

COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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(Business Address: No. Street City/Town/Province)

Robin C. Dui

(Contact Person)

(632) 852-2461

(Company Telephone Number)

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Month Day
(Fiscal Year)

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(Form Type)

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Month Day
(Annual Meeting)

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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended June 30, 2014

2. SEC Identification No. 154675

3. BIR Tax Identification No. 000-948-229-000

Cebu Air, Inc.

4. Exact name of issuer as specified in its charter

Cebu City, Philippines

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

6. Industry Classification Code: (SEC Use Only)

7. 2nd Floor, Dona Juanita Marquez Lim Building, Osmena Blvd., Cebu City 6000
Address of issuer's principal office Postal Code

8. (632) 852-2461
Issuer's telephone number, including area code

Not Applicable

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, ₱1.00 Par Value	605,953,330 shares

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

Yes No

12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited consolidated financial statements are filed as part of this Form 17-Q.

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

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

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

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

The Parent Company's common stock was listed with the Philippine Stock Exchange (PSE) on October 26, 2010, the Company's initial public offering (IPO).

The Parent Company has ten special purpose entities (SPE) that it controls, namely: Cebu Aircraft Leasing Limited, IBON Leasing Limited, Boracay Leasing Limited, Surigao Leasing Limited, Sharp Aircraft Leasing Limited, Vector Aircraft Leasing Limited, Panatag One Aircraft Leasing Limited, Panatag Two Aircraft Leasing Limited, Panatag Three Aircraft Leasing Limited and Summit A Aircraft Leasing Limited. On March 20, 2014, the Parent Company acquired 100% ownership of Tiger Airways Philippines, including 40% stake in Roar Aviation II Pte. Ltd. (Roar II), a wholly owned subsidiary of Tiger Airways Holdings Limited. The Parent Company, its ten SPEs and Tiger Airways Philippines (collectively known as "the Group") are consolidated for financial reporting purposes.

As of June 30, 2014, the Group operates an extensive route network serving 59 domestic routes and 36 international routes with a total of 2,403 scheduled weekly flights. It operates from six hubs, including the Ninoy Aquino International Airport (NAIA) Terminal 3 located in Pasay City, Metro Manila; Mactan-Cebu International Airport located in Lapu-Lapu City, part of Metropolitan Cebu; Diosdado Macapagal International Airport (DMIA) located in Clark, Pampanga; Davao International Airport located in Davao City, Davao del Sur; Ilo-ilo International Airport located in Ilo-ilo City, regional center of the western Visayas region; and Kalibo International Airport in Kalibo, Aklan.

As of June 30, 2014, the Group operates a fleet of 52 aircraft which comprises of 10 Airbus A319, 30 Airbus A320, 4 Airbus A330 and 8 ATR 72-500 aircraft. It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72-500 aircraft on domestic routes,

including destinations with runway limitations. The average aircraft age of the Company's fleet is approximately 4.20 years as of June 30, 2014.

The Group has three principal distribution channels: the internet; direct sales through booking sales offices, call centers and government/corporate client accounts; and third-party sales outlets. Aside from passenger service, it also provides airport-to-airport cargo services on its domestic and international routes. In addition, the Group offers ancillary services such as cancellation and rebooking options, in-flight merchandising such as sale of duty-free products on international flights, baggage and travel-related products and services.

Results of Operations

Six Months Ended June 30, 2014 Versus June 30, 2013

Revenues

The Group generated revenues of ₱26.717 billion for the six months ended June 30, 2014, 23.0% higher than the ₱21.726 billion revenues earned in the same period last year. Growth in revenues is accounted for as follows:

Passenger

Passenger revenues grew by ₱3.875 billion or 22.8% to ₱20.852 billion in the six months ended June 30, 2014 from ₱16.977 billion posted in the six months ended June 30, 2013. This increase was mainly attributable to the 13.8% increase in passenger volume to 8.5 million from 7.5 million in 2013 driven by the increased number of flights in 2014. Number of flights went up by 4.4% year on year as a result of the increase in the number of aircraft operated by the Group from 44 aircraft as of June 30, 2013 to 52 aircraft as of June 30, 2014, which includes 4 new wide-body Airbus A330 aircraft with a configuration of more than 400 all-economy class seats. Increase in average fares by 7.9% to ₱2,450 for the six months ended June 30, 2014 from ₱2,270 for the same period last year also contributed to the improvement of passenger revenues.

Cargo

Cargo revenues grew by ₱211.971 million or 17.3% to ₱1.437 billion for the six months ended June 30, 2014 from ₱1.226 billion for the six months ended June 30, 2013 following the increase in the volume and average freight charges of cargo transported in 2014.

Ancillary

Ancillary revenues went up by ₱904.186 million or 25.7% to ₱4.428 billion in the six months ended June 30, 2014 from ₱3.524 billion registered in the same period last year. The Group began unbundling ancillary products and services in 2011 and significant improvements in ancillary revenues were noted since then. Improved online bookings, together with a wider range of ancillary revenue products and services, also contributed to the increase. Sales from online bookings accounted for 57.3% of the total sales in the six months ended June 30, 2014 compared to 57.1% in the same period last year.

Expenses

The Group incurred operating expenses of ₱23.755 billion for the six months ended June 30, 2014, 25.8% higher than the ₱18.885 billion operating expenses recorded for the six months ended June 30, 2013 as a result of the Group's expanded operations with the launch of its long haul services last October 2013 and growth in seat capacity from the acquisition of new aircraft. The increase in expenses was also reinforced by the the weakening of the Philippine peso against the U.S. dollar as referenced by the depreciation of the Philippine peso to an average of ₱44.49 per U.S. dollar for the six months ended June 30, 2014 from an average of ₱41.26 per U.S.

dollar last year based on the Philippine Dealing and Exchange Corporation (PDEX) weighted average rates. Operating expenses increased as a result of the following:

Flying Operations

Flying operations expenses moved up by ₱2.448 billion or 23.0% to ₱13.097 billion for the six months ended June 30, 2014 from ₱10.649 billion incurred in the same period last year. Aviation fuel expenses grew by 23.9% to ₱11.669 billion from ₱9.422 billion for the six months ended June 30, 2013 consequent to the increase in the volume of fuel consumed as a result of increased flight and block hours from the launch of long haul flights to Dubai last October 2013. The weakening of the Philippine peso against the U.S. dollar as referenced by the depreciation of the Philippine peso to an average of ₱44.49 per U.S. dollar for the six months ended June 30, 2014 from an average of ₱41.26 per U.S. dollar last year based on the Philippine Dealing and Exchange Corporation (PDEX) weighted average rates also contributed to the increase. Rise in aviation fuel expenses, however, was partially offset by the reduction in aviation fuel prices as referenced by the decrease in the average published fuel MOPS price of U.S. \$120.9 per barrel in the six months ended June 30, 2014 from U.S. \$122.3 per barrel in the same period last year.

Aircraft and Traffic Servicing

Aircraft and traffic servicing expenses increased by ₱510.266 million or 28.0% to ₱2.330 billion for the six months ended June 30, 2014 from ₱1.819 billion registered in the same period in 2013. Higher expenses were particularly attributable to airport and ground handling charges of international flights with the effect of the depreciation of the Philippine peso against the U.S. dollar at ₱44.49 per U.S. dollar for the six months ended June 30, 2014 from an average of ₱41.26 per U.S. dollar last year. The launch of long haul services to Dubai in the last quarter of 2013 and new flights to Tokyo (Narita) and Nagoya last March 2014 also contributed to the increase of international airport charges.

Depreciation and Amortization

Depreciation and amortization expenses grew by ₱423.850 million or 26.0% to ₱2.051 billion for the six months ended June 30, 2014 from ₱1.627 billion for the six months ended June 30, 2013. Depreciation and amortization expenses increased consequent to the arrival of three Airbus A320 aircraft during the second half of 2013 and three Airbus A320 aircraft in 2014.

Repairs and Maintenance

Repairs and maintenance expenses went up by 19.3% to ₱2.279 billion for the six months ended June 30, 2014 from ₱1.911 billion posted in the six months ended June 30, 2013. Increase was driven by the weakening of the Philippine peso against the U.S. dollar at ₱44.49 per U.S. dollar for the six months ended June 30, 2014 from an average of ₱41.26 per U.S. dollar last year. The acquisition of three Airbus A320 aircraft and one Airbus A330 aircraft during the second half of 2013, three Airbus A320 aircraft and two Airbus A330 aircraft in 2014 also contributed to the increase in repairs and maintenance expenses.

Aircraft and Engine Lease

Aircraft and engine lease expenses moved up by ₱779.773 million or 81.6% to ₱1.735 billion in the six months ended June 30, 2014 from ₱955.610 million charged for the six months ended June 30, 2013. Increase in aircraft lease was due to the delivery of two Airbus A330 under operating lease in 2013 and two Airbus A330 aircraft under operating lease in 2014.

Reservation and Sales

Reservation and sales expenses increased by ₱191.151 million or 21.4% to ₱1.083 billion for the six months ended June 30, 2014 from ₱891.959 million in the six months ended June 30, 2013. This was primarily attributable to the increase in commission expenses and online bookings relative to the overall growth in passenger volume year on year.

General and Administrative

General and administrative expenses grew by ₱17.620 million or 3.0% to ₱613.632 million for the six months ended June 30, 2014 from ₱596.013 million incurred in the six months ended June 30, 2013. Growth in general and administrative expenses was primarily attributable to the increased flight and passenger activity in 2014.

Passenger Service

Passenger service expenses went up by ₱131.206 million or 30.2% to ₱565.507 million for the six months ended June 30, 2014 from ₱434.301 million posted for the six months ended June 30, 2013 consequent to the rise in passenger activity in 2014. The increase was also due to the additional cabin crew hired for the new Airbus A320 and A330 aircraft acquired during the second half of 2013 and in 2014. The weakening of the Philippine peso against the U.S. dollar also contributed to the increase.

Operating Income

As a result of the foregoing, the Group finished with an operating income of ₱2.961 billion for the six months ended June 30, 2014, 4.2% higher than the ₱2.842 billion operating income earned in the same period last year.

Other Income (Expenses)

Interest Income

Interest income dropped by ₱102.936 million or 66.0% to ₱53.033 million for the six months ended June 30, 2014 from ₱155.969 million earned in the same period last year due to decrease in the balance of cash in bank and short-term placements year on year and lower interest rates.

Fuel Hedging Gains (Loss)

The Group incurred a fuel hedging gain of ₱35.735 million for the six months ended June 30, 2014 compared to a fuel hedging gain of ₱3.121 million in the same period last year as a result of higher mark-to-market valuation on fuel hedging positions.

Foreign Exchange Gains (Losses)

Net foreign exchange gain of ₱717.775 million for the six months ended June 30, 2014 resulted from the appreciation of the Philippine peso against the U.S. dollar as referenced by the strengthening of the Philippine peso to ₱43.65 per U.S. dollar for the six months ended June 30, 2014 from ₱44.40 per U.S. dollar for the twelve months ended December 31, 2013 based on PDEX closing rates. The Group's major exposure to foreign exchange rate fluctuations is in respect to U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions.

