6 Property and equipment, net

Details of property and equipment, net are as follows:

	Leasehold improvements	Motor vehicles	Office furniture and equipment	Aircraft support machinery and equipment	Right-of-use (ROU) assets (Note 15)	Total
At January 1, 2022						
Cost	109,878,490	65,169,589	108,649,840	869,960,685	18,554,731,671	19,708,390,275
Accumulated depreciation, amortization and impairment	(66,498,702)	(56,413,910)	(83,901,519)	(511,376,040)	(10,840,789,590)	(11,558,979,761)
Net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
For the year ended December 31, 2022						
Opening net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
Additions	26,412,942	-	4,071,277	90,231,163	829,294,580	950,009,962
Lease modification	-	-	-	-	(239,745,449)	(239,745,449)
Retirement/disposal						
Cost	(2,212,848)	-	-	(25,939)	-	(2,238,787)
Accumulated depreciation, amortization and impairment	-	-	-	-	-	-
Reversal of impairment	-	-	-	-	963,100,000	963,100,000
Depreciation and amortization	(43,419,934)	(7,326,490)	(13,179,545)	(111,824,977)	(2,184,699,910)	(2,360,450,856)
Closing net carrying value	24,159,948	1,429,189	15,640,053	336,964,892	7,081,891,302	7,460,085,384
At December 31, 2022						
Cost	134,078,584	65,169,589	112,721,117	960,165,909	19,144,280,802	20,416,416,001
Accumulated depreciation and amortization	(109,918,636)	(63,740,400)	(97,081,064)	(623,201,017)	(12,062,389,500)	(12,956,330,617)
Net carrying value	24,159,948	1,429,189	15,640,053	336,964,892	7,081,891,302	7,460,085,384
For the year ended December 31, 2023						
Opening net carrying value	24,159,948	1,429,189	15,640,053	336,964,892	7,081,891,302	7,460,085,384
Additions	10,958,834	1,023,214	11,344,018	78,433,860	6,052,822,762	6,154,582,688
Lease modification	-	-	-	-	1,402,105,298	1,402,105,298
Retirement/disposal						
Cost	-	-	(80,000)	(47,150,015)	(6,535,932,575)	(6,583,162,590)
Accumulated depreciation and amortization	-	-	8,329	26,124,998	3,951,719,163	3,977,852,490
Depreciation and amortization	(11,419,727)	(1,534,556)	(9,799,936)	(103,278,468)	(2,116,092,600)	(2,242,125,287)
Closing net carrying value	23,699,055	917,847	17,112,464	291,095,267	9,836,513,350	10,169,337,983
At December 31, 2023						
Cost	145,037,418	66,192,803	123,985,135	991,449,754	20,063,276,287	21,389,941,397
Accumulated depreciation and amortization	(121,338,363)	(65,274,956)	(106,872,671)	(700,354,487)	(10,226,762,937)	(11,220,603,414)
Net carrying value	23,699,055	917,847	17,112,464	291,095,267	9,836,513,350	10,169,337,983

Acquisitions of property and equipment as shown in the statements of cash flows for the year ended December 31 were determined as follows:

	Note	2023	2022
Beginning unpaid portion of property and equipment		24,605,541	121,626,445
Acquisitions of property and equipment, excluding ROU assets		101,759,926	120,715,382
Unpaid portion of property and equipment	8	(69,012,476)	(24,605,541)
Paid acquisitions of property and equipment per statements of cash flows		57,352,991	217,372,286

During the year ended December 31, 2023, the Company disposed certain property and equipment for a total consideration of P21,028,016 million (2022 - nil) resulting to loss on disposal amounting to P68,672 (2022 - P2.24 million) (Note 13).

Depreciation and amortization expense charged to profit or loss for the years ended December 31 are as follows:

	Notes	2023	2022
Cost of services	11	2,219,371,068	2,296,524,887
Operating expenses	12	22,754,219	63,925,969
		2,242,125,287	2,360,450,856

Movements in ROU assets for the years ended December 31 follows:

	Aircraft	Engine	Total
At January 1, 2022			
Cost	18,488,905,122	65,826,549	18,554,731,671
Accumulated depreciation and impairment	(10,774,963,041)	(65,826,549)	(10,840,789,590)
Net carrying value	7,713,942,081	-	7,713,942,081
For the year ended December 31, 2022			
Opening net carrying value	7,713,942,081	-	7,713,942,081
Additions	829,294,580	-	829,294,580
Modifications (Note 15)	(239,745,449)	-	(239,745,449)
Reversal of impairment	963,100,000	-	963,100,000
Depreciation	(2,184,699,910)	-	(2,184,699,910)
Closing net carrying value	7,081,891,302	-	7,081,891,302
At December 31, 2022			
Cost	19,078,454,253	65,826,549	19,144,280,802
Accumulated depreciation	(11,996,562,951)	(65,826,549)	(12,062,389,500)
Net carrying value	7,081,891,302	-	7,081,891,302
For the year ended December 31, 2023			
Opening net carrying value	7,081,891,302	-	7,081,891,302
Additions (Note 15)	5,930,210,140	122,612,622	6,052,822,762
Modifications (Note 15)	1,402,105,298	-	1,402,105,298
Retirement/disposal (Note 15)			
Cost	(6,535,932,575)	-	(6,535,932,575)
Accumulated depreciation	3,951,719,163	-	3,951,719,163
Depreciation	(2,112,519,190)	(3,573,410)	(2,116,092,600)
Closing net carrying value	9,717,474,138	119,039,212	9,836,513,350
At December 31, 2023			
Cost	19,874,837,116	188,439,171	20,063,276,287
Accumulated depreciation	(10,157,362,978)	(69,399,959)	(10,226,762,937)
Net carrying value	9,717,474,138	119,039,212	9,836,513,350

During the year ended December 31, 2023, certain aircraft leases were novated from third-party lessors to being sub-leased from a related party. These were considered as lease terminations. Consequently, the Company derecognized the carrying amount of ROU assets and lease liabilities related to the third-party leases resulting to a gain on lease terminations amounting to P138,968,485 (Note 13). The Company then recognized additions to ROU assets and lease liabilities based on the revised aircraft sub-lease agreements with the related party.

