to plant 100 million trees by 2025 and is currently driving contributions to 18 global reforestation projects, including in the Philippines, Cambodia, Brazil, and Kenya. In the Philippines alone, over 417,500 trees have been planted.

PAL pledged to donate $2 to the Mastercard Priceless Planet Coalition for every ticket purchase during the campaign period last November 21 to December 18, 2022.

PAL's donation will be turned over to Conservation International Foundation, the entity that leads the mobilization and coordination of the PPC restoration efforts and collaborates with local communities and stakeholders for long-term forest stewardship.

APPENDIX

DISCLOSURE INDEX

FLYING TO NEW DISCOVERIES

PAL HOLDINGS, INC.

2022 SUSTAINABILITY REPORT

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

FS FOR FILING WITH SEC

AFTER THE BIR HAS DULY STAMPED "RECEIVED."

SEC Registration Number

P W – 9 4

COMPANY NAME

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

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

8th Floor, PNB Financial
Center, President Diosdado
Macapagal Ave., CCP Complex
Pasay City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
palholdingsinc2015@gmail.com	(02) 8816-3451	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
6,854	Last Thursday of May	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Susan T. Lee	susan.lee@tanduay.com	(02) 8816-3451	N/A

CONTACT PERSON's ADDRESS

7/F Allied Bank Center, 6754 Ayala Avenue, Makati City

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

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

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LTDO DOCUMENT PROCESSING
& QUALITY ASSURANCE DIVISION
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APR 04 2023
ERWIN PACINIO

PAL Holdings, Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PAL Holdings, Inc.** is responsible for the preparation and fair presentation of the parent financial statements including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the parent financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signed under oath by the following:

Lucio C. Tan
Chairman of the Board,
President and Chief Executive Officer

Susan T. Lee
Chief Financial Officer

Signed this 31st day of March 2023

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LT-DOCUMENT PROCESSING & QUALITY ASSURANCE DIV.
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APR 04 2023
ERWIN PACINIO

8th Floor PNB Financial Center, Pres. Diosdado Macapagal Ave., CCP Complex, Pasay City, Philippines • Tel. +63(2) 816-3451 local 3453

REPUBLIC OF THE PHILIPPINES
MAKATI CITY)

BEFORE ME, personally appeared the following persons on MAR 3 1 2023.

Name	Passport No.	Date of Issue	Place of Issue
Lucio C. Tan	P8176878B	16-Nov-21	Manila, Philippines
Susan T. Lee	P3633584B	25-Oct-19	NCR West, Philippines

Known to me and known to be the same persons who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed for the use and purpose hereinabove set forth.

This instrument consisting of two (2) pages, including this whereon the acknowledgement is written, has been signed by the party on each and every page thereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of MAR 3 1 2023 at MAKATI CITY, Philippines.

Julie O. Cua
Notary Public for Makati City
Roll of Attorneys No. 35358
PTR No. 9566504 /1-3-2023 /Makati City
IBP Lifetime Member No. 00104
6/F 6754 Ayala Avenue, Makati City
MCLE Compliance No. VI-0017668 /01-31-2019
Commission No. M-149 until 31 December 2024

Doc. No. 273
Page No. 55
Book No. XLIX
Series of 2023

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LT-DOCUMENT PROCESS
& QUALITY ASSURANCE
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APR 04 2023

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
PAL Holdings, Inc.
8th Floor, PNB Financial Center
President Diosdado Macapagal Ave.
CCP Complex, Pasay City

Report on the Audit of the Parent Company Financial Statements

Opinion

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

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the parent company financial position as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 13 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of PAL Holdings, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Albert R. Bon.

SYCIP GORRES VELAYO & CO.

Albert R. Bon

Albert R. Bon
Partner
CPA Certificate No. 0121479
Tax Identification No. 255-491-830
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 121479-SEC (Group A)
Valid to cover audit of 2019 to 2023 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-135-2023, January 25, 2023, valid until January 24, 2026
PTR No. 9369785, January 3, 2023, Makati City

March 31, 2023

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

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2022	2021
ASSETS		
Current Assets		
Cash (Note 7)	**₱91,860**	₱50,086
Due from a related party (Note 7)	**318,000**	318,000
Other current assets - net of allowance for probable losses of ₱10,188 in 2022 and ₱9,727 in 2021	**1,736**	59,766
Total Current Assets	**411,596**	427,852
Noncurrent Assets		
Financial asset at fair value through other comprehensive income (FVTOCI) (Notes 5 and 7)	**672,672**	727,584
Investments in shares of stock of subsidiaries (Notes 2 and 6)	**6,319,632**	2,608,897
Total Noncurrent Assets	**6,992,304**	3,336,481
TOTAL ASSETS	**₱7,403,900**	₱3,764,333
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	**₱3,600,884**	₱3,602,052
Income tax payable	–	784
	3,600,884	3,602,836
Noncurrent Liability		
Excess of share in net losses of a subsidiary over the investment in a subsidiary (Note 6)	–	5,129,735
Total Liabilities	**3,600,884**	8,732,571
Equity		
Capital stock - issued and subscribed (Notes 1 and 9)	**9,799,753**	9,799,753
Additional paid-in capital (Notes 1 and 9)	**3,010**	3,010
Deposit for future stock subscription (Note 6)	**12,907,210**	12,907,210
Other equity reserves (Note 6)	**2,321,583**	2,321,583
Other comprehensive loss (Notes 5 and 6)	**(1,446,652)**	(1,990,854)
Deficit (Notes 1 and 6)	**(19,781,863)**	(28,008,915)
Treasury stock - at cost (Note 9)	**(25)**	(25)
Total Equity (Capital Deficiency)	**3,803,016**	(4,968,238)
TOTAL LIABILITIES AND EQUITY	**₱7,403,900**	₱3,764,333

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31	
	2022	2021
INCOME		
Interest income (Note 7)	**₱93**	₱213
Other income	–	78,356
	93	78,569
EQUITY IN NET INCOME OF SUBSIDIARIES (Note 6)	**8,168,661**	60,359,406
	8,168,754	60,437,975
EXPENSES		
Salaries and directors' fees	**7,190**	6,715
Professional fees and other services	**3,660**	3,840
Rent (Note 7)	**732**	755
Provision for probable losses	**462**	492
Transportation and travel	**432**	319
Representation	**420**	315
Utilities	**357**	10
Filing fees	**296**	33,404
Meetings and conferences	**26**	17
Others	**800**	337
	14,375	46,204
INCOME BEFORE INCOME TAX	**8,154,379**	60,391,771
INCOME TAX EXPENSE - Current (Note 8)	**19**	826
NET INCOME	**8,154,360**	60,390,945
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Net changes in fair value of financial asset at FVTOCI (Note 5)	**(54,912)**	(205,920)
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Share in other comprehensive income (loss) of subsidiaries (Notes 2 and 6)	**457,850**	(5,250,802)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**402,938**	(5,456,722)
TOTAL COMPREHENSIVE INCOME	**₱8,557,298**	₱54,934,223
Basic/Diluted Earnings Per Share (Note 10)	**₱0.7023**	₱5.2012