Equity in Net Income of Joint Venture

The Group had equity in net income of joint venture of ₱76.544 million for the six months ended June 30, 2014, ₱39.355 million or 105.8% higher than the ₱37.189 million equity in net income of joint venture earned in the same period last year. Increase in this account was due to the increase in net income from current operations of Aviation Partnership (Philippines) Corporation (A-plus) and Philippine Academy for Aviation Training, Inc. (PAAT) in 2014.

Interest Expense

Interest expense increased by ₱113.621 million or 28.6% to ₱510.220 million for the six months ended June 30, 2014 from ₱396.599 million in the six months ended June 30, 2013. Increase was due to higher interest expense incurred brought by the additional loans availed to finance the acquisition of three Airbus A320 aircraft during the second half of 2013 and three Airbus A320 aircraft in 2014 and the effect of the weakening of the Philippine peso against the U.S. dollar during the current period.

Income before Income Tax

As a result of the foregoing, the Group recorded income before income tax of ₱3.335 billion for the six months ended June 30, 2014, higher by 158.0% or ₱2.042 billion than the ₱1.292 billion income before income tax posted for the six months ended June 30, 2013.

Provision from Income Tax

Provision from income tax for the six months ended June 30, 2014 amounted to ₱156.841 million, of which, ₱33.199 million pertains to current income tax recognized as a result of the taxable income for the second quarter of 2014. Provision from deferred income tax amounted to ₱123.642 million resulting from the recognition of deferred tax liabilities on future taxable amounts during the period.

Net Income

Net income for the six months ended June 30, 2014 amounted to ₱3.178 billion, a growth of 124.7% from the ₱1.414 billion net income earned in the same period last year.

As of June 30, 2014, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Group with unconsolidated entities or other persons created during the reporting period that would have a significant impact on the Group's operations and/or financial condition.

Financial Position

June 30, 2014 versus December 31, 2013

As of June 30, 2014, the Group's consolidated balance sheet remains solid, with net debt to equity of 1.02 [total debt after deducting cash and cash equivalents (including financial assets held-for-trading at fair value and available-for-sale assets) divided by total equity]. Consolidated assets grew to ₱74.393 billion from ₱67.527 billion as of December 31, 2013 as the Group added aircraft to its fleet. Equity grew to ₱24.259 billion from ₱21.082 billion in 2013, while book value per share amounted to ₱40.04 as of June 30, 2014 from ₱34.79 as of December 31, 2013.

The Group's cash requirements have been mainly sourced through cash flow from operations and from borrowings. Net cash from operating activities amounted to ₱5.048 billion. As of June 30, 2014, net cash used in investing activities amounted to ₱7.160 billion which included payments in connection with the purchase of aircraft and acquisition of Tiger Airways Philippines. Net cash provided by financing activities amounted to ₱3.514 billion which comprised of proceeds from long-term debt of ₱5.516 billion net of repayments of long-term debt amounting to ₱2.002 billion.

As of June 30, 2014, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

Financial Ratios

The following are the major financial ratios that the Group monitors in measuring and analyzing its financial performance:

Liquidity and Capital Structure Ratios

	June 30, 2014	December 31, 2013
Current Ratio	0.55:1	0.55:1
Debt-to-Equity Ratio	1.33:1	1.39:1
Asset-to-Equity Ratio	3.07:1	3.20:1
Interest Coverage Ratio	5.80:1	2.78:1

Profitability Ratios

	June 30, 2014	June 30, 2013
Return on Asset	4.5%	2.2%
Return on Equity	14.0%	6.2%
Return on Sales	11.9%	6.5%

**Material Changes in the 2014 Financial Statements
(Increase/Decrease of 5% or more versus 2013)**

Material changes in the Statements of Consolidated Comprehensive Income were explained in detail in the management's discussion and analysis of financial condition and results of operations stated above.

Consolidated Statements of Financial Position – June 30, 2014 versus December 31, 2013

26.7% increase in Cash and Cash Equivalents

Due to collections as a result of the expansion of the Group's operations as evidenced by the 23.0% growth in revenues.

23.1% decrease in Financial Assets at FVPL

Due to lower mark-to-market valuation of some fuel derivative contracts in 2014.

12.3% decrease in Receivables

Due to collections made on the amount due from PAAT for an Airbus A320 simulator.

9.0% decrease in Expendable Parts, Fuel, Materials and Supplies

Due to lower cost of fuel inventory.

6.8% increase in Other Current Assets

Due to prepaid lease payment for A330 Airbus aircraft delivered in 2014, advances to suppliers for purchases of spare engines and engine parts to be used in the restoration of certain leased aircraft to its original condition at the end of the contract period and unamortized prepaid healthcare insurance covering the remaining 6 months in 2014.

8.9% increase in Property and Equipment

Due to the acquisition of three Airbus A320 aircraft during the period.

13.2% increase in Investment in Joint Ventures

Due to the share in the net income of A-plus and PAAT during the period.

100.0% decrease in Deferred Tax Assets - net

Net balance for the six months ended June 30, 2014 resulted to a deferred tax liability.

100.0% increase in Intangible Assets

Due to certain intangible assets, such as but not limited to rights and entitlements, recognized by the Group as a result of its acquisition of Tiger Airways Philippines.

8.4% increase in Other Noncurrent Assets

Due to the payment of rental deposits.

10.7% increase in Accounts Payable and Other Accrued Liabilities

Due to increase in trade payables and accruals of certain operating expenses as a result of the increased flight and passenger activity during the period.

19.9% decrease in Due to Related Parties

Due to payments made during the period.

13.7% increase in Unearned Transportation Revenue

Due to the increase in sale of passenger travel services.

9.9% increase in Long-Term Debt (including Current Portion)

Due to additional loans availed to finance the purchase of three Airbus A320 aircraft acquired during the period, four A320 spare engines and one A330 spare engine, partially offset by the repayment of certain outstanding long-term debt in accordance with the repayment schedule.

136.0% increase in Income Tax Payable

Due to lesser creditable withholding tax available for offset against income tax due.

100% increase in Deferred Tax Liabilities-net

Due mainly to future taxable amounts recognized for unrealized foreign exchange gain during the period and decrease in deferred tax assets for asset retirement obligation and net operating loss carryover (NOLCO).

38.7% decrease in Other Noncurrent Liabilities

Due to payments made for aircraft restorations during the year applied against asset retirement obligation (ARO) liability.

24.6% increase in Retained Earnings

Due to net income during the period.

As of June 30, 2014, there are no significant elements of income that did not arise from the Group's continuing operations.

The Group generally records higher domestic revenue in January, March, April, May and December as festivals and school holidays in the Philippines increase the Group's seat load factors in these periods. Accordingly, the Group's revenue is relatively lower in July to September due to decreased domestic travel during these months. Any prolonged disruption in the Group's operations during such peak periods could materially affect its financial condition and/or results of operations.

KEY PERFORMANCE INDICATORS

The Group sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are major performance measures, which the Group has identified as reliable performance indicators. Analyses are employed by comparisons and measurements based on the financial data as of June 30, 2014 and December 31, 2013 and for six months ended June 30, 2014 and 2013:

Key Financial Indicators	2014	2013
Total Revenue	₱26.717 billion	₱21.726 billion
Pre-tax Core Net Income	₱2.581 billion	₱2.638 billion
EBITDAR Margin	26.1%	26.4%
Cost per Available Seat Kilometre (ASK) (Php)	2.44	2.41
Cost per ASK (U.S. cents)	5.49	5.85
Seat Load Factor	85.5%	85.4%

The manner by which the Group calculates the above key performance indicators for both 2014 and 2013 is as follows:

Total Revenue	The sum of revenue obtained from the sale of air transportation services for passengers and cargo and ancillary revenue
Pre-tax Core Net Income	Operating income after deducting net interest expense and adding equity income/loss of joint venture
EBITDAR Margin	Operating income after adding depreciation and amortization, accretion of ARO and aircraft and engine lease expenses divided by total revenue
Cost per ASK	Operating expenses, including depreciation and amortization expenses and the costs of operating leases, but excluding fuel hedging effects, foreign exchange effects, net financing charges and taxation, divided by ASK
Seat Load Factor	Total number of passengers divided by the total number of actual seats on actual flights flown

As of June 30, 2014, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no known trends, demands, commitments, events or uncertainties that may have a material impact on the Group's liquidity.

As of June 30, 2014, except as otherwise disclosed in the financial statements and to the best of the Group's knowledge and belief, there are no events that would have a material adverse impact on the Group's net sales, revenues and income from operations and future operations.

PART II - OTHER INFORMATION

NONE.

SIGNATURES

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

CEBU AIR, INC.



LANCE Y. GOKONGWEI
President and Chief Executive Officer
Date: AUG 13 2014



JAIME I. CABANGIS
Chief Financial Officer
Date: AUG 13 2014



ROBIN C. DUI
Vice President - Comptroller
Date: AUG 13 2014

CEBU AIR, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2014

(With Comparative Audited Figures as of December 31, 2013)

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 8)	₱7,672,775,616	₱6,056,111,803
Financial assets at fair value through profit or loss (Note 9)	128,057,179	166,456,897
Receivables (Note 10)	1,593,659,174	1,817,816,603
Expendable parts, fuel, materials and supplies (Note 11)	647,353,125	711,175,860
Other current assets (Note 12)	1,368,358,614	1,281,494,328
Total Current Assets	11,410,203,708	10,033,055,491
Noncurrent Assets		
Property and equipment (Notes 13, 17, 28 and 29)	61,406,330,925	56,412,466,284
Investment in joint ventures (Note 14)	655,368,690	578,824,453
Deferred tax assets	-	112,156,602
Intangible assets (Note 7)	497,752,242	-
Other noncurrent assets (Note 15)	423,485,427	390,688,466
Total Noncurrent Assets	62,982,937,284	57,494,135,805
	₱74,393,140,992	₱67,527,191,296
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued liabilities (Note 16)	10,175,409,071	9,188,899,505
Unearned transportation revenue (Note 4 and 5)	6,069,320,268	5,338,917,236
Current portion of long-term debt (Notes 13 and 17)	4,295,673,295	3,755,141,710
Due to related parties (Note 25)	35,777,964	44,653,215
Income tax payable	24,990,875	10,587,869
Total Current Liabilities	20,601,171,473	18,338,199,535
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 13 and 17)	28,015,141,100	25,651,323,962
Deferred tax liabilities	11,485,280	-
Other noncurrent liabilities (Notes 13 and 23)	1,505,944,251	2,456,090,484
Total Noncurrent Liabilities	29,532,570,631	28,107,414,446
Total Liabilities	50,133,742,104	46,445,613,981
Equity (Note 19)		
Common stock	613,236,550	613,236,550
Capital paid in excess of par value	8,405,568,120	8,405,568,120
Treasury stock	(529,319,321)	(529,319,321)
Other comprehensive loss	(341,650,278)	(341,650,278)
Retained earnings	16,111,563,817	12,933,742,244
Total Equity	24,259,398,888	21,081,577,315
	₱74,393,140,992	₱67,527,191,296