Additions to ROU assets for the year ended December 31, 2023 include additions to provision for aircraft redelivery costs amounting to P1,636,667,941 (2022 - P16,711,620) (Note 15).

Collateral equipment

A certain engine under aircraft support machinery and equipment was used as collateral to secure a loan renegotiated by the Company in March 2022 (Note 7). The net carrying amount of this collateral equipment as at December 31, 2023 amounted to P8,949,290 (2022 - P55,741,290).

Impairment of ROU assets

As discussed in Note 1, because of the losses incurred by the Company mainly from the adverse COVID-19 effects, the management has initiated to regularly undertake an impairment assessment review of its main cash generating unit (CGU), which primarily consist of its aircraft ROU assets.

For the years ended December 31, 2023 and 2022, in accordance with Philippine Accounting Standard (PAS) 36, Impairment of Assets. the recoverable amount of the Company's ROU assets was determined using the value-in-use (VIU) calculations. Cash flow projections used in the value-in-use calculations were based on forecasted financials results reviewed and approved by management for the remaining lease term of the entire aircraft fleet. The financial forecasts used in the exercise were also in consideration of the current status of operations, continuing recovery plans, newly opened hubs, both domestic and international, as well as relevant travel policies.

Using the detailed projections of Company's expected financial results from its current fleet for the remaining lease terms, the Company has calculated a recoverable amount of P17.37 billion, which exceeds that net carrying amount of ROU as at December 31, 2022. In addition, the Company continues to register significant increase in its revenue base and expects to continuously sustain this trajectory, especially in passenger income. Further, based on its financial forecasts, the Company expects to register a positive EBITDA and net income by 2024. Consequently, the Company recognized reversal of provision for impairment of its aircraft ROU assets for the year ended December 31, 2022 amounting to P963.10 million.

For the year ended December 31, 2023, undertaking the same impairment assessment exercise, the Company has calculated a recoverable amount of P10.98 billion. Accordingly, no provision for impairment was recognized for the year ended December 31, 2023.

The relevant assumptions used as at December 31 are as follows:

	2023	2022
Discount rate	16%	16%
Terminal growth rate	0%	0%

Discount rate used is based on weighted average cost of capital of comparable companies.

Critical accounting estimates and assumptions: Impairment of ROU assets

The Company assesses at each reporting date whether there is an indication that ROU assets may be impaired. 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 right-of-use assets is the greater of the asset's fair value less costs to sell and value-in-use. Determination of impairment of right-of-use assets requires an estimation of the value-in-use of the cash-generating unit (CGU) to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the CGU and applying an appropriate discount rate in order to calculate the present value of those cash flows. In discounting, the Company uses a discount rate based on the weighted average cost of capital adjusted to reflect the way that the market would assess the specific risks associated with the cash flow and exclude risks that are not relevant to the cash flow. Other assumptions used in projecting the future cash flows include passenger load factor, passenger yield, aircraft utilization and fuel costs, among others.

Changes in these judgments and estimates could significantly affect the recoverable value of ROU assets and the amount and timing of recorded impairment provision, as necessary, for any period.

For the year ended December 31, 2023, no provision for impairment was recognized as it continues to determine that recoverable value exceeds the carrying amount of ROU assets. For the year ended December 31, 2022, the Company recognized reversal of ROU impairment amounting to P963.10 million based on the results of management's impairment assessment which resulted to value-in-use, based on management's assessment, exceeded the carrying value of the ROU assets. The increase in the value was supported by the Company's efforts to manage lessors and extended lease terms. Moreover, the market is recovering, thereby increasing further the value-in-use of the ROU assets.

While it is believed that the Company's assumptions are reasonable and appropriate, significant changes in assumptions may materially affect the Company's impairment provision and ROU assets. The sensitivity of the resulting impairment provision is mainly driven by any changes in pre-tax discount rate applied, while holding all assumptions constant.

The sensitivity of the value-in-use to changes in the pre-tax discount rate applied in the cash flow projections as at December 31 is as follows:

	Impact on value-in-use	
Change in pre-tax discount rate	Increase in assumption	Decrease in assumption
2023		
+/-1%	Decrease of P350.09 million	Increase of P368.84 million
2022		
+/-1%	Decrease of P608.29 million	Increase of P645.59 million

When calculating the sensitivity of the value-in-use, the same method (discounted cash flows) has been applied.

Critical accounting judgment: Recoverability of property and equipment

All other components of property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. On a regular basis, management determines if there are triggering events or impairment indicators based on current circumstances. An impairment loss is recognized whenever evidence exists that the carrying value is not recoverable.

As of December 31, 2023 and 2022, management believes that the carrying amount of the Company's property and equipment are recoverable.