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Thousands)

	Capital Stock (Notes 1 and 9)	Subscribed Capital Stock (Notes 1 and 9) Subscribed Capital Stock (Gross)	Subscription Receivable	Subtotal	Additional Paid-in Capital (Notes 1 and 9)	Deposit for Future Stock Subscription (Note 6)	Other Equity Reserve (Note 6)	Other Comprehensive Income (Notes 5 and 6)	Deficit (Notes 1 and 6)	Treasury Stock - At Cost (Note 9)	Total
BALANCES AT JANUARY 1, 2021	**₱10,524,253**	**₱1,086,750**	**(₱1,811,250)**	**(₱724,500)**	**₱3,010**	**₱–**	**₱1,404,245**	**₱3,488,102**	**(₱88,488,263)**	**(₱25)**	**(₱73,793,178)**
Net loss for the year	–	–	–	–	–	–	–	–	60,390,945	–	60,390,945
Other comprehensive loss for the year	–	–	–	–	–	–	–	(5,456,722)	–	–	(5,456,722)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	–	(5,456,722)	60,390,945	–	54,934,223
Deposit for future stock subscription (Note 9)	–	–	–	–	–	12,907,210	–	–	–	–	12,907,210
Effect of changes in ownership interest in a subsidiary (Note 6)	–	–	–	–	–	–	917,338	–	–	–	917,338
Share in transfer of portion of revaluation increment in property of subsidiary realized through sale and depreciation (Note 6)	–	–	–	–	–	–	–	(22,234)	88,403	–	66,169
BALANCES AT DECEMBER 31, 2021	**10,524,253**	**1,086,750**	**(1,811,250)**	**(724,500)**	**3,010**	**12,907,210**	**2,321,583**	(1,990,854)	**(28,008,915)**	**(25)**	**(4,968,238)**
Net income for the year	–	–	–	–	–	–	–	–	8,154,360	–	8,154,360
Other comprehensive income for the year	–	–	–	–	–	–	–	402,938	–	–	402,938
Total comprehensive income for the year	–	–	–	–	–	–	–	402,938	8,154,360	–	8,557,298
Share in transfer of portion of revaluation increment in property of subsidiary realized through sale and depreciation (Note 6)	–	–	–	–	–	–	–	141,264	72,692	–	213,956
BALANCES AT DECEMBER 31, 2022	**₱10,524,253**	**₱1,086,750**	**(₱1,811,250)**	**(₱724,500)**	**₱3,010**	**₱12,907,210**	**₱2,321,583**	**(₱1,446,652)**	**(₱19,781,863)**	**(₱25)**	**₱3,803,016**

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱8,154,379**	₱60,391,771
Adjustments for:		
Equity in net income of subsidiaries (Note 6)	**(8,168,661)**	(60,359,406)
Interest income (Note 7)	**(93)**	(213)
Provision for probable losses	**462**	492
Operating income (loss) before working capital changes	**(13,913)**	32,644
Decrease (increase) in other current assets	**57,568**	(59,215)
Increase (decrease) in accounts payable and accrued liabilities	**(1,171)**	469
Net cash from (used in) operations	**42,484**	(26,102)
Interest received	**93**	213
Income taxes paid	**(784)**	–
Final tax paid on interest income	**(19)**	(42)
Net cash from (used in) operating activities	**41,774**	(25,931)
CASH FLOWS USED IN AN INVESTING ACTIVITY		
Additional investment in a subsidiary (Note 6)	–	(12,907,210)
CASH FLOWS FROM A FINANCING ACTIVITY		
Receipt of deposit for future stock subscription (Note 7)	–	12,907,210
NET INCREASE (DECREASE) IN CASH	**41,774**	(25,931)
CASH AT BEGINNING OF YEAR	**50,086**	76,017
CASH AT END OF YEAR	**₱91,860**	₱50,086

See accompanying Notes to Parent Company Financial Statements.

1. **Corporate Information, Status of Operations and Authorization for Issuance of the Parent Company Financial Statements**

Corporate Information
PAL Holdings, Inc. (the Company or PHI) was incorporated in the Philippines on May 10, 1930. The Company's purpose is to engage in the business of a holding company. On October 5, 1979, the 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 Company is 76.92% owned by Trustmark Holdings Corporation (Trustmark) as of December 31, 2022 and 2021. Trustmark is 60% owned by Buona Sorte Holdings, Inc. (BSHI), the ultimate parent company, and 40% owned by Horizon Global Investments, Ltd. (HGIL). BSHI and Trustmark were incorporated in the Philippines and are part of the Lucio Tan Group of Companies (LTGC) while HGIL was incorporated in the British Virgin Islands.

The Company, through Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (APC), its major subsidiaries, is primarily engaged in air transport of passengers and cargo within the Philippines and between the Philippines and several international destinations. The Company owns 79.49% of PAL as of December 31, 2022 and 2021, respectively, and 82.33% of PR Holdings, Inc. (PR) and 51.00% of ZUMA, which in turn has 99.97% ownership interest in APC, as of December 31, 2022 and 2021. Trustmark, PHI, Zuma, PR, PAL and APC were likewise incorporated in the Philippines (collectively referred herein as PAL group).

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

Status of Operations
With the implementation of the financial restructuring of PAL Group as discussed below and the improvement of operations, the Company reported total comprehensive income of ₱8.56 billion and ₱54.93 billion for the years ended December 31, 2022 and 2021, respectively, which decreased the deficit to ₱19.78 billion and ₱28.00 billion as of December 31, 2022 and 2021, respectively. This resulted to equity amounting to ₱3.80 billion as of December 31, 2022 from a capital deficiency of ₱4.97 billion as of December 31, 2021. Further, the Company's excess of current liabilities over current assets amounted to ₱3.19 billion and ₱3.17 billion as of December 31, 2022 and 2021, respectively. Management plans to continuously implement key activities to further improve the operations in 2023.

Recovery Plan of PAL Group
In 2021 and 2020, the Coronavirus (COVID-19) outbreak and the measures taken by the Philippine and foreign governments have caused disruptions to the operations of PAL, APC and related companies in which the Company has significant investments in shares of stock. Consequently, the decline in revenue and cash inflows of PAL Group has put significant strain on PAL Group's liquidity position.

PAL Group addressed the conditions set out above with the immediate implementation of PAL Group recovery plan. In May 2020, the management of PAL presented to the BOD PAL's recovery plan that focuses on the following four key areas: (1) right-sized network fleet; (2) effective customer engagement; (3) cost containment; and (4) financial restructuring.