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013

	Quarters Ended		Six Months Ended	
	2014	2013	2014	2013
REVENUES				
Sale of air transportation services (Note 4)				
Passenger	₱12,003,565,202	₱8,808,650,892	₱20,851,724,329	₱16,977,163,739
Cargo	757,677,542	654,875,549	1,437,495,042	1,225,524,039
Ancillary revenues (Note 20)	2,191,520,684	1,720,717,393	4,427,960,346	3,523,774,077
	14,952,763,428	11,184,243,834	26,717,179,717	21,726,461,855
EXPENSES				
Flying operations (Note 20)	6,897,370,319	5,412,366,296	13,097,447,984	10,648,947,692
Aircraft and traffic servicing (Note 20)	1,243,866,814	934,687,699	2,329,730,458	1,819,464,560
Repairs and maintenance (Note 20)	1,179,144,558	994,861,237	2,279,491,089	1,911,063,869
Depreciation and amortization	1,057,356,176	835,106,599	2,051,082,322	1,627,232,498
Aircraft and engine lease (Note 26)	929,080,077	489,570,611	1,735,382,530	955,609,656
Reservation and sales	555,853,003	442,662,380	1,083,109,862	891,959,127
General and administrative (Note 21)	340,566,730	328,435,246	613,632,210	596,012,590
Passenger service	300,110,150	224,041,590	565,506,894	434,301,230
	12,503,347,827	9,661,731,658	23,755,383,349	18,884,591,222
OPERATING INCOME	2,449,415,601	1,522,512,176	2,961,796,368	2,841,870,633
OTHER INCOME (EXPENSE)				
Interest expense (Notes 16 and 17)	(252,189,749)	(207,673,335)	(510,220,095)	(396,599,086)
Foreign exchange gains (losses)	911,429,293	(1,434,880,021)	717,774,596	(1,349,161,586)
Fuel hedging gains (losses) (Note 8)	80,824,018	(56,849,343)	35,734,981	3,120,664
Interest income (Notes 7 and 8)	28,225,309	66,482,322	53,032,669	155,968,855
Equity in net income of joint venture (Note 13)	40,304,404	18,073,773	76,544,238	37,189,460
	808,593,275	(1,614,846,604)	372,866,389	(1,549,481,693)
INCOME (LOSS) BEFORE INCOME TAX	3,258,008,876	(92,334,428)	3,334,662,757	1,292,388,940
PROVISION FOR (BENEFIT FROM) INCOME TAX	244,351,410	(349,675,520)	156,841,184	(121,816,149)
NET INCOME	3,013,657,466	257,341,092	3,177,821,573	1,414,205,089
OTHER COMPREHENSIVE INCOME, NET OF TAX	-	-	-	-
TOTAL COMPREHENSIVE INCOME	₱3,013,657,466	₱257,341,092	₱3,177,821,573	₱1,414,205,089
Basic/Diluted Earnings (Loss) Per Share			₱5.24	₱2.33
(Note 24)				

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2014
(With Comparative Unaudited Figures as of June 30, 2013)**

	For the Six Months Ended June 30, 2014						
	Common Stock (Note 19)	Capital Paid in Excess of Par Value (Note 19)	Treasury Stock (Note 19)	Other Comprehensive Loss (Note 23)	Appropriated Retained Earnings (Note 19)	Unappropriated Retained Earnings (Note 19)	Total Equity
Balance at January 1, 2014	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱341,650,278)	₱3,916,762,000	₱9,016,980,244	₱21,081,577,315
Net income	–	–	–	–	–	3,177,821,573	3,177,821,573
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	3,177,821,573	3,177,821,573
Balance at June 30, 2014	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱341,650,278)	₱3,916,762,000	₱ 12,194,801,817	₱ 24,259,398,888

	For the Six Months Ended June 30, 2013						
	Common Stock (Note 19)	Capital Paid in Excess of Par Value (Note 19)	Treasury Stock (Note 19)	Other Comprehensive Loss (Note 23)	Appropriated Retained Earnings (Note 19)	Unappropriated Retained Earnings (Note 19)	Total Equity
Balance at January 1, 2013	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱86,045,789)	₱1,416,762,000	₱12,216,940,675	₱22,037,142,235
Net income	–	–	–	–	–	1,414,205,089	1,414,205,089
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	1,414,205,089	1,414,205,089
Appropriation of retained earnings	–	–	–	–	–	–	–
Balance at June 30, 2013	₱613,236,550	₱8,405,568,120	(₱529,319,321)	(₱86,045,789)	₱1,416,762,000	₱13,631,145,764	₱23,451,347,324

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱3,334,662,757	₱1,292,388,940
Adjustments for:		
Depreciation and amortization (Note 13)	2,051,082,322	1,627,232,498
Interest expense (Note 17)	510,220,095	396,599,086
Unrealized foreign exchange (gains) losses	(584,623,049)	1,209,456,332
Provision for return cost (Note 18)	238,008,765	309,102,522
Fuel hedging (gains) losses (Note 9)	(35,734,981)	(3,120,664)
Equity in net income of joint ventures (Note 14)	(76,544,238)	(37,189,461)
Interest income (Notes 8 and 9)	(53,032,669)	(155,968,855)
Operating income before working capital changes	5,384,039,002	4,638,500,398
Decrease (increase) in:		
Receivables	599,532,582	40,054,620
Other current assets	(64,023,759)	(1,238,759,091)
Expendable parts, fuel, materials and supplies	63,822,735	(117,308,613)
Financial assets at fair value through profit or loss (derivatives) (Note 9)	74,134,699	148,346,739
Increase (decrease) in:		
Accounts payable and other accrued liabilities	143,540,004	848,561,896
Unearned transportation revenue	528,625,252	(455,429,068)
Due to related parties	(8,875,252)	(612,271)
Noncurrent liabilities	(1,203,109,500)	(182,061,068)
Net cash generated from operations	5,517,685,763	3,681,293,542
Interest paid	(506,450,615)	(357,444,583)
Interest received	54,592,607	162,022,105
Income taxes paid	(17,421,688)	-
Net cash provided by operating activities	5,048,406,067	3,485,871,064
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in subsidiary (Note 7)	(488,559,147)	-
Decrease in other noncurrent assets	(6,995,929)	(35,733,388)
Acquisition of property and equipment (Notes 13 and 28)	(6,664,579,289)	(4,456,261,028)
Net cash used in investing activities	(7,160,134,365)	(4,491,994,416)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	5,515,630,015	2,844,205,000
Repayments of long-term debt	(2,001,872,415)	(1,386,598,183)
Net cash provided by financing activities	3,513,757,600	1,457,606,817
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	(45,201,552)	117,711,731
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,356,827,750	569,195,196
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,315,947,866	10,728,326,325
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	₱7,672,775,616	₱11,297,521,521

See accompanying Notes to Unaudited Consolidated Financial Statements.

CEBU AIR, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

The Parent Company has ten special purpose entities (SPE) that it controls, namely: Cebu Aircraft Leasing Limited (CALL), IBON Leasing Limited (ILL), Boracay Leasing Limited (BLL), Surigao Leasing Limited (SLL), Sharp Aircraft Leasing Limited (SALL), Vector Aircraft Leasing Limited (VALL) Panatag One Aircraft Leasing Limited (POALL), Panatag Two Aircraft Leasing Limited (PTALL), Panatag Three Aircraft Leasing Limited (PTHALL) and Summit A Aircraft Leasing Limited (SAALL). CALL, ILL, BLL, SLL, SALL, VALL, POALL, PTALL, PTHALL and SAALL are SPEs in which the Parent Company does not have equity interest. CALL, ILL, BLL, SLL, SALL, VALL, POALL, PTALL, PTHALL and SAALL acquired the passenger aircraft for lease to the Parent Company under finance lease arrangements (Note 13) and funded the acquisitions through long-term debt (Note 17). In accordance with Philippine Financial Reporting Standards (PFRS) 10, *Consolidation Financial Statements*, the consolidated financial statements include the accounts of these SPEs (Note 2).

The Parent Company's common stock was listed with the Philippine Stock Exchange (PSE) on October 26, 2010, the Parent Company's initial public offering (IPO).

On March 20, 2014, the Parent Company acquired 100% ownership of Tiger Airways Philippines, including 40% stake in Roar Aviation II Pte. Ltd. (Roar II), a wholly owned subsidiary of Tiger Airways Holdings Limited.

The Parent Company, its ten SPEs and Tiger Airways Philippines (collectively known as "the Group") are consolidated for financial reporting purposes.

The Parent Company's ultimate parent is JG Summit Holdings, Inc. (JGSHI). The Parent Company is 66.15%-owned by CP Air Holdings, Inc. (CPAHI).

In 1991, pursuant to Republic Act (RA) No. 7151, the Parent Company was granted a franchise to operate air transportation services, both domestic and international. In August 1997, the Office of the President of the Philippines gave the Parent Company the status of official Philippine carrier to operate international services. In September 2001, the Philippine Civil Aeronautics Board (CAB) issued the permit to operate scheduled international services and a certificate of authority to operate international charters.

The Parent Company is registered with the Board of Investments (BOI) as a new operator of air transport on a pioneer and non-pioneer status. Under the terms of the registration and subject to certain requirements, the Parent Company is entitled to certain fiscal and non-fiscal incentives, including among others, an income tax holiday (ITH) for a period of four (4) to six (6) years (Notes 24 and 31).

Prior to the grant of the ITH and in accordance with the Parent Company's franchise, which extends up to year 2031:

- a. The Parent Company is subject to franchise tax of five percent (5%) of the gross revenue derived from air transportation operations. For revenue earned from activities other than air transportation, the Parent Company is subject to regular corporate income tax (RCIT) and to real property tax.
- b. In the event that any competing individual, partnership or corporation received and enjoyed tax privileges and other favorable terms which tended to place the Parent Company at any disadvantage, then such privileges shall have been deemed by the fact itself of the Parent Company's tax privileges and shall operate equally in favor of the Parent Company.

On May 24, 2005, the Reformed-Value Added Tax (R-VAT) law was signed as RA No. 9337 or the R-VAT Act of 2005. The R-VAT law took effect on November 1, 2005 following the approval on October 19, 2005 of Revenue Regulation (RR) No. 16-2005 which provides for the implementation of the rules of the R-VAT law. Among the relevant provisions of RA No. 9337 are the following:

- a. The franchise tax of the Parent Company is abolished;
- b. The Parent Company shall be subject to RCIT;
- c. The Parent Company shall remain exempt from any taxes, duties, royalties, registration license, and other fees and charges;
- d. Change in RCIT rate from 32.00% to 35.00% for the next three years effective on November 1, 2005, and 30.00% starting on January 1, 2009 and thereafter;
- e. 70.00% cap on the input VAT that can be claimed against output VAT; and
- f. Increase in the VAT rate imposed on goods and services from 10.00% to 12.00% effective on February 1, 2006.