7 Loans payable

On September 8, 2017, the Company availed of a loan from BDO Unibank, Inc. (BDO) to be used for working capital requirements amounting to $35.0 million (P1.78 billion). Fifty percent (50%) of the loan was payable in 11 equal quarterly installments starting December 2017 and the remaining fifty percent (50%) was payable in lump sum at the end of the contract term on September 8, 2020. The loan was initially subject to 3-month London Interbank Offered Rate (LIBOR) plus margin of 2.5%.

Following various renegotiations, in 2020, the Company was able to extend the maturity date of the outstanding loan to November 19, 2021. The renegotiated loan is subject to 3-month LIBOR plus margin of 4% per annum. In November 2021, the Company was able to further renegotiate the maturity of its BDO loan extending the maturity date to June 30, 2022.

In March 2022, the Company was able to roll-over the same loan instrument with the Company's owned-engine as its additional collateral (Note 6). The renegotiated loan is subject to 3-month Term Secured Overnight Financing Rate (SOFR) plus margin of 4% per annum. The loan will mature June 30, 2025 with quarterly principal repayments and monthly interest payments beginning on September 2022.

The loan with BDO provides for restrictions with respect to, among others, making distribution on its share capital; maintenance of financial ratios; making any material change in the character of its business or engaging in any business operation or activity other than those for which it is presently authorized; decreasing the current ownership interest of AAI; incurring any secured indebtedness; and, extending loans, advances to any corporation, directors, officers and shareholders other than advances in the ordinary course of business.

This BDO credit facility is secured by corporate guarantee of Capital A and the continuing suretyship of AAI (Note 17).

Movements of loans payable as at December 31 are as follows:

	2023	2022
Balance at the beginning of year	1,047,924,325	974,229,767
Settlements	(114,063,176)	(13,802,448)
Foreign exchange effects	(3,319,441)	87,497,006
Balance at the end of year	930,541,708	1,047,924,325

The current and non-current portion of the loans payable at December 31 are as follows:

	2023	2022
Current	317,230,128	113,604,765
Non-current	613,311,580	934,319,560
	930,541,708	1,047,924,325

Movements of accrued interest on loans payable for the years ended December 31 are as follows:

	2023	2022
Balance at the beginning of year	-	1,116,472
Interest expense	94,366,275	59,009,507
Settlements	(94,596,550)	(60,125,979)
Foreign exchange effects	230,275	-
Balance at the end of year	-	-

8 Trade payables and other current liabilities; Provisions for claims

Trade payables and other current liabilities

Trade payables and other current liabilities at December 31 consist of:

	Notes	2023	2022
Trade payables			
Related parties	17	6,399,416,014	6,447,378,373
Third parties		6,931,658,677	6,479,529,052
		13,331,074,691	12,926,907,425
Accrued expenses			
Landing, takeoff and parking		1,964,990,370	864,249,816
Repairs and maintenance		754,077,837	1,168,209,089
Airport ground handling		241,649,184	39,728,981
Accrued interest on lease deferrals	15	56,696,437	18,433,222
Salaries and employee benefits		729,075	6,004,414
Others		42,119,829	34,987,884
		3,060,262,732	2,131,613,406
Payable to government agencies		1,348,310,102	841,217,673
Refunds		724,902,341	747,498,103
Deposits from travel agents		241,270,180	197,241,418
Unpaid capital expenditures	6	69,012,476	24,605,541
Output VAT payable		18,144,436	79,407,205
Other claims		102,331,934	13,113,365
		18,895,308,892	16,961,604,136

Trade payables are unsecured, unguaranteed and non-interest bearing. Payable to third parties have credit terms ranging from 30 to 60 days while payable to related parties are due and demandable.

Deposits from travel agents pertains to cash bond of travel agents. This serves as the travel agents' credit limit and represents the maximum value of tickets that the travel agents are allowed to sell.

Payable to government agencies pertains mostly to withholding taxes which are non-interest bearing and are normally settled the following month.

Refunds mainly consist of scheduled flights that were eventually cancelled by the Company, following some circumstances outside the control of the passenger. Passengers affected by eventual cancellations are provided an option to rebook or refund flight booking payments. Refunds account are those cancelled flights where passengers opted to refund cash via their choice of payment platform. Rebooked flights are recorded as part of "Unearned revenues" in the statement of financial position (Note 22.16).

Provisions for claims

In the normal course of business, the Company has provisions, including those that may arise from suits and claims that are presently being contested. The Company has several pending cases which are likely to continue for some time. In the opinion of management, the ultimate disposition of these amounts will not have any significant effect on the Company's financial position, results of operations and cash flows as at and for the years ended December 31, 2023 and 2022.

The movements in provisions for claims for the years ended December 31 are as follows:

	Note	2023	2022
Beginning of the year		723,038,365	330,106,424
Provision	13	415,062,548	392,931,941
Settlements		(110,038,013)	-
End of the year		1,028,062,900	723,038,365

The disclosure of additional details beyond the present disclosures may seriously prejudice the Company's position. Thus, as allowed by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, only a general description is provided.

Critical accounting estimates and assumptions: Provisions for claims

In the normal course of business, the Company is involved in various legal actions, claims and other contingencies incidental to its ordinary course of business. Provision is based on management's assessment and judgment, in consultation with counsels and advisors, of the likelihood that the settlement of these provisions will be realized considering possible outcomes under various circumstances. While it is believed that the Company's judgment and assessment are reasonable, actual results could differ from those judgment and assessment.