Chapter 11 Plan of Reorganization of Philippine Airlines, Inc. (the "Plan")
Due to PAL's difficulty in sourcing additional financing, on September 3, 2021, PAL proceeded with the filing of voluntary petition for relief under Chapter 11 (Chapter 11 Filing) of the US Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the US Court). The petition is for PAL to be authorized to continue to operate its business and manage its operations as a debtor-in-possession pursuant to Sections 1107 and 1108 of the US Bankruptcy Code and pursue confirmation of a pre-arranged plan of reorganization to effect the restructuring contemplated by various Restructuring Support Agreements (RSAs) with its lessors, creditors, and primary original equipment manufacturers (OEM) and maintenance, repair and overhaul service providers (MRO) (collectively the "Supporting Creditors"). The Chapter 11 Filing is part of PAL's overall plan to position itself for the post-pandemic environment. Apart from protection from the US Court, PAL's plan included resizing and reshaping its operations, permanent restructuring of its obligations and broad recapitalization.

On September 24, 2021, PAL filed with the Regional Trial Court, National Capital Judicial Region, Branch CXI (111), Pasay City, the local court, the petition seeking recognition of foreign proceedings in relation to the Chapter 11 Filing. On October 22, 2021, the local court granted PAL's petition and rendered judgment (i) recognizing the Chapter 11 Filing; and (ii) giving force and effect to the Chapter 11 Filing and all court orders issued by the US Court in connection with such foreign proceeding, among others.

On September 30, 2021, the US Court issued an order authorizing PAL to obtain post-petition financing consisting of an aggregate amount of $505.00 million (₱28.16 billion) comprising of a first lien secured Tranche A Debtor-in-Possession (DIP) Facility in an aggregate principal amount of $250.00 million (₱13.94 billion) from BSHI and a second lien secured Tranche B DIP Facility in an aggregate principal amount of $255.00 million (₱12.91 billion) from the Company. The Tranche A and B DIP Facility were fully drawn on October 6, 2021 and November 3, 2021, respectively. The proceeds from the Tranche A and B DIP Facility were used to meet PAL's obligations arising during the Chapter 11 Filing, including its administration, and as working capital to operate its business.

On December 17, 2021, the US Court confirmed its approval of PAL's Plan.

On December 31, 2021, PAL filed a Notice with the US Court of Effective Date and Entry Order (i) confirming the Debtor's Chapter 11 Plan of Reorganization and (ii) granting related relief before the US Court. The notice states that all conditions precedent to the Effective Date set forth in Section 9.2, Conditions Precedent to Effective Date, of the Plan have been satisfied or waived pursuant to Section 9.3, Waiver of Condition Precedent, of the Plan, such that the Plan was substantially consummated, and the Effective Date occurred, on December 31, 2021. As a result of PAL's Plan, certain lease agreements of PAL were terminated or modified, as applicable.

In accordance with the terms negotiated with the Supporting Creditors, through the RSAs and with the Company in relation to the Tranche B DIP Facility, PAL issued common shares to the Supporting Creditors and the Company to settle its general unsecured claims and Tranche B DIP Facility, respectively. The issuance of shares in 2021 to Supporting Creditors resulted to a reduction in the effective ownership of the Company in PAL from 98.92% ownership interest as of December 31, 2020 to 79.49% ownership interest as of December 31, 2021. Further, within 12 months from Effective Date of the Plan, PAL shall facilitate a swap of all shares issued to creditors under the debt-to-equity conversion with new shares of the Company.

Key Initiatives and Conditions to Support the Recovery Plan
Management recognizes that PAL Group's future viability will depend largely on the following initiatives to improve the Group's financial condition, operating performance, and cash flows:

- Payments of obligations under the restructured debts;
- Reinforcing PAL's market position as the Philippines' sole full-service airline with the largest international network;
- Restoring more routes and increasing flight frequencies;
- Building on code sharing and interline partnerships to complement the airline's current and future network;
- Expanding PAL's cargo business to tap more air cargo market opportunities;
- Offering great value fares and competitive promotional offers;
- Implementing continuous innovations to PAL's Mabuhay Miles frequent flyer program, including an expansion of membership rolls and enhancements to program terms and benefits;
- Accelerating digital transformation initiatives;
- Rolling out new product advancements as part of a commitment to continuously upgrade the overall customer travel experience;
- Upholding the strictest professional safety standards in all of PAL's operations; and
- Generating positive operating results and cash flows.

Authorization for Issuance of the Parent Company Financial Statements
The accompanying parent company financial statements as at December 31, 2022 and 2021 and for the years then ended were authorized for issue by the Company's BOD on March 31, 2023.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The parent company financial statements of the Company have been prepared using the historical cost convention, except for financial asset at FVTOCI which is carried at fair value. The parent company financial statements are presented in Philippine peso, the Company's functional and presentation currency. All amounts are rounded to the nearest thousands, except when otherwise indicated.

Statement of Compliance
The parent company financial statements have been prepared in accordance with Philippine Financial Reporting Standard (PFRSs).

The accompanying parent company financial statements are the Company's separate financial statements prepared in compliance with Philippine Accounting Standard (PAS) 27, *Separate Financial Statements*. These financial statements are prepared for submission to the Philippine SEC and Bureau of Internal Revenue (BIR). The Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements in accordance with PFRSs. These are filed with and may be obtained from the Philippine SEC or the Company's registered business address.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2022. The new accounting pronouncements do not have significant impact to the parent company financial statements, unless otherwise indicated:

- Amendments to PFRS 3, *Business Combinations*, *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 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 Interpretation International Financial Reporting Interpretations Committee (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.

- Amendments to Philippine Accounting Standard (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.

- 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.

- *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 in the parent's consolidated financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

- 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.

- 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.

New Accounting Standards and Amendments to Existing
Standards Effective Subsequent to December 31, 2022

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on the parent company financial statements. The Company intends to adopt these pronouncements when they become effective.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Presentation of Financial Statements* and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

  The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 12, *Income Taxes*, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

Effective beginning on or after January 1, 2024

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

  The amendments clarify:

  - That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right.
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- Amendments to PFRS 16, *Leases*, *Lease Liability in a Sale and Leaseback*

  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

  The Company is currently assessing the impact of these amendments.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures*, *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 and Sustainability Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the 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.

<u>Cash</u>
Cash includes cash on hand and in banks.

Fair Value Measurement

The Company measures financial instruments, such as financial assets at FVTOCI, 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 Company.

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

All assets and liabilities for which fair value is measured or disclosed in the parent company financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level 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 parent company financial statements on a recurring basis, the Company 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 Company 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 Company recognizes a financial asset or a financial liability in the parent company statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets, recognition and derecognition, 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 general trade receivables or for which the Company has applied the practical expedient, the Company's initial measurement of financial instruments, except for those classified as financial asset through profit or loss (FVTPL), includes transaction cost.

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

- FVTPL
- FVTOCI
- Financial assets measured at amortized cost

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

- The Company'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 Company 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 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 collectibility is within twelve months after the reporting period. Otherwise, these are classified as noncurrent assets.