On November 21, 2006, the President signed into law RA No. 9361, which amends Section 110(B) of the Tax Code. This law, which became effective on December 13, 2006, provides that if the input tax, inclusive of the input tax carried over from the previous quarter exceeds the output tax, the excess input tax shall be carried over to the succeeding quarter or quarters. The Department of Finance through the Bureau of Internal Revenue issued RR No. 2-2007 to implement the provisions of the said law. Based on the regulation, the amendment shall apply to the quarterly VAT returns to be filed after the effectivity of RA No. 9361.

On December 16, 2008, the Parent Company was registered as a Clark Freeport Zone (CFZ) enterprise and committed to provide air transportation services both domestic and international for passengers and cargoes at the Diosdado Macapagal International Airport.

2. Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investment that have been measured at fair value.

The financial statements of the Group are presented in Philippine Peso (₱), the Parent Company's functional and presentation currency. All amounts are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with PFRS. The Group has adopted the new and revised accounting standards, which became effective beginning January 1, 2013, in the accompanying financial statements. The consolidated statements of financial position as at June 30, 2014 and December 31, 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the three years then ended have been restated to effect the retrospective application of the new accounting standards (Note 3).

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company, Tiger Airways Philippines and the SPEs that it controls.

PFRS 10, prescribes guidance on the consolidation of SPE. Under PFRS 10, an SPE should be consolidated when the substance of the relationship between the company and the SPE indicates that the SPE is controlled by the company. Control over an entity may exist when one Company is exposed, or has the rights to variable returns from its involvement with the SPE and has the ability to affect those returns through its power over the SPE.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances, including intercompany profits and unrealized profits and losses, are eliminated in the consolidation.

3. **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) that are discussed below. Except as otherwise indicated, the adoption of the new and amended PFRS and Philippine Interpretations did not have any effect on the consolidated financial statements of the Group.

- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10. The amendment has no impact on the Group's financial position or performance.

- *Philippine Interpretation IFRIC 21, Levies (IFRIC 21)*
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.
- *PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. This amendment does not apply to the Group as it has no novated derivatives.
- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*
The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Improvements to PFRSs

The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted. Except as otherwise indicated, the following new and amended PFRS and Philippine Interpretations will not have significant impact on the financial statements of the Group:

- *PFRS 1, First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment has no impact on the Group’s financial position or performance.
- *PAS 1, Presentation of Financial Statements - Clarification of the requirements for comparative information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendment has no impact on the Group’s financial position or performance.

- *PAS 16, Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The Group has adopted the standard in reporting spare parts, stand-by and servicing equipment in its consolidated financial statements.
- *PAS 32, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment has no impact on the Group's financial position or performance.
- *PAS 34, Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment has no impact on the Group's financial position or performance.

Future Changes in Accounting Policies

The Company will adopt the following new and amended PFRS and Philippine Interpretations enumerated below when these become effective. Except as otherwise indicated, the following new and amended PFRS and Philippine Interpretations will not have significant impact on the financial statements of the Group:

Effective in 2015

- *PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendment has no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 2, Share-based Payment – Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.

- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The amendment has no impact on the Group's financial position or performance.

- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- *PFRS 13, Fair Value Measurement - Short-term Receivables and Payables*

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment has no impact on the Group's financial position or performance.

- *PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

- *PAS 24, Related Party Disclosures - Key Management Personnel*

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective

for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- *PAS 38, Intangible Asset - Revaluation Method - Proportionate Restatement of Accumulated Amortization*

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- *PFRS 13, Fair Value Measurement - Portfolio Exception*

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- *PAS 40, Investment Property*

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of

PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- PFRS 9, *Financial Instruments*

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

4. Summary of Significant Accounting Policies

Revenue Recognition

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

Sale of air transportation services

Passenger ticket and cargo waybill sales are initially recorded under 'Unearned transportation revenue' account in the consolidated statement of financial position until recognized under Revenue account in the consolidated statement of comprehensive income when the transportation service is rendered by the Group (e.g., when passengers and cargo are lifted). Unearned tickets are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

The related commission is recognized as outright expense upon the receipt of payment from customers, and is included under 'Reservation and sales' account.

Ancillary revenue

Revenue from not directly related in the transportation of passengers, cargo, mail and merchandise are recognized when transactions are carried out.

Interest income

Interest on cash, cash equivalents, short-term cash investments and debt securities classified as financial assets at FVPL is recognized as the interest accrues using the effective interest method.

Expense Recognition

Expenses are recognized when it is probable that a decrease in future economic benefits related to decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Expenses that arise in the course of ordinary regular activities of the Group include, among others, the operating expenses on the Group's operation.

General and Administrative Expenses

General and administrative expenses constitute cost of administering the business. These are recognized as expenses when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has occurred and the decrease in economic benefits can be measured reliably.

Cash and Cash Equivalents

Cash represents cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value. Cash equivalents include short-term investment that can be pre-terminated and readily convertible to known amount of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents, excluding cash on hand, are classified and accounted for as loans and receivables.

Financial Instruments

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized using the settlement date accounting. Derivatives are recognized on a trade date basis.

Initial recognition of financial instruments

Financial instruments are recognized initially at the fair value of the consideration given. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at cost or amortized cost. The Group has no HTM and AFS investments as of June 30, 2014 and December 31, 2013.

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

Determination of fair value

The fair value of financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models. Any difference noted between the fair value and the transaction price is treated as expense or income, unless it qualifies for recognition as some type of asset or liability.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

'Day 1' profit or loss

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price 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' profit or loss amount.

Financial assets and financial liabilities at FVPL

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

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

As of June 30, 2014 and December 31, 2013, the Group's financial assets at FVPL consist of derivative assets (Note 9).

Financial assets and financial liabilities at FVPL are presented in the consolidated statement of financial position at fair value. Changes in fair value are reflected in profit or loss. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in other revenue according to the terms of the contract, or when the right of the payment has been established.

Derivatives recorded at FVPL

The Group is a counterparty to certain derivative contracts such as commodity options. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently re-measured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). The Group did not apply hedge accounting on its derivative transactions for the six months ended June 30, 2014 and 2013.

The Group enters into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. These derivatives are entered into for risk management purposes. The gains or losses on these instruments are accounted for directly as charges to or credits against current operations under 'Fuel hedging gains (losses)' account in profit or loss.

As of June 30, 2014 and December 31, 2013, the Group has no embedded derivatives.

AFS investments

AFS investments are those non-derivative investments which are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value.

The unrealized gains and losses are recognized directly in equity [other comprehensive income (loss)] under 'Net unrealized gain (loss) on AFS investments' account in the statement of financial position. When the investment is disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized in the statement of income. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Dividends earned while holding AFS investments are recognized in the statement of income when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the statement of income and removed from the 'Net unrealized gain (loss) on AFS investments' account.

As of June 30, 2014 and December 31, 2013, the Group has no AFS investments.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial measurement, receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment loss. Amortized cost is calculated by taking into account any discount or premium on acquisition, and includes fees that are an integral part of the effective interest rate (EIR) and transaction costs. Gains and losses are recognized in profit or loss, when the receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy applies primarily to the Group's trade and other receivables (Note 9) and certain refundable deposits.

Financial liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at cost or amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy applies primarily to the Group's accounts payable and other accrued liabilities, long-term debt, and other obligations that meet the above definition (Notes 16, 17 and 18).

Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost (i.e., receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss. The asset, together with the associated allowance accounts, is written-off when there is no realistic prospect of future recovery. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Group.

AFS investments

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original EIR on the reduced carrying amount of the asset and is recorded under interest income in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is also reversed through profit or loss.

For equity investments classified as AFS investments, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is significant and prolonged is subject to judgment. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through the statement of comprehensive income. Increases in fair value after impairment are recognized directly in other comprehensive income.

Derecognition of Financial Instruments

Financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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 an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements; thus, the related assets and liabilities are presented gross in the consolidated statement of financial position.

Expendable Parts, Fuel, Materials and Supplies

Expendable parts, fuel, materials and supplies are stated at lower of cost and net realizable value (NRV). Cost of flight equipment expendable parts, materials and supplies are stated at acquisition cost determined on a moving average cost method. Fuel is stated at cost on a weighted average cost method. NRV is the estimated selling price in the ordinary course of business less estimated costs to sell.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, amortization and impairment loss, if any. The initial cost of property and equipment comprises its purchase price, any related capitalizable borrowing costs attributed to progress payments incurred on account of aircraft acquisition under construction and other directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are capitalized as part of ‘Property and equipment’ account only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Subsequent costs such as actual costs of heavy maintenance visits for passenger aircraft are capitalized and depreciated based on the estimated number of years or flying hours, whichever is applicable, until the next major overhaul or

inspection. Generally, heavy maintenance visits are required every five to six years for airframe and ten years or 20,000 flight cycles, whichever comes first, for landing gear. All other repairs and maintenance are charged against current operations as incurred.

Pre-delivery payments for the construction of aircraft are initially recorded as Construction in-progress when paid to the counterparty. Construction in-progress are transferred to the related 'Property and equipment' account when the construction or installation and related activities necessary to prepare the property and equipment for their intended use are completed, and the property and equipment are ready for service. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use.

Depreciation and amortization of property and equipment commence once the property and equipment are available for use and are computed using the straight-line method over the estimated useful lives (EULs) of the assets, regardless of utilization.

The EULs of property and equipment of the Group follows:

Passenger aircraft*	15 years
Engines	15 years
Rotables	15 years
Ground support equipment	5 years
EDP Equipment, mainframe and peripherals	3 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	5 years
Communication equipment	5 years
Special tools	5 years
Maintenance and test equipment	5 years
Other equipment	5 years

* With residual value of 15.00%

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

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

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed and adjusted, if appropriate, at each financial year-end.

Aircraft Maintenance and Overhaul Cost

The Group recognizes aircraft maintenance and overhaul expenses in accordance with the contractual terms.

The maintenance contracts are classified into two: (a) those based on time and material basis (TMB); and (b) power-by-the-hour (PBH) contract. For maintenance contract under TMB, the Group recognizes expenses based on expense as incurred method. For maintenance contract under PBH, the Group recognizes expense on an accrual basis.

ARO

The Group is contractually required under various lease contracts to restore certain leased aircraft to its original condition and to bear the cost of restoration at the end of the contract period. The contractual obligation includes regular aircraft maintenance, overhaul and restoration of the leased

aircraft to its original condition. The event that gives rise to the obligation is the actual flying hours of the asset as used, as the usage determines the timing and nature of the entity completes the overhaul and restoration. Regular aircraft maintenance is accounted for as expense when incurred, while overhaul and restoration are accounted on an accrual basis.

If there is a commitment related to maintenance of aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is made based on historical experience, manufacturers' advice and if relevant, contractual obligations, to determine the present value of the estimated future major airframe inspections cost and engine overhauls.

Advance payment for materials for the restoration of the aircraft is initially recorded as Advances to Supplier. This is recouped when the expenses for restoration of aircraft have been incurred.