Accordingly, the recorded provision at the end of each reporting period and the amount and timing of recorded expense for any period could be materially affected by actual experience and changes in those judgment and assessment. A change in the estimated amount to be paid in settlement of these provisions would impact the Company's recorded expenses and current liabilities.

9 Equity

The Company's share capital as at December 31, 2023 and 2022 consists of:

	Shares	Amount
Common shares at P1 par value per share		
Authorized	576,078,431	576,078,431
Issued and outstanding	171,078,431	171,078,431
Preferred shares at P1 par value per share		
Authorized, issued and outstanding	423,921,569	423,921,569

The Company's preferred shares are non-voting, participating, convertible at the option of the holder and redeemable at the option of the Company at the issue price or book value thereof, whichever is higher. Dividends are cumulative from the date of subscription thereof and is intended to be payable upon formal declaration by the BOD, and at which time, the related obligation on dividend is recognized in the accounts. As at December 31, 2023 and 2022, the BOD has yet to determine and approve the cumulative preferred dividend rate.

Under CAB Resolution No. 32, international scheduled air transport service providers are required to maintain a capital of not less than P800 million for the renewal of its CPCN. Existing grantees of CPCN are required to comply with the requirement within a period of one (1) year from the effectivity of the resolution in 2018 or upon renewal of its CPCN, whichever comes first. As at December 31, 2023 and 2022, total share capital of the Company amounted to P595 million.

On September 13, 2019, CAB granted the Company's proposed changes in its authorized and outstanding capital stock, endorsement of the proposed transactions to the SEC and the subsequent confirmation of compliance with CAB Resolution No. 32 upon approval by the SEC of the proposed transactions.

On November 19, 2019, the Company's BOD and shareholders approved the conversion of the Company's outstanding liabilities to AAI amounting to P11.97 billion as full consideration for the issuance by the Company of 205 million common shares. This transaction would result to increase AAI's ownership in the Company to 800 million common shares at P1.00 par value per share and would enable the Company to conform to the capitalization requirement of CAB.

On January 31, 2020, the BOD and shareholders of Asiawide Airways Inc. (AWAI) approved the assignment of the Company's payable balance amounting to P753 million to AAI as the new creditor. In consideration for such assignment, AAI extinguished the debt of AWAI to AAI for the same amount.

On June 18, 2020, the Company filed its application to the SEC for the debt to equity restructuring.

On April 21, 2021, the BOD and shareholders of AWAI and AAI approved the revocation of the following:

(i) the assignment by AWAI of its net receivable from the Company amounting to P753 million (AWAI assigned receivable) to AAI (AAI additional receivables);
(ii) the extinguishment of the AWAI's debt to AAI to the extent of an amount equivalent to the AWAI assigned receivables; and
(iii) the application of the AAI additional receivables as subscription payment for AAI's subscriptions to the shares of the Company.

It was further approved by the AAI's BOD and shareholders that the subscription price for the 205,000,000 shares will be amended from P11.97 billion to P11.22 billion.

Subsequent events: Updates on the AirAsia Group's planned restructuring

As at reporting date, the Company did not pursue the 2020 SEC application as described in the foregoing following the revocation of assignment of AWAI receivables to the AAI.

To address the capitalization requirements of the Civil Aeronautics Board (CAB), the Company's planned debt restructuring includes the conversion of the Company's payable to AAI amounting to P10.50 billion in exchange for the issuance of 205,000,000 shares with a par value of P1.00 and a share premium equivalent to P10.295 billion.

On March 11 and March 18, 2024, the Company's BOD and shareholders, respectively, approved the conversion of debts of PAA to AAI, having an aggregate amount of P10.50 billion as full consideration for the issuance by the Company of 205,000,000 common shares.

On March 25, 2024, the Company filed its application to SEC for confirmation of valuation of the 205,000,000 common shares to be issued to AAI in settlement of its liabilities in the amount of P10.50 billion.

On March 26, 2024, the SEC acknowledged the receipt of the Company's application and assigned an examiner to review the same. As at reporting date, this application is still pending review and approval by the SEC.

10 Revenues

Below is the disaggregation of the Company's revenues for the years ended December 31:

	2023	2022
Over time		
Passenger	17,689,943,923	8,126,447,559
Cargo	408,637,364	395,809,263
Other revenues		
Baggage fees	2,214,785,666	976,601,949
Assigned fees	203,995,210	69,970,588
Rebooking, refunds and cancellation fees	170,620,268	33,017,647
Connection fees	26,684,786	9,033,963
Others	459,211,699	55,880,020
	3,075,297,629	1,144,504,167
Point in time		
Inflight meals and merchandise	168,204,283	66,888,927
	21,342,083,199	9,733,649,916

Others pertain mainly to unlimited flight pass, expired credit shell, aircraft advertisements, rental income on lease of a portion of the warehouse and other add-on fees, including insurance, airport service charges and handling fees.

Contract liabilities

Contract liabilities recorded as unearned revenues in the statement of financial position represent collections of passenger ticket sales prior to actual flight dates. These are recognized as revenue when the booked commercial flights have flown and conditions of the ticket sale have been fulfilled.

The increase in unearned revenues as at December 31, 2023 is consistent with the commercial operations resumptions for both domestic and international flights.