The Company's cash in banks and cash equivalents and due from a related party 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 Company 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 Company elected to classify irrevocably its listed 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 Company's accounts payable and accrued liabilities 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 Company 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 Company determines the appropriate method of recognizing the "Day 1" difference amount.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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 Company 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; and
- the Company 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 Company 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 Company's continuing involvement in the asset.

If a transfer of financial asset does not result in derecognition since the Company has retained substantially all the risks and rewards of the ownership of the transferred asset, the Company 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 Company 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 Company 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).

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the parent company statement of financial position if there is a currently enforceable legal right to 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 Company 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 Company and all of the counterparties.

Investment in Shares of Stock of Subsidiaries
Subsidiary is an entity over which the Company has control. The Company controls an investee if and only if the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity and generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

The Company accounted its investment in subsidiaries in the parent company financial statements using the equity method. Under the equity method, the investment in subsidiaries are carried in the statement of financial position at cost plus post-acquisition changes in the Company's share in the net assets of the subsidiaries. The Company's share in the subsidiaries' post-acquisition profits or losses is recognized in the statement of comprehensive income, and its share in post-acquisition movements in the subsidiaries' equity reserves is recognized directly in other comprehensive income. When the Company's share in total comprehensive losses of the subsidiaries equals or exceeds its interest in the subsidiaries, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the subsidiaries, in which case a noncurrent liability is recognized as "Excess of share in net losses of a subsidiary over the investment in and advances to subsidiaries". Profits and losses resulting from transactions between the Company and the subsidiary are eliminated to the extent of the interest in the subsidiaries.

The carrying value of the investment in subsidiaries is reviewed at each reporting period for any indicators of impairment, which include (a) dividends declared by the subsidiary exceeds its total comprehensive income, (b) carrying amount of the net assets is more than its market capitalization, and (c) the carrying amount of the investment exceeds the Company's share in the net assets of the investee company.

If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash generating units 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 cash generating unit to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

Upon loss of control, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the subsidiaries upon loss of control and the fair value of the retained investment and proceeds from disposal is recognized either in profit or loss in the statement of comprehensive income. The Company reclassifies its share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

Common Control Business Combinations
Where there are business combinations involving entities that are ultimately controlled by the same ultimate parent or the same stockholder before and after the business combination and that the control is not transitory ("business combinations under common control"), the Company accounts such business combinations in the parent company financial statements consistent to the guidance provided by the Philippine Interpretations Committee (PIC) Q&A No. 2011-02, PFRS 3.2 *Common Control Business Combinations*. The acquisition method of accounting is used, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered. In cases where the transaction has no commercial substance, the business combination is accounted for using pooling of interest method.

In applying the pooling of interest method, the Company apply equity accounting in the parent company financial statements consistent with guidance under the PIC Q&A No. 2012-01, PFRS 3.2 - *Application of the Pooling of Interest Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, as follows:

- The share in net assets of the acquired subsidiaries are reflected in the parent company financial statements at their carrying amounts. No adjustments are made in the investments in shares of stock of subsidiaries account to reflect the fair values of the net assets of the subsidiaries at the date of acquisition. The only adjustments that are made are those adjustments to harmonize accounting policies.

- No new goodwill will be included in the cost of the investments in shares of stock of subsidiaries as a result of the acquisition. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as other equity reserve, i.e., either contribution or distribution of equity.
- The parent company statement of comprehensive income reflects the Company's equity in the profit or loss and share in other comprehensive income of the acquired subsidiaries for the full year, irrespective of when the combination took place.

As a policy, comparatives are retroactively adjusted using the equity method as if the entities had always been subsidiaries of the Company.

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. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Deficit represents the cumulative balance of current and prior period net income or loss, net of any dividend declaration.

Deposit for Future Stock Subscription
Deposit for future stock subscription generally represent funds received by the Parent Company 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 Parent Company classifies deposit for future stock subscription 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 the Parent Company);
- 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.

Treasury Stock
Where the 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 Company's equity holders.

Dividend Income
Dividend income on financial asset at FVTOCI is recognized when the Company's right to receive the payment is established.

Interest Income
Interest income is recognized as the interest accrues, taking into consideration the asset's effective yield.

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

Other Comprehensive Income
Other comprehensive income comprises items of income and expense that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income of the Company includes unrealized gains and losses on remeasuring the Company's financial asset at FVTOCI and accumulated share in other comprehensive income of a subsidiary.

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 and associates. With respect to investments with other subsidiaries and associates, 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 other comprehensive income 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.

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 Company has no dilutive potential common shares.

Provisions and Contingencies

Provisions are recognized when (a) the Company 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 Company expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a 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 parent company statement of financial position. They are disclosed in the notes to parent company financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the parent company statement of financial position but disclosed in the notes to parent company financial statements when an inflow of economic benefits is probable. If it is virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the parent company financial statements.

Events After the Reporting Date

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

3. Summary of Significant Accounting Judgments and Estimates

The preparation of the parent company financial statements in accordance with PFRSs requires the Company's management to make judgments and estimates that affect the amounts reported in the parent company financial statements. These judgments and estimates are based on management's evaluation of relevant facts and circumstances as of the date of the comparative parent company financial statements. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the parent company financial statements as they become reasonably determinable. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the parent company financial statements.

Use of going concern assumption
The use of the going concern assumption involves management making judgments, at a particular point in time, about the future outcome of events or conditions that are inherently uncertain. The underlying assumption in the preparation of the parent company financial statements is that the Company and its subsidiaries have neither the intention nor the need to liquidate. Management takes into account a whole range of factors and assumptions which include, but are not limited to, positive projected operating cash flows because of the recovery in the travel industry, among others (see Note 2).

Determination of functional currency
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency is determined to be the Philippine peso. It is the currency of the primary economic environment in which the Company operates. The functional currency of PAL is the US Dollar (USD) while PR and ZUMA is the Philippine peso.

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

Impairment of investments in shares of stock of subsidiaries
The Company determines whether its investments in shares of stock of subsidiaries are impaired, when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investments in shares of stock of subsidiaries are written down to their recoverable amounts.

The recoverable amount is the greater of fair value less costs to sell and value-in-use. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the investments and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The Company estimated the recoverable amount of its investments in shares of stock of subsidiaries through value-in-use. In discounting, the Company used the applicable discount rate specific to these subsidiaries. Other assumptions used in projecting the future cash flows include passenger load factor, passenger yield, fuel-surcharge rate and fuel costs, among others. The carrying value of investments in shares of stock of subsidiaries amounted to ₱6.32 billion and ₱2.61 billion while the excess of share in net losses of a subsidiary over the investment in a subsidiary amounted to nil and ₱5.13 billion as of December 31, 2022 and 2021, respectively (see Note 6).