The Group regularly assesses the provision for ARO and adjusts the related liability (Note 5).

Investments in Joint Ventures

A joint venture (JV) is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled entity is a JV that involves the establishment of a separate entity in which each venturer has an interest.

The Group's 50.00%, 49.00% and 35.00% investments in Philippine Academy for Aviation Training, Inc. (PAAT), Aviation Partnership (Philippines) Corporation (A-plus) and SIA Engineering (Philippines) Corporation (SIAEP), respectively, are accounted for under the equity method (Note 14). Under the equity method, the investments in JV are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the JV, less any allowance for impairment in value. The consolidated statement of comprehensive income reflects the Group's share in the results of operations of the JV. Dividends received are treated as a revaluation of the carrying value of the investment.

The financial statements of the investee companies used in the preparation of the consolidated financial statements are prepared as of the same date with the Group. The investee companies' accounting policies conform to those by the Group for like transactions and events in similar circumstances.

Business Combinations and Goodwill

PFRS 3 provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair value to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the costs of the business combination can be determined only provisionally, the acquirer shall account for the business combination using provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable assets, liabilities or contingent liabilities that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable assets, liabilities or contingent liabilities being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the business combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer elects whether to measure the non-controlling interest in the acquiree at

fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed in the statement of comprehensive income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as bargain purchase gain.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets, excluding goodwill and branch licenses, are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

Intangible assets include, but are not limited, to certain rights and entitlements granted to Tiger Airways Philippines.

Impairment of Goodwill

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statement of comprehensive income. Impairment loss recognized for goodwill shall not be reversed in future periods.

Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's property and equipment and investments in JV.

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An assessment is made at each statement of financial position date as to whether there is any indication that a previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased

amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Impairment of Investment in JV

The Group's investment in JV is tested for impairment in accordance with PAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in PAS 39 indicates that the investment may be impaired. An impairment loss recognized in those circumstances is not allocated to any asset that forms part of the carrying amount of the investment in a JV. Accordingly, any reversal of that impairment loss is recognized in accordance with PAS 36 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates: (a) its share of the present value of the estimated future cash flows expected to be generated by the JV, including the cash flows from the operations of the JV and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Common Stock

Common stocks are classified as equity and recorded at par. Proceeds in excess of par value are recorded as 'Capital paid in excess of par value' in the consolidated statement of financial position. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Treasury Stock

Own equity instruments which are acquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit and loss on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Retained Earnings

Retained earnings represent accumulated earnings of the Group less dividends declared.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved and declared by the BOD, in the case of cash dividends; or by the BOD and shareholders, in the case of stock dividends.

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 (i.e., more likely than not) that an outflow of assets embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, 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 an interest expense in profit or loss.

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but disclosed in the 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.

Pension Costs

Defined benefit plan

The net defined benefit liability or asset is the aggregate of 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.

Defined benefit costs comprise the following:

- (a) service cost;
- (b) net interest on the net defined benefit liability or asset; and
- (c) 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.

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 high quality corporate bonds to the net defined benefit liability or asset. 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, 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 or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

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

Income Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as of the reporting date.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences with certain exceptions, and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over RCIT and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax assets, however, are not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable profit or loss. Deferred tax liabilities are not provided on non-taxable temporary differences associated with interests in JV. With respect to interests in JV, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the statement of financial position date.

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

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

Leases

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

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

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

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included under 'Property and equipment' account with the corresponding liability to the lessor included under 'Long-term debt' account in the consolidated statement of financial position. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

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

Group as lessor

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

Borrowing Costs

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

The Group had not capitalized any borrowing costs for the years ended December 31, 2013 and 2012 as all borrowing costs from outstanding long-term debt relate to assets that are at state ready for intended use (Note 17).

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the Group's functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency using the Philippine Dealing and Exchange Corp. (PDEX) closing rate prevailing at the reporting date. All differences are taken to the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the prevailing closing exchange rate as of the date of initial transaction.

Earnings (Loss) Per Share (EPS)

Basic EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

For the six months ended June 30, 2014 and 2013, the Parent Company does not have any dilutive potential ordinary shares.

Segment Reporting

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

Events After the Reporting Date

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

5. Significant Accounting Judgments and Estimates

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

Judgments

a. Going concern

The management of the Group has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the Group is not aware of any material uncertainties that may cast significant doubts upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

b. Classification of financial instruments

The Group exercises judgment in classifying a financial instrument, or its component, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, financial liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination of whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

c. Fair values of financial instruments

Where the fair values of certain financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques, including the discounted cash flow model. The inputs to these models are taken from observable market data where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity risk, credit risk and volatility. Changes in assumptions about these factors could

affect the reported fair value of financial instruments. For derivatives, the Group generally relies on counterparties' valuation.

The fair values of the Group's financial instruments are presented in Note 27.

d. Impairment of financial assets

In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that loss event or events has an impact on the estimated future cash flows of the financial assets or the group of financial assets that can be reliably estimated. This observable data may include adverse changes in payment status of borrowings in a group, or national or local economic conditions that correlate with defaults on assets in the portfolio.

e. Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimate of the recoverable amounts which is the net selling price or value in use of the CGUs to which the goodwill is allocated. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGUs and choose a suitable discount rate in order to calculate the present value of those cash flows.

f. Classification of leases

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

The Group also has lease agreements where it has determined that the risks and rewards related to the leased assets are retained with the lessors. Such leases are accounted for as operating leases (Note 28).

g. Consolidation of SPEs

The Group periodically undertakes transactions that may involve obtaining the rights to variable returns from its involvement with the SPE. These transactions include the purchase of aircraft and assumption of certain liabilities. Also, included are transactions involving SPEs and similar vehicles. In all such cases, management makes an assessment as to whether the Group has the right over the returns of its SPEs, and based on this assessment, the SPE is consolidated as a subsidiary or associated company. In making this assessment, management considers the underlying economic substance of the transaction and not only the contractual terms.

h. Determination of functional currency

PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, each entity in the Group considers the following:

- a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- b) the currency in which funds from financing activities are generated; and
- c) the currency in which receipts from operating activities are usually retained.

The Group's consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency.

i. Contingencies

The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 28).

j. Allocation of revenue, costs and expenses

Revenue, costs and expenses are classified as exclusive and common. Exclusive revenue, cost and expenses such as passenger revenue, cargo revenue, excess baggage revenue, fuel and insurance surcharge, fuel and oil expense, hull/war/risk insurance, maintenance expense, depreciation (for aircraft under finance lease), lease expense (for aircraft under operating lease) and interest expense based on the related long-term debt are specifically identified per aircraft based on an actual basis. For revenue, cost and expense accounts that are not identifiable per aircraft, the Group provides allocation based on activity factors that closely relate to the earning process of the revenue.

k. Application of hedge accounting

The Group applies hedge accounting treatment for certain qualifying derivatives after complying with hedge accounting requirements, specifically on hedge documentation designation and effectiveness testing. Judgment is involved in these areas, which include management determining the appropriate data points for evaluating hedge effectiveness, establishing that the hedged forecasted transaction in cash flow hedges are probable of occurring, and assessing the credit standing of hedging counterparties (Note 9).

l. Classification of joint arrangements

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

Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the statement of financial position date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below:

a. Estimation of allowance for credit losses on receivables

The Group maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the agents, customers and other counterparties, the payment behavior of agents and customers, other counterparties and other known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis.

The related balances follow (Note 10):

	2014	2013
Receivables	₱1,825,266,312	₱2,053,254,622
Allowance for credit losses	231,607,138	235,438,019

b. *Determination of NRV of expendable parts, fuel, materials and supplies*

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

The related balances follow (Note 11):

	2014	2013
Expendable Parts, Fuel, Materials and Supplies		
At NRV	₱439,539,411	₱407,985,226
At cost	207,813,714	303,190,634

As of June 30, 2014 and December 31, 2013, allowance for inventory write-down for expendable parts amounted to ₱20.5 million. No additional provision for inventory write-down was recognized by the Group in 2014 and 2013.

c. *Estimation of ARO*

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

Assumptions used to compute ARO are reviewed and updated annually by the Group. As of June 30, 2014 and 2013, the cost of restoration is computed based on the Group's average borrowing cost.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. The recognition of ARO would increase other noncurrent liabilities and repairs and maintenance expense.

As of June 30, 2014 and December 31, 2013, the Group's ARO liability (included under 'Other noncurrent liabilities' account in the statements of financial position) has a carrying value of ₱653.3 million and ₱1,637.3 million, respectively (Note 18). The related repairs and maintenance expense for the six months ended June 30, 2014 and 2013 ₱238.0 million and ₱309.1 million, respectively (Notes 18 and 21).

d. *Estimation of useful lives and residual values of property and equipment*

The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group estimates the residual value of its property and equipment based on the expected amount recoverable at the end of its useful life. The Group reviews annually the EULs and residual values of property and equipment based on factors that include physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by

changes in the factors mentioned. A reduction in the EUL or residual value of property and equipment would increase recorded depreciation and amortization expense and decrease noncurrent assets.

As of June 30, 2014 and December 31, 2013, the carrying values of the Group's property and equipment amounted to ₱61,406.3 million and ₱56,412.5 million, respectively (Note 13). The Group's depreciation and amortization expense amounted to ₱2,051.1 million and ₱1,627.2 million for the six months ended June 30, 2014 and 2013, respectively (Note 13).

e. Impairment of nonfinancial assets

The Group assesses the impairment of nonfinancial assets, particularly property and equipment and investment in JV, whenever events or changes in circumstances indicate that the carrying amount of the nonfinancial asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset or investment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

As of June 30, 2014 and December 31, 2013, the carrying values of the Group's property and equipment amounted to ₱61,406.3 million and ₱56,412.5 million, respectively (Note 13). Investments in JV amounted to ₱655.4 million and ₱578.8 million as of June 30, 2014 and December 31, 2013, respectively (Note 14). There were no provision for impairment losses on the Group's property and equipment and investments in JV for the six months ended June 30, 2014 and 2013.

f. Estimation of pension and other employee benefit costs

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates (Note 22).

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The Group's pension liability (included in 'Other noncurrent liabilities' account in the consolidated statements of financial position) amounted to ₱572.1 million and ₱538.2 million as of June 30, 2014 and December 31, 2013, respectively (Notes 18 and 23).

The Group also estimates other employee benefit obligations and expense, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

g. Recognition of deferred tax assets

The Group assesses the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

As of June 30, 2014 and 2013, the Group had certain gross deductible and taxable temporary differences which are expected to expire or reverse within the ITH period, and for which deferred tax assets and deferred tax liabilities were not set up on account of the Parent Company's ITH.

h. Passenger revenue recognition

Passenger sales are recognized as revenue when the obligation of the Group to provide transportation service ceases, either: (a) when transportation services are already rendered; or (b) when the Group estimates that unused tickets are already expired. The value of unused tickets is included as unearned transportation revenue in the consolidated statement of financial position and recognized as revenue based on estimates. These estimates are based on historical experience. While actual results may vary from these estimates, the Group believes it is unlikely that materially different estimates for future refunds, exchanges, and forfeited tickets would be reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time the estimates were made.