The following table shows the movement analysis of contract liabilities for the years ended December 31:

	2023	2022
At January 1	2,693,214,084	1,709,973,301
Additions during the year	23,606,257,169	11,392,412,054
Recognized as revenue	(23,295,126,664)	(10,409,171,271)
At December 31	3,004,344,589	2,693,214,084

11 Cost of services

Cost of services for the years ended December 31 are as follows:

	Notes	2023	2022
Fuel cost		9,265,417,872	5,911,884,120
Repairs and maintenance	4, 15	5,696,028,034	1,987,148,714
Depreciation and amortization	6	2,219,371,068	2,296,524,887
Salaries and employee benefits		2,038,951,638	1,179,665,483
Landing, take-off and parking		1,383,662,368	522,246,489
Airport ground handling		1,119,780,683	340,518,776
Aircraft rental	15	686,615,477	1,097,054,920
Bus rental	15	56,637,056	31,658,121
Custom duties		9,673,700	8,808,602
Others		433,300,684	270,748,201
		22,909,438,580	13,646,258,313

Landing, take-off and parking consists of amounts paid to airport authorities for landing and taking off at each particular airport. It also includes fees for parking at the terminal apron and other designated parking spaces.

Airport ground handling represents charges for services such as ground coordination, customs clearance application, passenger baggage handling, refueling, shuttle and other ground services.

Others consist mainly of aviation insurance, navigational fees charged for the establishment, operation and maintenance of air navigation systems and facilities, and catering charges for in-flight crews.

12 Operating expenses

Operating expenses for the years ended December 31 are as follows:

	Notes	2023	2022
Marketing expenses			
Commission expenses		351,230,578	50,826,640
Promotion and advertising		57,085,825	118,733,063
		408,316,403	169,559,703
General and administrative expenses			
Outside services	17	417,431,538	163,661,709
Utilities		327,747,601	250,012,816
Other commission expenses		308,680,477	140,299,643
Salaries and employee benefits		162,002,390	166,084,553
Repairs and maintenance		107,262,290	75,814,024
Rental of office and equipment	15	95,651,876	65,162,058
Brand license fee	17, 19	91,168,007	341,115,310
Retirement benefit expense	16	63,761,719	74,451,598
Training and accommodation		41,219,574	17,064,189
Depreciation and amortization	6	22,754,219	63,925,969
Taxes and licenses		5,262,728	12,164,595
(Reversal of) provision for impairment of receivables	3	(55,092,708)	113,245,601
Insurance		-	62,270,465
Others		96,614,164	51,651,275
		1,684,463,875	1,596,923,805
		2,092,780,278	1,766,483,508

13 Finance costs and other income (expenses), net

Finance costs for the years ended December 31 are as follows:

	Notes	2023	2022
Interest expenses on:			
Lease liabilities	15	837,944,116	835,908,831
Lease deferrals	15	45,645,367	28,531,703
Loan payable	7	94,366,275	59,009,507
Retirement benefit obligation	16	27,510,042	16,986,093
Provision for aircraft redelivery	15	103,823,744	12,463,694
Others		119,547,168	39,971,800
		1,228,836,712	992,871,628

Others include late payment fees charged by certain airport authorities.

Other income (expenses), net for the years ended December 31 consists of:

	Notes	2023	2022
Foreign exchange gain (loss), net	21	640,251,913	(2,459,207,064)
Provision for claims	8	(415,062,548)	(392,931,941)
Gain on lease terminations	6, 15	138,968,485	-
Interest income from bank deposits	2	186,714	73,018
Reversal of impairment of right-of-use assets	6	-	963,100,000
Reversal of accruals		-	623,468,810
Others		(46,513,713)	14,078,983
		317,830,851	(1,251,418,194)

In 2022, management reviewed the composition of its outstanding accruals and wrote off certain long outstanding balances which management assessed as no longer representing valid claims against the Company.

Others include collection from scrap sales, sublease of airport terminal space and reversal of deposits from inactive agents.

14 Deposits

Deposits as at December 31 consist of:

	Note	2023	2022
Aircraft and engine lease deposit	15	774,437,244	690,033,369
Refundable deposits		180,337,836	169,775,539
Hangar and office rental	15	44,197,495	22,361,548
Spares and maintenance deposit		12,447,989	13,030,169
		1,011,420,564	895,200,625

Refundable deposits mainly pertain to bonds paid to different Philippine airport authorities for airport charges. These amounts will be refunded at the end of the related contracts.

Spares and maintenance deposits mainly relate to deposits for future fixed asset acquisitions.

15 Leases (the Company as the lessee)

a. Leases

The Company's fleet as at December 31 consists of:

	Note	2023	2022
Airbus A320-200			
Third party lessors		4	14
Related party lessor	17	21	12
		25	26

Passenger aircraft

The Company is a lessee to various non-cancellable leases covering its passenger aircrafts, from both third party and related party principal lessors. The leases have terms ranging from twelve (12) months to fourteen (14) years with renewal options. The Company's existing fleet are with lease terms as provided below:

December 31, 2023	Original lease term (including renewal options)		Restructured	New lease term (after lease restructuring)	
No. of aircrafts	From	To	in 2023	From	To
1	2022	2026	No	2022	2026
1	2022	2026	No	2022	2026
1	2017	2023	Yes	2023	2029
1	2022	2028	No	2022	2028
1	2022	2036	No	2022	2036
1	2019	2025	Yes	2023	2031
1	2019	2025	Yes	2023	2031
1	2019	2025	Yes	2023	2031
1	2019	2025	Yes	2023	2031
1	2019	2026	Yes	2023	2032
1	2020	2026	No	2020	2026
1	2018	2021	No	2018	2021
1	2018	2022	No	2018	2022
1	2018	2021	No	2018	2021
1	2022	2026	No	2022	2026
1	2022	2026	No	2022	2026
1	2021	2031	Yes	2023	2026
1	2021	2031	Yes	2023	2025
1	2021	2031	Yes	2023	2031
1	2021	2031	Yes	2023	2025
1	2021	2027	No	2021	2027
1	2022	2031	No	2022	2031
1	2022	2025	No	2022	2025
1	2021	2029	No	2021	2029
1	2021	2029	No	2021	2029
25					

December 31, 2022	Original lease term (including renewal options)		Restructured	New lease term (after lease restructuring)	
No. of aircrafts	From	To	in 2022	From	To
1	2013	2022	No	2013	2022
1	2013	2022	Yes	2022	2025
1	2021	2029	No	2021	2029
1	2014	2021	No	2014	2021
1	2014	2025	No	2014	2025
1	2014	2026	No	2014	2026
2	2016	2022	No	2016	2022
1	2016	2023	Yes	2021	2029
1	2017	2021	No	2017	2021
1	2017	2022	No	2017	2022
1	2017	2023	Yes	2022	2036
1	2021	2031	No	2021	2031
1	2017	2025	No	2017	2025
2	2021	2031	No	2021	2031
2	2018	2025	No	2018	2025
1	2021	2031	No	2021	2031
1	2018	2026	No	2018	2026
1	2018	2030	No	2018	2030
1	2021	2027	No	2021	2027
1	2019	2025	Yes	2021	2031
1	2019	2028	Yes	2022	2028
2	2022	2026	No	2022	2026
26					

Lease terms are negotiated either on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the required security deposits in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Movements of the Company's lease liabilities as at and for the years ended December 31 are as follows:

	Note	2023	2022
Balance at beginning of the year		17,229,747,607	14,613,030,500
Additions		4,416,154,821	829,294,580
Interest accretion	13	837,944,116	835,908,831
Modifications		1,402,105,298	(239,745,449)
Terminations		(2,723,181,897)	-
Lease payments		(3,352,131,024)	(397,409,086)
Foreign exchange difference		(170,441,581)	1,588,668,231
Balance at end of the year		17,640,197,340	17,229,747,607

Classification of lease liabilities in the statements of financial position as at December 31 are as follows:

	2023	2022
Current	7,920,907,671	7,684,031,107
Non-current	9,719,289,669	9,545,716,500
	17,640,197,340	17,229,747,607

The amount of right-of-use assets recognized in the statement of financial position as at December 31, 2023 amounted to P9.84 billion (2022 - P7.71 billion) (Note 6).

Lease restructuring and modification

On various dates in 2023 and 2022, through and with the assistance of Capital A, the Company has managed to restructure the lease terms of its aircraft operating leases with lessors. In 2023, 3 (2022 - 5) aircraft leases were restructured and among the provisions of the new lease terms includes reduced rental rates and extended lease terms. As such, the Company remeasured the lease liabilities using the Company's incremental borrowing rates at the effective dates of the modification and made corresponding adjustments to the right-of-use assets. In 2023, in addition to the reduced rental rates and extended lease terms, 8 (2022 - nil) aircraft leases were novated from third-party lessors to being sub-leased from a related party. These were considered as lease terminations. Consequently, the Company derecognized the carrying amount of ROU assets and lease liabilities related to the third-party leases resulting to a gain on lease terminations amounting to P138,968,485 (Note 13). The Company then recognized additions to ROU assets and lease liabilities based on the renewed aircraft sub-lease agreements with the related party.

The table presented in the foregoing provides information on the new lease terms following the restructuring.

Lease payment deferrals

On November 19, 2020, the Company's BOD resolved and approved the undertaking to secure deferral of lease payments from third party lessors for certain 5 aircrafts. Terms and conditions of the lease side letter agreed and accepted by the lessor, includes, deferral of rental payments due in various dates in 2020 and 2021 and will be paid in accordance with the agreed payment plan of the parties. Further, all deferred amounts of rent shall accrue interest at the rate of 5% per annum, from the original due date of payment up to the date of actual payment. The lease side letters were approved and signed by both parties at various dates in December 2020.

On February 2, 2021, the Company's BOD further resolved and approved the undertaking to secure deferral of lease payments from third party lessors for certain additional 5 aircrafts. Terms and conditions of the lease side letter agreed and accepted by the lessor, includes deferral of rental payments due on certain months 2022 and will be paid in accordance with the agreed payment plan of the parties. Further, all deferred amounts of rent shall accrue interest at the rate of 5.75% per annum, from the original due date of payment up to the date of actual payment. The lease side letters were approved and signed by both parties at various dates in 2021.

There were no lease side letters approved and entered into for the year ended December 31, 2023 and 2022.

For the aircrafts that were granted lease payment deferrals, the provisions in the lease side letter undertaking did not constitute a lease concession and hence, no corresponding gain or loss was recognized in profit of loss. The rental payments not stated in the lease side letter will continue to be due for payment in accordance with the original terms of the lease agreements and interest shall accrue in accordance with the side letters.