Provision for probable losses
The Company estimates the level of provision for probable losses on input value-added tax (VAT) based on past experience and the probability that the input VAT may be used in the future, taking into consideration the prescription period within which the Company can apply for a tax refund or tax credit.

The carrying value of the input VAT (included under "Other current assets") amounted to ₱0.70 million and ₱0.86 million as of December 31, 2022 and 2021, net of the allowance for probable losses of ₱10.19 million and ₱9.73 million, respectively. Provision for probable losses amounted to ₱0.46 million in 2022 and ₱0.49 million in 2021.

Recognition of deferred income tax assets
The Company assesses at the end of each reporting period and recognizes deferred income tax assets to the extent of probable future taxable profits that will allow the deferred income tax assets to be utilized. Management uses judgment and estimates in assessing the probability and level of future taxable profit. No deferred income tax assets were recognized as of December 31, 2022 and 2021 as management believes that the Company may not have sufficient future taxable profits to allow all or part of the deferred income tax assets to be utilized in the future (see Note 8).

4. Segment Information

The Company has one reportable segment, which is the airline business (the primary business of its subsidiaries). This is consistent with how the Company'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 revenue of the operating segment is mainly derived from rendering transportation services and is made to external customers. No revenue transaction with a single customer amount to more than 10% of total revenue.

Segment information for the airline business is shown in the following tables.

	2022		
	Airline Business	**Adjustments and eliminations**	**Parent Company Financial Statement**
Revenue	**₱143,233,940**	**(₱143,233,940)**	**₱–**
Interest income	**522,387**	**(522,294)**	**93**
Financing charges	**7,337,479**	**(7,337,479)**	**–**
Depreciation, amortization and obsolescence	**12,657,469**	**(12,657,469)**	**–**
Equity in net income of subsidiaries	**–**	**8,168,661**	**8,168,661**
Net income	**10,450,705**	**(2,296,345)**	**8,154,360**
Reportable segment assets	**207,834,179**	**(200,430,279)**	**7,403,900**
Reportable segment liabilities	**192,941,515**	**(189,340,631)**	**3,600,884**

	2021		
	Airline Business	Adjustments and eliminations	Parent Company Financial Statement
Revenue	₱58,700,711	(₱58,700,711)	₱–
Interest income	238,893	238,680	213
Financing charges	12,534,898	(12,534,898)	–
Depreciation, amortization and obsolescence	16,702,589	(16,702,589)	–

(Forward)

	2021		
	Airline Business	Adjustments and eliminations	Parent Company Financial Statement
Equity in net income of subsidiaries	₱–	₱60,359,406	₱60,359,406
Net income	61,864,255	(1,473,310)	60,390,945
Reportable segment assets	195,337,537	(191,573,204)	3,764,333
Reportable segment liabilities	191,765,874	(183,033,303)	8,732,571

5. Financial Asset at FVTOCI

Financial asset at FVTOCI as of December 31, 2022 and 2021 represents the 7.10% investment in shares of stock of MAC carried at fair value of ₱0.67 billion and ₱0.73 billion, respectively. The carrying amount includes the net cumulative gain as of December 31, 2022 and 2021 of ₱0.50 billion and ₱0.55 billion, respectively, and is included in "Other comprehensive loss" in the parent company statements of changes in equity. Net changes in fair value of financial asset at FVTOCI amounted to ₱54.91 million and ₱205.92 million for the years ended December 31, 2022 and 2021, respectively, which is recognized as other comprehensive loss in the parent company statements of comprehensive income.

The roll forward of net changes in fair value of equity investment during the years ended December 31 follows:

	2022	2021
Beginning	**₱551,584**	₱757,504
Fair value changes during the year recognized in other comprehensive loss	**(54,912)**	(205,920)
Ending	**₱496,672**	₱551,584

The shares of stock of MAC are listed and traded at the Philippine Stock Exchange (PSE). Fair values of these shares approximate their quoted prices that are readily and regularly available in the PSE website. Those prices are indicative of actual and regularly occurring market transactions on an arm's length basis.

6. Investments in Shares of Stock of Subsidiaries and Excess of Share in Net Losses of a Subsidiary over the Investment in a Subsidiary

As of December 31, 2022 and 2021, the investments in shares of stock of subsidiaries, which are all domiciled and incorporated in the Philippines, consist of the following:

	2022		2021	
	% of effective interest	**Amount**	% of effective interest	Amount
Investment in shares of stock of:				
PAL	**79.49**	**₱3,771,184**	79.49	₱–
PR	**82.33**	**108,235**	82.33	108,234
ZUMA	**51.00**	**2,440,213**	51.00	2,500,663
Total		**₱6,319,632**		₱2,608,897
Excess of share in net losses of a subsidiary over the investment in PAL*	**79.49**	**₱–**	79.49	(₱5,129,735)

** PR owns 0.003% PAL shares as of December 31, 2022 and 2021, giving the Company 0.002% indirect ownership in PAL, respectively.*

From 2017 to 2019, there were changes in the ownership interest of PAL in FSL, from 40% to 65%. The Group recognized ₱1.35 billion in equity under "Other equity reserves" as a result of the change in ownership interest, which pertains to the excess of the consideration received over net assets disposed.

As disclosed in Note 1, in accordance with the Chapter 11 Plan and the RSAs, the Company and PAL executed the Debtor-In-Possession Credit Agreement for the Tranche B DIP Facility (the DIP B Facility Agreement) on various dates in 2021 amounting to $255.00 million (₱12.91 billion). On December 31, 2021, upon the effectivity of the Plan, PAL exercised its option under the RSA to convert the entire balance of the Tranche B DIP Facility into equity by issuing common shares to the Company. PAL also issued its common shares to Supporting Creditors to settle its general unsecured claims liabilities. Consequently, the Company's effective ownership interest in PAL was reduced to 79.49% as of December 31, 2022 and 2021.

As a result of the additional investment and change in ownership interest in PAL, the Company recognized the difference between the consideration paid and the equity acquired as other equity reserves amounting to ₱917.34 million.

Details of the investments in shares of stock of subsidiaries are as follows:

<u>Investment in PAL</u>
The Company equity-accounts its investment in PAL using 79.49% effective ownership interest as of December 31, 2022 and 2021, respectively. Details of investment in PAL are as follows:

	2022	2021
Acquisition cost at beginning and end of year	**₱43,049,946**	₱30,142,736
Additional investment	–	12,907,210
	43,049,946	43,049,946
Accumulated equity in net losses:		
Balance at beginning of year	**(44,014,537)**	(104,452,532)
Equity in net income for the year	**8,208,257**	60,349,592
Share in transfer of portion of revaluation increment in property of subsidiary realized through sale and depreciation	**72,692**	88,403
Balance at end of year	**(35,733,586)**	(44,014,537)
Accumulated share in other comprehensive income:		
Balance at beginning of year	**(2,611,771)**	2,685,439
Share in other comprehensive income (loss) for the year	**478,703**	(5,274,975)
Share in transfer of portion of revaluation increment in property of subsidiary realized through sale and depreciation	**141,264**	(22,235)
Balance at end of year	**(1,991,804)**	(2,611,771)
Share in other equity reserves	**1,404,245**	1,404,245
Excess of cost over net assets acquired	**(2,957,617)**	(2,957,617)
	₱3,771,184	(₱5,129,734)

As of December 31, 2021, the excess of share in net losses over the investment in PAL amounting to ₱5.1 billion are classified as part of noncurrent liability in the parent company statements of financial position.