As of June 30, 2014 and December 31, 2013, the balances of the Group's unearned transportation revenue amounted to ₱6,069.3 million and ₱5,338.9 million, respectively. Ticket sales that are not expected to be used for transportation are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the tickets and historical trends.

6. Segment Information

The Group has one reportable operating segment, which is the airline business (system-wide). This is consistent with how the Group's management internally monitors and analyzes the financial information for reporting to the CODM, who is responsible for allocating resources, assessing performance and making operating decisions.

The revenue of the operating segment was mainly derived from rendering transportation services. All sales are made to external customers. The Company generally records higher domestic revenue in January, March, April, May and December as festivals and school holidays in the Philippines increase the Company's seat load factor in these periods. Accordingly, the Company's revenue is relatively lower in July to September due to decreased domestic travel during these months.

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

The amount of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the consolidated statement of financial position which is in accordance with PFRS.

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

	2014	2013
Revenue	₱27,600,266,201	₱21,922,740,834
Net income	3,177,821,573	1,414,205,089
Depreciation and amortization	2,051,082,322	1,627,232,498
Interest expense	510,220,095	396,599,086
Interest income	53,032,669	155,968,855

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:

	2014	2013
Total segment revenue of reportable operating segment	₱26,717,179,717	₱21,726,461,855
Nontransport revenue and other income	883,086,484	196,278,979
Total revenue	₱27,600,266,201	₱21,922,740,834

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

	2014	2013
Total segment income of reportable segment	₱3,296,921,491	₱2,841,870,633
Add (deduct) unallocated items:		
Nontransport revenue and other income	883,086,484	196,278,979
Nontransport expenses and other charges	(510,220,095)	(1,745,760,672)
Provision for income tax	(491,966,307)	121,816,149
Net income	3,177,821,573	1,414,205,089
Other comprehensive income	-	-
Total comprehensive income	₱3,177,821,573	₱1,414,205,089

The Group's major revenue-producing asset is the fleet of aircraft owned by the Group, which is employed across its route network (Note 13).

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

7. Business Combination

As part of the strategic alliance between the Parent Company and Tiger Airways Holding Limited, on February 10, 2014, the Parent Company signed a sale and purchase agreement (SPA) to acquire 100% of Tiger Airways Philippines, including the 40% stake in Roar Aviation II Pte. Ltd. (Roar II), a wholly owned subsidiary of Tiger Airways Holdings Limited. Under the terms of the SPA, closing of the transaction is subject to the satisfaction or waiver of each of the conditions contained in the agreement. Closing date was on March 20, 2014 (the acquisition date). Consequently, the Parent Company gained control of Tiger Airways Philippines on said date.

On acquisition date, the fair value of the identifiable assets and liabilities Tiger Airways Philippines is ₱388.1 million (\$8.7 million). This includes the value of certain intangible assets, such as but not limited to rights and entitlements granted to Tiger Airways Philippines, valued at ₱497.8 million (\$11.1 million).

	Fair value recognized on acquisition date
Assets	₱586,694,549
Liabilities	696,312,516
Net assets (liabilities)	(109,617,967)
Intangible assets	497,752,242
Acquisition cost	₱388,134,275

The purchase price allocation has been prepared on a provisional basis due to unavailability of certain information to facilitate fair value computation and reasonable changes are expected as additional information becomes available.

8. Cash and Cash Equivalents

This account consists of:

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Cash on hand	₱25,719,439	₱24,115,537
Cash in banks (Note 25)	396,653,376	476,372,461
Short-term placements (Note 25)	7,250,402,801	5,555,623,805
	₱7,672,775,616	₱6,056,111,803

Cash in banks earns interest at the respective bank deposit rates. Short-term placements, which represent money market placements, are made for varying periods depending on the immediate cash requirements of the Group. Short-term placements denominated in Philippine peso earn an average interest of 1.47% and 1.51% for six months ended June 30, 2014 and 2013, respectively. Moreover, short-term placements in US dollar earn an average of 1.85% and 2.13% in 2014 and 2013, respectively.

Interest income on cash and cash equivalents, presented in the consolidated statements of comprehensive income, amounted to ₱53.0 million and ₱156.0 million for the six months ended June 30, 2014 and 2013, respectively.

9. Financial assets at fair value through profit or loss

This account consists of derivative financial instruments not designated as accounting hedges amounting ₱128.1 million and ₱166.5 million in 2014 and 2013, respectively.

As of June 30, 2014 and 2013 this account consists of commodity swaps.

Commodity swaps

The Group enters into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a charge against or credit to profit or loss. As of June 30, 2014 and 2013, the Group has outstanding fuel hedging transactions. The notional quantity is the amount

of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The options can be exercised at various calculation dates with specified quantities on each calculation date. The options have various maturity dates through December 31, 2014 (Note 5).

Fair value changes on derivatives

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

	2014	2013
Balance at beginning of year		
Derivative assets	₱166,456,897	₱102,682,762
Derivative liabilities	-	-
	166,456,897	102,682,762
Net changes in fair value of derivatives	35,734,981	290,325,093
	202,191,878	393,007,855
Fair value of settled instruments	(74,134,699)	(226,550,958)
Balance at end of year	₱128,057,179	₱166,456,897
Attributable to:		
Derivative assets	₱128,057,179	₱166,456,897

10. Receivables

This account consists of:

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Trade receivables (Note 25)	₱999,236,850	₱944,473,733
Due from related parties (Note 25)	136,453,965	556,591,334
Interest receivable	3,617,152	4,904,684
Others	685,958,345	547,284,871
	1,825,266,312	2,053,254,622
Less allowance for credit losses	(231,607,138)	(235,438,019)
	₱1,593,659,174	₱1,817,816,603

Trade receivables are noninterest-bearing and generally have 30 to 90 days terms. The receivables are carried at cost.

Interest receivable pertains to accrual of interest income from short-term placements. Accrued interest income from short-term placements amounted to ₱3.6 million and ₱4.9 million as of June 30, 2014 and December 31, 2013, respectively.

Others include receivable under a sublease agreement denominated in US dollar equivalent to ₱230.4 million with another airline company. This receivable is fully provided with allowance for credit losses. The account also includes receivables from insurance, employees and counterparties.

The following tables show the aging analysis of the Group's receivables:

	2014							
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Over 180 days	Past Due and Impaired	Total
		31-60 days	61-90 days	91-180 days				
Trade receivables	P906,732,256	P59,970,002	P26,203,717	P-	P-	P6,330,875	P999,236,850	
Interest receivable	3,617,152	-	-	-	-	-	3,617,152	
Due from related parties	136,453,965	-	-	-	-	-	136,453,965	
Others*	404,028,376	41,551,460	11,082,959	4,019,287	-	225,276,263	685,958,345	
	P1,450,831,749	P101,521,462	P37,286,676	P4,019,287	P-	P231,607,138	P1,825,266,312	

*Include nontrade receivables from insurance, employees and counterparties.

	2013							
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Over 180 days	Past Due and Impaired	Total
		31-60 days	61-90 days	91-180 days				
Trade receivables	P846,850,506	P51,227,598	P39,972,229	P-	P92,525	P6,330,875	P944,473,733	
Interest receivable	4,904,684	-	-	-	-	-	4,904,684	
Due from related parties	556,591,334	-	-	-	-	-	556,591,334	
Others*	281,542,919	3,387,531	8,692,153	10,550,405	14,004,719	229,107,144	547,284,871	
	P1,689,889,443	P54,615,129	P48,664,382	P10,550,405	P14,097,244	P235,438,019	P2,053,254,622	

*Include nontrade receivables from insurance, employees and counterparties.

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

	June 30, 2014 Unaudited		
	Trade Receivables	Others	Total
Balance at beginning of year	P6,300,875	P229,107,144	P235,408,019
Unrealized foreign exchange gain on allowance for credit losses	-	(3,800,881)	(3,800,881)
Balance at end of year	P6,300,875	P225,306,263	P231,607,138

	December 31, 2013 Audited		
	Trade Receivables	Others	Total
Balance at beginning of year	P6,330,875	P211,906,744	P218,237,619
Unrealized foreign exchange gain on allowance for credit losses	-	17,200,400	17,200,400
Balance at end of year	P6,300,875	P229,107,144	P235,438,019

As of June 30, 2014 and December 31, 2013, the specific allowance for credit losses on trade receivables and other receivables amounted to P231.6 million and P235.4 million, respectively.

11. Expendable Parts, Fuel, Materials and Supplies

This account consists of:

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
At NRV:		
Expendable parts	P439,539,411	P407,985,226
At cost:		
Fuel	171,074,405	273,197,071
Materials and supplies	36,739,309	29,993,563
	207,813,714	303,190,634
	P647,353,125	P711,175,860

The cost of expendable and consumable parts, and materials and supplies recognized as expense (included under 'Repairs and maintenance' account in the consolidated statements of comprehensive income) for the six months ended June 30, 2014 and 2013 amounted to ₱185.8 million and ₱119.4 million, respectively. The cost of fuel reported as expense under 'Flying operations' amounted to ₱11.7 billion and ₱9.4 billion for the six months ended June 30, 2014 and 2013, respectively (Note 21).

The cost of expendable parts amounted to ₱446.1 million and ₱400.4 million as of June 30, 2014 and December 31, 2013, respectively. There are no additional provisions for inventory write down in 2014 and 2013. No expendable parts, fuel, material and supplies are pledged as security for liabilities.

12. Other Current Assets

This account consists of:

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Advances to suppliers	₱987,480,580	₱981,588,109
Prepaid rent	264,740,768	231,535,642
Prepaid insurance	87,910,489	48,897,285
Others	28,226,777	19,473,292
	₱1,368,358,614	₱1,281,494,328

Advances to suppliers include advances made for the purchase of various aircraft parts, service maintenance for regular maintenance and restoration costs of the aircrafts. Advances for regular maintenance are recouped from progress billings which occur within one year from the date the advances arose, whereas, advance payment for restoration costs is recouped when the expenses for restoration of aircraft have been incurred. The advances are unsecured and noninterest-bearing.

Prepaid rent pertains to advance rental on aircraft under operating lease and on office spaces in airports.

Prepaid insurance consist of aviation insurance which represents insurance of hull, war, and risk, passenger and cargo insurance for the aircraft during flights and non-aviation insurance represents insurance payments for all employees' health and medical benefits, commission, casualty and marine insurance as well as car/motor insurance.

Others include unamortized breakage costs incurred on pre-terminated loans.