Total amount of rent payments due that was deferred as at December 31, 2023, included as part of lease liabilities amounted to P5,686,201,801 (2022 - P1,048,172,445). Movements of the Company's accrued interest on lease deferrals as at and for the years ended December 31 are as follows:

	Notes	2023	2022
Balance at beginning of the year		18,433,222	37,563,189
Interest accretion	13	45,645,367	28,531,703
Payments		(7,382,152)	(47,661,670)
Balance at end of the year	8	56,696,437	18,433,222

The following are the amounts recognized in statements of total comprehensive income for the years ended December 31:

	Notes	2023	2022
Amortization of right-of-use assets	6	2,116,092,600	2,184,699,910
Gain on lease terminations	13	(138,968,485)	-
Interest accretion on lease liability	13	837,944,116	835,908,831
Expenses related to short-term leases and low-value assets	11,12	838,904,409	1,193,875,099
Foreign exchange (gain) loss		(170,441,581)	1,588,668,231
Reversal of impairment of right-of-use asset	6	-	(963,100,000)
		3,483,531,059	4,840,052,071

Short term aircraft and engine leases

In 2023 and 2022, certain aircraft leases and the engine lease expired, pending renewal of its lease agreement. The lease rentals for the periods not covered by the lease term in the renewed and executed contracts for the years ended December 31, 2023 and 2022 are charged to profit or loss within cost of services as aircraft rental (Note 11)

Hangar and office spaces

As at December 31, 2023 and 2022, the Company is in the process of renegotiating lease agreements for its hangar and office space with its lessors. Consequently, monthly rentals for the years ended December 31, 2023 and 2022 are charged to profit or loss as part of operating expenses (Note 12).

Expenses related to short-term leases also include bus rentals. Leases related to low-value assets pertain to small office equipment.

The total cash outflow for leases for the year ended December 31, 2023 amounted to P4,191,035,433 (2022 - P1,591,284,185).

Critical accounting estimates and assumptions: Incremental borrowing rate - leases

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

At the date of initial application, the Company used IBR ranging from 4.94% to 5.10% to measure lease liabilities. In 2023, for certain aircrafts that were restructured, the Company used IBR ranging from 8.79% to 10.54% (2022 - 8.79% to 10.99%) to measure the restructured lease liabilities.

b. Provision for aircraft redelivery costs

The Company is contractually required under its lease contracts to restore its leased aircraft based on a pre-agreed return condition at its own cost at the end of the lease term.

The roll forward analysis of the Company's provision for aircraft redelivery costs for the years ended December 31 are as follows:

	Note	2023	2022
Balance at beginning of year		193,577,159	150,444,637
Additions		1,636,667,941	16,711,620
Accretion charged to profit or loss	13	103,823,744	12,463,694
Foreign exchange difference		113,737	13,957,208
		1,934,182,581	193,577,159

During the year, the Company has made actual redelivery of one aircraft. In accordance with the provisions of the aircraft lease contract, the Company is required to undertake relevant repairs and maintenance checks, prior to redelivery, including but not limited to full round C-check, engine performance restoration, engine life-limited parts replacement and other maintenance events. Given the significant cost of redelivery incurred during the year arising from escalated maintenance charges from vendors since the last redelivery made in 2018, additional repairs and overhauls necessary to bring the aircraft to its utmost operating condition, the Company has reassessed its estimation of future redelivery provisions. Hence, increase in provision for aircraft redelivery costs for the year ended December 31, 2023 represents the effect of management's reassessment of the expected redelivery costs after considering the most recent actual costs of redelivery, effects of escalation rates from maintenance, repair and overhaul obtained from service providers, composition of the Company's aircraft fleet, particularly older aircrafts, and expected timing of redelivery dates which are considerably distant from scheduled checks or maintenance intervals. Such re-estimation was accounted for prospectively.

Provision for aircraft redelivery is classified in the statements of financial position as at December 31 as follows:

	2023	2022
Current	39,241,325	39,241,325
Non-current	1,894,941,256	154,335,834
	1,934,182,581	193,577,159

Critical accounting estimates and assumptions: Provision for aircraft redelivery costs

Provision for aircrafts redelivery costs are accrued based on estimates made by the Company's engineers and historical cost incurred, which include estimates of future redelivery costs, overhaul and restoration costs. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, the actual redelivery costs will ultimately depend on the aircraft's utilization and market condition at the time of redelivery.

The Company considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimates and assumptions considering that the aircraft utilization and market conditions of the aircrafts vary. However, it is reasonably possible, on the basis of existing knowledge, that a change in the factors mentioned above would impact the recorded provisions for aircraft and redelivery costs.

c. Refundable deposits

Deposits related to the foregoing leases as at December 31 are as follows:

	Note	2023	2022
Aircraft leases	14	774,437,244	690,033,369
Hangar and office space	14	44,197,495	22,361,548
		818,634,739	712,394,917

16 Retirement benefit obligation

The Company has an unfunded defined benefit pension plan covering all of its employees based on years of service and compensation on the last year of employment.

The Company's retirement plan provides for the following benefits based on the final monthly salary for every year of service:

		Minimum requirement (in years)	
Retirement plan	Rate of final monthly salary	Age	Service period
Normal	120%	60	5
Early	100%	50	10
Late	125%	60	Case to case basis

This retirement plan meets the minimum retirement benefit requirements as specified under R.A. No. 7641, *The Retirement Pay Law*.