The following are the summarized financial information of PAL based on its consolidated financial statements, translated in Philippine Peso, as of and for the years ended December 31:

	2022	2021
Current assets	**₱74,236,779**	₱60,563,819
Noncurrent assets	**133,597,399**	134,773,718
Current liabilities	**82,667,660**	69,971,181
Noncurrent liabilities	**110,273,856**	121,794,693
Equity	**1,396,330**	3,571,663
Revenue	**115,092,778**	60,231,167
Net income	**10,450,705**	61,864,254
Total comprehensive income	**11,311,736**	57,902,444

Investment in PR

Details of the investment in PR are as follows:

	2022	2021
Acquisition cost at beginning and end of year	**₱108,657**	₱108,657
Accumulated share in net losses:		
Balance at beginning of year	**(7,349,666)**	(7,349,669)
Equity in net income for the year	**1**	3
Balance at end of year	**(7,349,665)**	(7,349,666)
Excess of net asset acquired over cost	**7,349,243**	7,349,243
	₱108,235	₱108,234

Total assets, liabilities and equity of PR amounted to ₱133.2 million, ₱1.8 million and ₱131.4 million as of December 31, 2022 and ₱133.27 million, ₱1.81 million and ₱131.46 million as of December 31, 2021, respectively. In 2022 and 2021, PR earned net income of ₱2 and ₱4, respectively.

Investment in ZUMA

Details of the investment in ZUMA are as follows:

	2022	2021
Acquisition cost at beginning and end of year	**₱7,802,295**	₱7,802,295
Accumulated share in net losses:		
Balance at beginning of year	**(5,596,599)**	(5,606,410)
Equity in net income (loss) for the year	**(39,597)**	9,811
Balance at end of year	**(5,636,196)**	(5,596,599)
Accumulated share in other comprehensive income:		
Balance at beginning of year	**69,331**	45,157
Share in other comprehensive income (loss) for the year	**(20,853)**	24,174
Balance at end of year	**48,478**	69,331
Excess of net asset acquired over cost	**225,636**	225,636
	₱2,440,213	₱2,500,663

The following are the summarized financial information of ZUMA as of and for the years ended December 31:

	2022	2021
Current assets	**₱527**	₱542
Noncurrent assets	**1,434,971**	1,555,182
Current liabilities	**63,042**	63,103
Equity	**1,372,456**	1,492,621
Revenue	**79,852**	67,635
Net income	**79,914**	67,546
Total comprehensive income	**120,803**	114,917

7. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Company, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form. Outstanding balances of accounts with related parties at year-end are unsecured, payable on demand and are settled in cash unless otherwise stated.

	Volume of transactions		Outstanding balance		
	2022	2021	**2022**	2021	**Terms and Conditions**
Ultimate Parent					
Deposit for future stock subscription	**₱–**	₱12,907,210	**₱–**	₱12,907,210	Unsecured, convertible to capital stock
Parent Company					
Due from a related party	**–**	–	**318,000**	318,000	Unsecured, non-interest bearing, no fixed maturity date
Tranche B Facility	**–**	12,907,210	**–**	–	Secured, converted to investment in PAL
Subsidiary					
Accounts payable and accrued liabilities	**–**	–	**3,600,000**	3,600,000	Unsecured, non-interest bearing, no fixed maturity date
Entities under common control					
Deposit, including interest income and receivable	**41,174**	–	**91,850**	50,076	Unsecured, interest earning
Lease	**432**	319	**–**	–	Payable on or before the 5th day of each month

a. In 2021, BSHI provided cash to the Company as deposit for future stock subscription, which is presented as equity in the parent company statement of financial position since the Company has already filed its application for the proposed increase in authorized capital stock with Philippine SEC. The deposit for future stock subscription will be reclassified to the Company’s capital stock and additional paid-in capital upon approval by the Philippine SEC on the proposed increase in authorized capital stock. The proceeds from the deposit for future stock subscription were used by the Company to fund the Tranche B Facility that was provided to PAL.

b. PAL exercised its option to convert the entire balance of the Tranche B Facility into its equity by issuing common shares to the Company. Consequently, the Company's investment in PAL increased by ₱12.91 billion.

c. On February 26, 2018, the Company authorized the grant of up to ₱318.00 million loan to Trustmark. The amount remained outstanding as of December 31, 2022 and 2021 and is presented as "Due from a related party" in the parent company statements of financial position.

d. On March 26, 2018, PAL assigned its trade receivables from APC amounting to ₱3.60 billion to the Company. Accordingly, the Company initially recognized a liability to PAL amounting to ₱3.60 billion and a receivable from APC of the same amount. The Company reassigned the receivable from APC to ZUMA, which was then converted by the Company to investment in ZUMA. The outstanding liability to PAL is presented as part of "Accounts payable and accrued liabilities" in the parent company statements of financial position as of December 31, 2022 and 2021.

e. As of December 31, 2022 and 2021, the Company has outstanding Philippine peso current and savings deposits totaling ₱91.85 million and ₱50.08 million, respectively, which bear interest at prevailing market rates and has stock transfer agency arrangement with an entity under common control. The interest income earned from these accounts amounted to ₱0.09 million in 2022 and ₱0.21 million in 2021.

f. As of December 31, 2022 and 2021, the Company owns 114.40 million common shares of MAC representing 7.10% ownership. Certain members of the Company's BOD are also officers and members of the BOD of MAC. There were no dividend income received from this investment for the year ended December 31, 2022 and 2021.

g. The Company leases space from an entity under common control. The latter bills the Company at a monthly rate of ₱0.06 million in 2022 and 2021. Rent expense amounted to ₱0.73 million and ₱0.76 million in 2022 and 2021, respectively.

h. Compensation of key management personnel amounted to ₱2.71 million in 2022 and ₱2.68 million in 2021.

8. **Income Tax**

a. The Company's current income tax expense in 2022 represents final tax on interest income amounting to ₱19. The Company's current income tax expense in 2021 represents MCIT and final tax on interest income amounting to ₱784 and ₱42, respectively.

b. As of December 31, 2022 and 2021, the Company did not recognize deferred income tax assets on carryforward benefits of NOLCO amounting to ₱13.58 million and ₱10.92 million and on provision for probable loss amounting to ₱10.19 million and ₱9.73 million, respectively, as management believes that the Company may not have sufficient future taxable profits to allow all or part of the deferred income tax assets to be utilized in the future.