13. Property and Equipment

This account consists of:

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Acquisition Costs		
Passenger aircraft	₱61,584,499,346	₱55,467,053,217
Pre-delivery payments	7,741,720,923	8,415,233,301
Engines	5,289,971,847	4,766,121,255
Rotables	2,701,121,059	1,925,128,766
EDP equipment, mainframe and peripherals	690,891,846	675,411,190
Leasehold improvements	502,006,022	474,091,617
Ground support equipment	443,889,213	439,233,909
Construction in-progress	412,448,891	215,365,375
Transportation equipment	196,499,840	187,315,197
Furniture, fixtures and office equipment	106,520,814	98,788,649
Special tools	14,069,100	12,930,393
Communication equipment	12,213,602	11,166,615
Maintenance and test equipment	6,681,631	6,681,631
Other equipment	90,390,686	81,210,161
Total	79,792,924,820	72,775,731,276
Accumulated depreciation	(18,386,593,895)	(16,363,264,992)
Net book value	₱61,406,330,925	₱56,412,466,284

The Group's depreciation and amortization expense amounted to ₱2,051.1 million and ₱1,627.2 million for the six months ended June 30, 2014 and 2013, respectively.

Passenger Aircraft Held as Securing Assets Under Various Loans

The Group entered into various ECA and commercial loan facilities to finance the purchase of its aircraft and engines. As of June 30, 2014, the Group has ten (10) Airbus A319 aircraft, seven (7) Avion de Transport Regional (ATR) 72-500 turboprop aircraft, and ten (10) Airbus A320 aircraft under ECA loans, and ten (10) Airbus A320 aircraft, five (5) ATR aircraft and five (5) engines under commercial loans.

Under the terms of the ECA loan and commercial loan facilities (Note 16), upon the event of default, the outstanding amount of loan (including accrued interest) will be payable by CALL or ILL or BLL or SLL or SALL or VALL or POALL or PTALL or PTHALL or SAALL, or by the guarantors which are CPAHI and JGSHI. CPAHI and JGSHI are guarantors to loans entered into by CALL, ILL, BLL, SLL, and SALL. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of June 30, 2014 and December 31, 2013, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱47.4 billion and ₱43.1 billion, respectively.

Operating Fleet

As of June 30, 2014 and December 31, 2013, the Group's operating fleet follows:

	2014	2013
Owned (Note 17):		
Airbus A319	10	10
Airbus A320	20	17
ATR 72-500	8	8
Under operating lease (Note 28):		
Airbus A320	10	11
Airbus A330	4	2
	52	48

Construction in-progress represents the cost of aircraft and engine construction in progress and buildings and improvements and other ground property under construction. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of June 30, 2014 and December 31, 2013, the Group's capitalized pre-delivery payments as construction-in-progress amounted to ₱7.7 billion and ₱8.4 billion, respectively (Note 28).

As of June 30, 2014 and December 31, 2013, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱940.2 million and ₱851.0 million, respectively.

As of June 30, 2014 and December 31, 2013, there are no temporary idle property and equipment.

14. Investment in Joint Ventures

The investments in joint ventures represent the Parent Company's 50.00%, 49.00% and 35.00% interests in PAAT, A-plus and SIAEP, respectively. The joint ventures are accounted for as jointly controlled entities.

Investment in PAAT pertains to the Parent Company's 60.00% investment in shares of the joint venture. However, the joint venture agreement between the Parent Company and CAE International Holdings Limited (CAE) states that the Parent Company is entitled to 50% share on the net income/loss of PAAT. As such, the Parent Company recognizes equivalent 50% share in net income and net assets of the joint venture.

PAAT was created to address the Group's training requirements and to pursue business opportunities for training third parties in the commercial fixed wing aviation industry, including other local and international airline companies. PAAT was formally incorporated on January 27, 2012 and started commercial operations in December 2012.

As of June 30, 2014 and December 31, 2013, the Parent Company's investment in PAAT amounted to ₱156.8 million and ₱131.3 million, respectively.

A-plus and SIAEP were established for the purpose of providing line, light and heavy maintenance services to foreign and local airlines, utilizing the facilities and services at airports in the country, as well as aircraft maintenance and repair organizations.

A-plus was incorporated on May 24, 2005 and started commercial operations on July 1, 2005 while SIAEP was incorporated on July 27, 2008 and started commercial operations on August 17, 2009.

The movements in the carrying values of the Group's investments in joint ventures in A-plus, SIAEP and PAAT follow:

	2014			
	A-plus	SIAEP	PAAT	Total
Cost				
Balance at beginning of the year	P87,012,572	P304,763,900	P134,873,645	P526,650,117
Accumulated Equity in				
Net Income (Loss)				
Balance at beginning of the year	80,072,598	(24,307,482)	(3,590,781)	52,174,335
Equity in net income during the year	53,525,876	(2,481,753)	25,500,115	76,544,238
Balance at end of the year	133,598,474	(26,789,235)	21,909,334	128,718,573
Net Carrying Value	P220,611,046	P277,974,665	P156,782,979	P655,368,690

	2013			
	A-plus	SIAEP	PAAT*	Total
Cost				
Balance at beginning of the year	P87,012,572	P304,763,900	P134,873,645	P526,650,117
Accumulated Equity in				
Net Income (Loss)				
Balance at beginning of the year	42,046,763	(46,273,497)	(10,666,510)	(14,893,244)
Equity in net income (loss) during the year	90,318,725	21,966,015	7,075,729	119,360,469
Dividends received	(52,292,889)	-	-	(52,292,889)
Balance at end of the year	80,072,599	(24,307,482)	(3,590,781)	52,174,336
Net Carrying Value	P167,085,171	P280,456,418	P131,282,864	P578,824,453

Selected financial information of A-plus, SIAEP and PAAT as of June 30, 2014 and December 31, 2013 follow:

2014

	Aplus	SIAEP	PAAT
Total current assets	P694,083,054	P823,887,957	P231,835,139
Noncurrent assets	135,638,641	1,227,824,859	800,808,856
Current liabilities	(379,495,071)	(738,393,426)	(47,596,846)
Noncurrent liabilities	-	(519,106,061)	(671,481,191)
Equity	450,226,624	794,213,329	313,565,958
Proportion of the Group's ownership	49%	35%	50%
Carrying amount of the investments	P220,611,046	P277,974,665	P156,782,979

2013

	Aplus	SIAEP	PAAT
Total current assets	P542,350,932	P772,860,471	P176,354,588
Noncurrent assets	106,362,888	1,079,620,021	821,101,107
Current liabilities	(307,723,675)	(671,766,913)	(734,889,967)
Noncurrent liabilities	-	(379,409,528)	-
Equity	340,990,145	801,304,051	262,565,728
Proportion of the Group's ownership	49%	35%	50%
Carrying amount of the investments	P167,085,171	P280,456,418	P131,282,864

Summary of statement of profit and loss of A-plus, SIAEP and PAAT for the six-month period ended June 30, 2014 and for the year ended December 31, 2013 follow:

2014

	Aplus	SIAEP	PAAT
Revenue	₱422,574,083	₱489,670,657	₱126,292,642
Expenses	280,309,663	498,506,911	79,519,822
Other income (expenses)	13,648,607	3,888,051	6,887,195
Income before tax	155,913,027	(4,948,203)	53,660,015
Income tax expense	46,676,546	2,142,521	2,659,785
Net income	109,236,481	(7,090,724)	51,000,230
Group's share of profit for the year	₱53,525,876	(₱2,481,753)	₱25,500,115

2013

	Aplus	SIAEP	PAAT
Revenue	₱709,880,406	₱717,485,690	₱186,914,210
Expenses	463,510,962	643,887,307	169,924,076
Other income (expenses)	(16,635,747)	2,841,053	(319,542)
Income before tax	263,005,191	70,757,330	17,309,676
Income tax expense	78,681,263	7,997,288	3,158,219
Net income	184,323,928	62,760,042	14,151,457
Group's share of profit for the year	₱709,880,406	₱21,966,015	₱7,075,729

The fiscal year-end of A-plus and SIAEP is every March 31 while the year-end of PAAT is every December 31.

The undistributed earnings of A-plus included in the consolidated retained earnings amounted to ₱133.6 million and ₱80.1 million as of June 30, 2014 and December 31, 2013, respectively, which is not currently available for dividend distribution unless declared by A-plus.

The Group has no share of any contingent liabilities or capital commitments as of June 30, 2014 and December 31, 2013.

15. Other Noncurrent Assets

This account consists of:

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Refundable deposits	₱231,093,801	₱228,857,751
Others	192,391,626	161,830,715
	₱423,485,427	₱390,688,466

Refundable deposits pertain to security deposits provided to lessor for aircraft under operating lease.

Others include option and commitment fees. The option and commitment fees shall be applied against payments for future aircraft delivery.

16. Accounts Payable and Other Accrued Liabilities

This account consists of:

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Trade payables (Note 25)	₱3,963,666,132	₱4,313,509,756
Accrued expenses	4,568,927,936	3,539,882,921
Airport and other related fees payable	968,648,423	742,614,823
Advances from agents and others	356,326,521	291,742,288
Interest payable (Note 16)	202,588,910	198,819,429
Other payables	115,251,149	102,330,288
	₱10,175,409,071	₱9,188,899,505

Accrued Expenses

The Group's accrued expenses include accruals for:

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Maintenance (Note 28)	₱1,178,471,897	₱984,129,468
Compensation and benefits	727,909,387	552,453,509
Advertising and promotions	451,619,329	314,061,391
Fuel	338,812,202	180,699,973
Navigational charges	294,473,381	243,688,767
Landing and take-off fees	277,599,536	184,906,577
Training costs	273,690,317	324,616,954
Ground handling charges	214,291,079	163,483,339
Repairs and services	159,325,939	169,242,006
Rent (Note 28)	127,412,832	120,079,923
Professional fees	113,928,723	113,526,044
Aircraft insurance	52,202,356	50,684,009
Catering supplies	24,658,267	23,193,648
Reservation costs	20,735,812	8,081,587
Others	313,796,879	107,035,726
	₱4,568,927,936	₱3,539,882,921

Others represent accrual of professional fees, security, utilities and other expenses.

Trade Payables

Trade payables, which consist mostly of payables related to the purchase of inventories, are noninterest-bearing and are normally settled on a 60-day term. These inventories are necessary for the daily operations and maintenance of the aircraft, which include aviation fuel, expendables parts, equipment and in-flight supplies.

Airport and Other Related Fees Payable

Airport and other related fees payable are amounts payable to the Philippine Tourism Authority and Air Transportation Office on aviation security, terminal fees and travel taxes.

Advances from Agents and Others

Advances from agents and others represent cash bonds required from major sales and ticket offices or agents.

Accrued Interest Payable

Accrued interest payable is related to long-term debt and normally settled quarterly throughout the year.