Under the existing regulatory framework, R.A. No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of the retirement benefit expense charged to profit or loss for the years ended December 31 are as follows:

	Notes	2023	2022
Operating expenses			
Current service cost	12	63,761,719	74,451,598
Interest expense			
Interest cost	13	27,510,042	16,986,093
		91,271,761	91,437,691

The movements in the present value of defined benefit obligation for the year ended December 31 are as follows:

	2023	2022
Balance at beginning of year	386,920,418	340,402,674
Current service cost	63,761,719	74,451,598
Interest cost	27,510,042	16,986,093
Benefits paid	(22,682,492)	(4,674,595)
Remeasurement (gain) loss		
Changes in financial assumptions	(22,982,508)	(106,465,056)
Experience adjustments	527,646	66,219,704
Balances at end of year	433,054,825	386,920,418

The movement in the reserve for remeasurements on retirement benefit obligation for the years ended December 31 is as follows:

	2023	2022
Balances at beginning of year	134,452,824	94,207,472
Remeasurement gain	22,454,862	40,245,352
	156,907,686	134,452,824

The principal actuarial assumptions used for the year ended December 31 are as follows:

	2023	2022
Discount rate	6.06%	7.11%
Salary increase rate per annum	3.00%	5.00%

- Discount rate - This is determined by reference to market yields at the end of the reporting period based on PHP BVAL reference rates as at December 31, 2023 and 2022.

- Salary increase rate - This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period when the benefits are expected to be paid.

Shown below are the maturity analyses of undiscounted benefit payments as at December 31:

	2023	2022
Less than 1 year	54,310,318	25,108,551
More than 1 year and up to 5 years	64,166,468	85,878,525
More than 5 years and up to 10 years	145,464,648	154,039,145
More than 10 years and up to 15 years	284,648,686	352,039,428
More than 15 years and up to 20 years	977,414,505	706,976,981
More than 20 years	5,927,568,860	9,438,178,140

The weighted average duration of the defined benefit obligation as at December 31, 2023 is 21 years (2022 - 22 years).

Critical accounting estimates and assumptions: Principal assumptions for estimation of retirement benefit obligation

The determination of the Company's retirement benefit obligation and retirement benefits are dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate at the end of each year. Discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Company considers the interest rates on Philippine government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligation. Actual results that differ from the Company's assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement benefit expense and obligation.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions as at December 31 are as follows:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
2023			
Discount rate	+/-1%	(14,368,967)	24,976,697
Salary increase rate	+/-1%	24,688,359	(14,351,172)
2022			
Discount rate	+/-1%	(28,645,100)	39,214,479
Salary increase rate	+/-1%	38,405,521	(28,608,031)

The foregoing sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting periods) has been applied as when calculating the retirement benefit obligation recognized within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change as compared to the previous period.

17 Related party transactions and balances

The Company the following transactions and balances with its related parties as at and for the years ended December 31:

	Transactions		
	2023	2022	Terms and conditions
(a) Aircraft lease agreements *Entities under common control*	4,255,955,914	1,081,352,649	The Company entered into various lease agreements with Merah Putih 2, Inc. (MP2) and Red Lotus Aviation Limited, entities under common control, for the lease of the Company's passenger aircrafts. In 2018, MP2 started assigning its rights on its lease agreements with the Company to a third-party lessor. However, in 2023 and 2022 as part of lease restructuring, some of the aircrafts transferred to the third-party lessors reverted back to related party lessors. Aircraft leases are accounted for under PFRS 16 and are recognized as right-of use assets (and are being amortized) and lease liabilities (Note 15).
(b) Collections made by (on behalf of) related parties *Entities under common control*	5,470,668,614	3,089,918,234	These are proceeds from passenger ticket sales collected by related parties on behalf of the Company or vice versa. On a monthly basis, amounts are reconciled. Ticket sales pertaining to the Company are recognized as revenue once lifted and a related receivable from related parties is recorded. Collections made by the Company on behalf of related parties are recorded as liability upon receipt, hence no profit or loss impact.

	Transactions 2023	Transactions 2022	Terms and conditions
(c) Intercompany charges from related parties *Entities under common control*	298,309,693	212,771,278	These relate to operating expenses incurred by related parties on behalf of Company. These charges mainly consist of chargebacks for airport ground handling in cross countries, cargo handling fees, consumables and software maintenance and IT costs among others. These are billed to the Company at cost.
(d) Shared service agreement *Entity under common control*	209,421,994	51,165,281	The Company has a service agreement with AirAsia SEA Bhd. (AA SEA, formerly AirAsia Global Shared Services Sdn Bhd) to provide finance and accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services. These are charged to profit of loss as part of outside services. (Note 12)
(e) Brand licensing agreement *Entity under common control*	91,168,007	341,115,310	Please see related discussions in Note 19.
(f) Maintenance service contract *Entity under common control*	690,682,507	219,836,696	The Company has an existing contract with ADE to be one of its MRO provider to perform aircraft checks and maintenance. In addition, ADE also provide aircraft spares and consumables to the Company. These are charged to profit of loss as part of repairs and maintenance within cost of services (Notes 11).
(g) Marketing costs *Entity under common control*	148,666,331	58,208,801	These pertain to marketing costs charged by AirAsia Com Travel Sdn Bhd (AACOM) which is AirAsia Group's online distributor and marketing arm. AACOM provides marketing, advertising, sales and promotional activities for the AirAsia Group and owns and operates the online platform, airasia.com website. These are charged to profit or loss as part of commission expenses under marketing expenses (Note 12).