As of December 31, 2022, the Company's NOLCO that are available for deduction against future taxable income are as follows:

Year incurred	Amount	Applied in 2021	Expired	Balance	Available until
December 31, 2022	₱13,583	₱–	₱–	₱13,583	December 31, 2027
December 31, 2020	12,593	(1,669)	–	10,924	December 31, 2025
December 31, 2019	11,083	(11,083)	–	–	December 31, 2022
December 31, 2018	20,177	(20,177)	–	–	December 31, 2021
	₱57,436	(₱32,929)	₱–	₱24,507	

As of December 31, 2021, the Company's excess MCIT over RCIT that are available for deduction against income tax due until 2024 amounted to ₱784.

c. The reconciliation of the statutory provision for income tax computed at the statutory income tax rate to provision for income tax shown in profit or loss:

	2022	2021
Provision for income tax at statutory rate	**₱2,038,595**	₱15,097,943
Adjustments for:		
Equity in net income of subsidiaries	**(2,042,165)**	(15,089,852)
Movement in deductible temporary difference and NOLCO for which no deferred tax assets were recognized	**3,489**	(7,333)
Nondeductible expenses	**105**	79
Interest income subjected to final tax	**(5)**	(11)
Provision for income tax	**₱19**	₱826

9. **Equity**

The Company's capital stock as of December 31, 2022 and 2021 consists of:

	No. of Shares	Amount
Authorized (₱1 par value)	13,500,000,000	₱13,500,000
Issued and subscribed	11,611,003,257	₱9,799,753
Treasury stock	(25,015)	(25)
	11,610,978,242	₱9,799,728

a. Issued and outstanding shares are held by 6,854 and 6,855 equity holders as of December 31, 2022 and 2021, respectively.

b. The Company has 25,015 treasury shares amounting to ₱25.00 as of December 31, 2022 and 2021. Future earnings are restricted from dividend declaration to the extent of the cost of these treasury shares.

c. The Company's track record of registration of securities under the Revised Securities Regulation Code is as follows:

Date of approval	Number of Shares Licensed	Issue/Offer Price
August 2, 1930	18,000	₱100.00
August 2, 1930	2,000,000	0.10
January 6, 1951	7,000,500	0.10
December 4, 1957	30,000,000	0.10
March 25, 1970	200,000,000	0.10
April 14, 1975	5,000,000,000	0.01
March 7, 1977	12,500,000,000	0.01

In 1996, the Philippine SEC approved the decrease in authorized capital stock from 20 billion shares to 200 million shares while the par value was increased from ₱0.01 per share to ₱1.00 per share. In 2000, the Philippine SEC approved the increase in the authorized capital stock from 200 million shares to 400 million shares with ₱1.00 par value per share. Further, as discussed in Note 1, the authorized capital stock was again increased from 400 million shares to 20 billion shares in 2007.

The Company's BOD and stockholders approved the increase in the Company's authorized capital stock from ₱20.00 billion divided into 20.00 million shares at ₱1.00 par value per share to ₱23.00 billion divided into 23.00 billion shares at ₱1.00 par value per share in separate meetings held on June 26, 2012 and September 28, 2012, respectively. The increase in authorized capital stock and the amended Articles of Incorporation were approved by the Philippine SEC on December 12, 2012. The Company incurred filing fees of ₱6.09 million and DST of ₱85.00 million on the issuance of shares, which were recognized as a reduction from additional paid-in capital.

d. In fiscal year 2013, Trustmark subscribed to 17.00 billion shares at ₱1.00 per share amounting to ₱17.00 billion, of which 14.58 billion shares were issued out of the unissued capital stock of the Company, and the balance of 2.42 billion shares were issued out of the increase in the authorized capital stock.

e. On February 4 and March 15, 2013, the stockholders approved the increase in the Company's authorized capital stock from ₱23.00 billion divided into 23.00 billion shares at ₱1.00 par value per share to ₱30.00 billion divided into 30.00 billion shares at ₱1.00 par value per share and the amendment of its Articles of Incorporation to reflect the aforementioned increase. The Company's application for the increase in authorized capital stock was approved by the Philippine SEC on June 28, 2013. Out of the increase in capital stock, 2.42 billion shares were subscribed, of which, 603.75 million shares have been fully paid for. The Company incurred filing fees of ₱14.14 million and DST of ₱12.08 million on the issuance of shares, which were recognized as a reduction from additional paid-in capital.

f. On September 26, 2016, the Company's BOD approved and authorized the acquisition, in a share swap transaction, of PAL shares from 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 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. The Company incurred filing fees of ₱1.25 million and DST of ₱1.06 million on the issuance of shares, which were recognized as a reduction from additional paid-in capital.

g. On November 28, 2016, the Company's BOD also approved the acquisition, through share swap transaction, of the shares of Zuma Holdings Management Corporation (ZUMA) from its 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 from its existing shareholders. The Company issued 840.46 million new shares from its authorized but unissued capital stock valued at ₱5.00 per share in favor of Cosmic Holdings Corporation. Accordingly, as of December 31, 2021 and 2020, the Company owns 51% of ZUMA.

   The Company also incurred filing fees of ₱8.49 million and DST of ₱4.37 million on the issuance of shares, which were recognized as a reduction from additional paid-in capital in 2017.

h. On March 28 and May 25, 2017, the BOD, by majority vote of the Board of Directors and by the vote of the stockholders owning or representing at least 2/3 of the outstanding capital stock of the 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.

i. On August 23, 2018, the Philippine SEC approved the Company's equity restructuring to partially wipe out the Company's deficit amounting to ₱29.07 billion as of December 31, 2017 against the APIC of ₱25.34 billion.

j. In February 2019, ANA Holdings, Inc. (ANA HO), the parent company of All Nippon Airways (ANA), acquired 1,103,042,933 shares held by Trustmark in PHI equivalent to 9.5% of the current outstanding shares of PHI. As a result of this transaction, Trustmark's ownership in the Company decreased from 86.42% to 76.92%.

k. On March 25 and May 30, 2019, the BOD, by majority vote of the BOD, and the stockholders, owning or representing at least 2/3 of the outstanding capital stock of the Company, respectively, approved the increase in authorized capital stock of the Company from 13.50 billion common shares with par value of ₱1.00 per share to 20.00 billion common shares with par value of ₱1.00 per share.

l. On September 27 and November 25, 2021, 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 Company, respectively, approved the increase in authorized capital stock from ₱13.50 billion divided into 13.50 billion common shares with par value of ₱1.00 per share to ₱30.00 billion divided into 30.00 billion common shares with a par value of ₱1.00 per share. On December 29, 2021, the Company submitted to the Philippine SEC its application for increase in authorized capital stock. As of March 31, 2023, the approval of the application remains outstanding.

   Relative to the said increase in authorized capital stock, the Company received $75.00 million (₱4.18 billion) and $25.00 million (₱1.39 billion) on October 6 and 8, 2021, respectively, and $65.00 million (₱3.62 billion) and ₱4.47 billion on November 2, 2021, as deposits from BSHI. As of December 31, 2021, the deposits received from BSHI to be used for subscription of capital stock of the Company totaling ₱12.91 billion are presented as "Deposits for future stock subscriptions" under equity.

m. In accordance with the Chapter 11 Plan of PAL, on December 31, 2021, PAL issued shares to the Company and Supporting Creditors to settle the Tranche B DIP Facility and the general unsecured claims liabilities, respectively. Consequently, the Company's effective ownership in PAL was reduced to 79.49% as of December 31,2022 and 2021, from 98.92% as of December 31, 2020 (see Note 1).

10. Earnings per Share

Basic and diluted earnings per share are computed as follows:

	2022	2021
	(In Thousands, Except Number of Shares and per Share Amounts)	
Net income	**₱8,154,360**	₱60,390,945
Weighted average number of shares outstanding	**11,610,978,242**	11,610,978,242
Basic/diluted earnings per share	**₱0.7023**	₱5.2012

The Company does not have potentially dilutive common stock equivalents.

11. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash, financial asset at FVTOCI, due from a related party, accounts payable and accrued liabilities. The main purpose of these financial instruments is to ensure adequate funds for the Company's operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Management closely monitors the funds and financial transactions of the Company. Funds are normally deposited with affiliated banks, and financial transactions are normally dealt with related parties. These strategies, to an extent, mitigate the Company's credit and liquidity risks.

The main risks arising from the Company's financial instruments are equity price risk, credit and concentration risk and liquidity risk. The BOD reviews and approves the policies for managing these risks and they are summarized as follows:

Equity price risk
Equity price risk is the risk that the fair values of equity securities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The prices of these investments are monitored based on their current fair value.

Before taking into account the effect of taxes, equity as of December 31, 2022 and 2021 would either decrease or increase by ₱64.54 million and ₱44.64 million, respectively, had the indices changed by (14%) and (39%) as of December 31, 2022 and 2021, respectively. The impact on the Company's equity already excludes the impact of transactions affecting profit or loss.

Credit and concentration risk
With respect to credit risk arising from the Company's cash in bank, the Company's exposure to credit risk arises from the default of the counterparty. The maximum credit exposure on these assets is equal to the carrying values, which also approximate their respective fair values at reporting dates.

The Company classifies as "high grade" its cash in bank totaling to ₱91.86 million and ₱50.09 million as of December 31, 2022 and 2021, respectively. The Company has no past due or impaired financial assets as of December 31, 2022 and 2021. Financial instruments classified as "high grade" are those transacted with reputable local banks and investments in companies with good financial condition.

As of December 31, 2022 and 2021, the Company's cash excluding cash on hand is deposited in one bank and the Company's financial asset at FVTOCI pertains to one affiliate (see Note 7).

Liquidity risk
Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Company's objective is to maintain a balance between continuity of funding and flexibility through availment of cash advances from related parties.

The Company's financial liabilities amounting to ₱0.9 million and ₱2.05 million as of December 31, 2022 and 2021, respectively, are short-term in nature and are due to be settled currently.

Financial liability as of December 31, 2022 and 2021 amounted to ₱3.6 billion, which mainly pertains to the amount due to a related party and has no fixed maturity date. For accounts payable and accrued expenses, management expects to settle these from the Company's cash generated from operations.

12. **Financial Instruments**

Fair Values and Categories of Financial Instruments
The estimated fair value of each class of all of the Company's financial instruments is equal to their carrying amounts.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash in bank and accounts payable and accrued liabilities. The carrying amounts of these financial instruments approximate fair value due to their short-term settlement period.

Financial asset at FVTOCI. The fair value is based on quoted market price in an active market (Level 1).

Due from and due to a related party. Due to the unpredictability of timing of payment, fair value of amounts due from and due to a related party cannot be reasonably estimated.

Fair Value Hierarchy
As of December 31, 2022 and 2021, the fair value of the Company's financial asset at FVTOCI is classified under Level 1 of the fair value hierarchy. There are no financial assets or liabilities classified under Level 2 or 3.

There were no transfers between different hierarchy levels in 2022 and 2021.

13. **Supplementary Information Required Under Revenue Regulations No. 15-2010**

In compliance with Revenue Regulations No. 15-2010 issued on November 25, 2010, mandating all taxpayers to disclose information on taxes and license fees paid and accrued during the taxable year, summarized below, in absolute amounts, are the taxes paid and/or accrued by the Company for the year ended December 31, 2022.

a. Movements in input VAT are as follows:

Balance at December 31, 2021	₱10,566,032
Current year purchases of goods other than for resale /manufacture	–
Current year payments for services	696,330
Balance at December 31, 2022	₱11,262,362

b. The Company's taxes and license fees for the year pertain to taxes paid for BIR registration fee and business permits amounting to ₱11,198, which were included in the "Others" account in the parent company statements of comprehensive income.

c. The amount of withholding taxes paid/accrued for the year amounted to:

Withholding taxes on compensation and benefits	₱449,250
Expanded withholding taxes	494,560
Final withholding taxes	268,750
	₱1,212,560

d. The Company has no final and executory tax assessments or tax cases as of December 31, 2022. There are no pending tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.

SGV
Building a better
working world

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**INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY SCHEDULE
OF RETAINED EARNINGSAVAILABLE
FOR DIVIDEND DECLARATION**

The Stockholders and the Board of Directors
PAL Holdings, Inc.
8F PNB Financial Center
Pres. Diosdado Macapagal Ave.
CCP Complex, Pasay City

We have audited, in accordance with Philippine Standards on Auditing, the parent company financial statements of PAL Holdings, Inc. (the Company) as at December 31, 2022 and 2021 and for the years then ended and have issued our report thereon dated March 31, 2023. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management. The schedule is presented for purposes of complying with Revised Securities Regulation Code Rule 68, and is not part of the basic financial statements. This has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Albert R. Bon

Albert R. Bon
Partner
CPA Certificate No. 0121479
Tax Identification No. 255-491-830
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 121479-SEC (Group A)
Valid to cover audit of 2019 to 2023 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-135-2023, January 25, 2023, valid until January 24, 2026
PTR No. 9369785, January 3, 2023, Makati City

March 31, 2023

PAL HOLDINGS, INC.

(A Subsidiary of Trustmark Holdings Corporation)

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2022

(Amounts in Thousands)

Deficit, as adjusted to available for dividend distribution, beginning	(₱88,021)
Add net income actually earned during the year:	
Net income for the year	8,154,360
Less equity in net income of subsidiaries	(8,168,661)
Net loss actually incurred for the year	(14,301)
Deficit, as adjusted to available for dividend distribution, ending	(₱102,322)