Other Payables

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

17. Long-term Debt

This account consists of:

	Interest Rates	Maturities	2014	
			US Dollar	Philippine Peso Equivalent
ECA loans	2.00% to 6.00%	Various dates through 2023	US\$267,307,307	₱11,667,963,931
	1.00% to 2.00% (US Dollar LIBOR)		157,555,691	6,877,305,945
			424,862,998	18,545,269,876
Commercial loans	4.00% to 6.00%	Various dates through 2017	247,144,204	10,787,844,485
	1.00% to 2.00% (US Dollar LIBOR)		68,217,641	2,977,700,034
			315,361,845	13,765,544,519
Less current portion			740,224,843	32,310,814,395
			98,411,759	4,295,673,295
			US\$641,813,084	₱28,015,141,100
<hr/>				
			2013	
	Interest Rates	Maturities	US Dollar	Philippine Peso Equivalent
ECA loans	2.00% to 6.00%	Various dates through 2023	US\$289,926,581	₱12,871,290,579
	1.00% to 2.00% (US Dollar LIBOR)		165,345,108	7,340,496,051
			455,271,689	20,211,786,630
Commercial loans	4.00% to 6.00%	Various dates through 2017	170,748,885	7,580,396,757
	1.00% to 2.00% (US Dollar LIBOR)		36,361,804	1,614,282,285
			207,110,689	9,194,679,042
Less current portion			662,382,378	29,406,465,672
			84,584,789	3,755,141,710
			US\$577,797,589	₱25,651,323,962

ECA Loans

In 2005 and 2006, the Group entered into ECA-backed loan facilities to partially finance the purchase of ten Airbus A319 aircraft. The security trustee of the ECA loans established CALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to twelve-year finance lease agreements. The quarterly rental payments made by the Parent Company to CALL correspond to the principal and interest payments made by CALL to the ECA-backed lenders. The quarterly lease rentals to CALL are guaranteed by CPAHI and JGSHI. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2008, the Group entered into ECA-backed loan facilities to partially finance the purchase of six ATR 72-500 turboprop aircraft. The security trustee of the ECA loans established BLL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to ten-year finance lease agreements. The semi-annual rental payments made by the Parent Company to BLL corresponds to the principal and interest payments made by BLL to the ECA-backed lenders. The semi-annual lease rentals to BLL are guaranteed by JGSHI. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases. On November 30, 2010, the Parent Company pre-terminated the lease agreement with BLL related to the disposal of one ATR 72-500 turboprop aircraft. The outstanding balance of the related loans and accrued interests were also pre-terminated. The proceeds from the insurance claim on the related aircraft were used to settle the loan and accrued interest. JGSHI was released as guarantor on the related loans.

In 2009, the Group entered into ECA-backed loan facilities to partially finance the purchase of two ATR 72-500 turboprop aircraft. The security trustee of the ECA loans established SLL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to ten-year finance lease agreements. The semi-annual rental payments made by the Parent Company to SLL corresponds to the principal and interest payments made by SLL to the ECA-backed lenders. The semi-annual lease rentals to SLL are guaranteed by JGSHI. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2010, the Group entered into ECA-backed loan facilities to partially finance the purchase of four Airbus A320 aircraft, delivered between 2010 to January 2011. The security trustee of the ECA loans established SALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to twelve-year finance lease agreements. The quarterly rental payments made by the Parent Company to SALL corresponds to the principal and interest payments made by SALL to the ECA-backed lenders. The quarterly lease rentals to SALL are guaranteed by JGSHI. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2011, the Group entered into ECA-backed loan facilities to fully finance the purchase of three Airbus A320 aircraft, delivered between 2011 to January 2012. The security trustee of the ECA loans established VALL, special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to twelve-year finance lease agreements. The quarterly rental payments made by the Parent Company to VALL corresponds to the principal and interest payments made by VALL to the ECA-backed lenders. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2012, the Group entered into ECA-backed loan facilities to partially finance the purchase of three Airbus A320 aircraft. The security trustee of the ECA loans established POALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to twelve-year finance lease agreements. The quarterly rental payments made by the Parent Company to POALL corresponds to the principal and interest payments made by POALL to the ECA-backed lenders. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

The terms of the ECA-backed facilities, which are the same for each of the ten Airbus A319 aircraft, seven ATR 72-500 turboprop aircraft and ten Airbus A320 aircraft, follow:

- Term of 12 years starting from the delivery date of each Airbus A319 aircraft and Airbus A320, and ten years for each ATR 72-500 turboprop aircraft.
- Annuity style principal repayments for the first four Airbus A319 aircraft, eight ATR 72-500 turboprop aircraft and seven Airbus A320 aircraft, and equal principal repayments for the last six Airbus A319 aircraft and last three Airbus A320 aircraft. Principal repayments shall be

made on a semi-annual basis for ATR 72-500 turboprop aircraft. Principal repayments shall be made on a quarterly basis for Airbus A319 and A320 aircraft.

- Interest on loans from the ECA lenders are a mix of fixed and variable rates. Fixed interest rates ranges from 2.00% to 6.00% and variable rates are based on US dollar LIBOR plus margin.
- As provided under the ECA-backed facility, CALL, BLL, SLL, SALL, VALL and POALL cannot create or allow to exist any security interest, other than what is permitted by the transaction documents or the ECA administrative parties. CALL, BLL, SLL, SALL, VALL and POALL must not allow impairment of first priority nature of the lenders' security interests.
- The ECA-backed facilities also provide for the following events of default: (a) nonpayment of the loan principal or interest or any other amount payable on the due date, (b) breach of negative pledge, covenant on preservation of transaction documents, (c) misrepresentation, (d) commencement of insolvency proceedings against CALL or BLL or SLL or SALL or VALL or POALL becomes insolvent, (e) failure to discharge any attachment or sequestration order against CALL's, BLL's, SLL's, SALL's VALL's and POALL's assets, (f) entering into an undervalued transaction, obtaining preference or giving preference to any person, contrary to the laws of the Cayman Islands, (g) sale of any aircraft under ECA financing prior to discharge date, (h) cessation of business, (i) revocation or repudiation by CALL or BLL or SLL or SALL or VALL or POALL, the Group, JGSHI or CPAHI of any transaction document or security interest, and (j) occurrence of an event of default under the lease agreement with the Parent Company.
- Upon default, the outstanding amount of loan will be payable, including interest accrued. Also, the ECA lenders will foreclose on secured assets, namely the aircraft (Note 12).
- An event of default under any ECA loan agreement will occur if an event of default as enumerated above occurs under any other ECA loan agreement.

As of June 30, 2014 and December 31, 2013, the total outstanding balance of the ECA loans amounted to ₱18,545.3 million (US\$424.9 million) and ₱20,211.8 million (US\$455.3 million), respectively. Interest expense amounted to ₱292.0 million and ₱316.8 million in 2014 and 2013, respectively.

Commercial Loans

In 2007, the Group entered into a commercial loan facility to partially finance the purchase of two Airbus A320 aircraft, one CFM 565B4/P engine, two CFM 565B5/P engines and one QEC Kit. The security trustee of the commercial loan facility established ILL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to (a) ten-year finance lease arrangement for the aircraft, (b) six-year finance lease arrangement for the engines and (c) five-year finance lease arrangement for the QEC Kit. The quarterly rental payments of the Parent Company correspond to the principal and interest payments made by ILL to the commercial lenders and are guaranteed by JGSHI. The Parent Company has the option to purchase the aircraft, the engines and the QEC Kit for a nominal amount at the end of such leases.

In 2008, the Group also entered into a commercial loan facility, in addition to ECA-backed loan facility, to partially finance the purchase of six ATR 72-500 turboprop aircraft. The security trustee of the commercial loan facility established BLL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company. The commercial loan facility is payable in 12 equal, consecutive, semi-annual installments starting six months after the utilization date.

In 2012, the Group entered into a commercial loan facility to partially finance the purchase of four Airbus A320 aircraft. The security trustee of the commercial loan facility established PTALL, a special purpose company, which purchased the aircraft from the supplier and leases

such aircraft to the Parent Company pursuant to ten-year finance lease arrangement for the aircraft. The semiannual rental payments of the Parent Company correspond to the principal and interest payments made by PTALL to the commercial lenders. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2013, the Group entered into a commercial loan facility to partially finance the purchase of two Airbus A320 aircraft. The security trustee of the commercial loan facility established PTHALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to ten-year finance lease arrangement for the aircraft. The quarterly rental payments of the Parent Company correspond to the principal and interest payments made by PTHALL to the commercial lenders. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2014, the Group entered into a commercial loan facility to partially finance the purchase of four Airbus A320 aircraft and five A320 engines. The security trustee of the commercial loan facility established SAALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to a ten-year finance lease arrangement for the aircraft. The quarterly rental payments of the Parent Company correspond to the principal and interest payments made by SAALL to the commercial lenders. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases.

The terms of the commercial loans follow:

- Term of ten years starting from the delivery date of each Airbus A320 aircraft.
- Terms of five to six years for the engines and QEC Kit.
- Term of six years starting from the delivery date of each ATR 72-500 turboprop aircraft.
- Principal repayment is either equal principal or annuity style. Principal repayments shall be made on a quarterly and semi-annual basis.
- Interests on loans are a mix of fixed and variable rates. Interest rates ranges from 1.00% to 6.00%.
- The commercial loan facility provides for material breach as an event of default.
- Upon default, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose on secured assets, namely the aircraft.

As of June 30, 2014 and December 31, 2013, the total outstanding balance of the commercial loans amounted to ₱13,765.5 million (US\$315.4 million) and ₱9,194.7 million (US\$207.1 million), respectively. Interest expense amounted to ₱218.2 million and ₱79.8 million in 2014 and 2013, respectively.

The Group is not in breach of any loan covenants as of June 30, 2014 and December 31, 2013.

18. Other Noncurrent Liabilities

This account consists of:

	June 30, 2014	December 31, 2013
	(Unaudited)	(Audited)
ARO	₱653,324,049	₱1,637,345,608
Accrued maintenance	280,516,880	280,516,880
Pension liability (Note 22)	572,103,322	538,227,996
	₱1,505,944,251	₱2,456,090,484

ARO

The Group is legally required under certain lease contracts to restore certain leased passenger aircraft to stipulated return conditions and to bear the costs of restoration at the end of the contract period. These costs are accrued based on an internal estimate made by the work of both third party and the Group's engineers in 2010, which includes estimates of certain redelivery costs at the end of the operating aircraft lease (see Note 5).

The rollforward analysis of the Group's ARO follows:

	2014	2013
Balance at beginning of year	₱1,637,345,608	₱1,429,223,524
Provision for return cost	238,008,765	590,638,099
Payment of restorations during the year	(1,222,030,324)	(382,516,015)
Balance at end of year	₱653,324,049	₱1,637,345,608

In 2014 and 2013 ARO expenses included as part of repairs and maintenance amounted to ₱238.0 million and ₱309.1 million, respectively.

Accrued Maintenance

This account pertains to accrual of maintenance costs of aircraft based on the number of flying hours or cycles but will be settled beyond one year based on management's assessment.

19. Equity

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

	June 30, 2014	December 31, 2013
Authorized - at ₱1 par value	1,340,000,000	1,340,000,000
Beginning of year	605,953,330	605,953,330
Treasury shares	-	-
Issuance of shares during the year	-	-
Issued and outstanding	605,953,330	605,953,330

Issuance of Common Shares of Stock

On October 26, 2010, the Parent Company listed with the PSE its common stock, by way of primary and secondary share offerings, wherein it offered 212,419,700 shares to the public at ₱125.00 per share. Of the total shares sold, 30,661,800 shares are newly issued shares with total proceeds amounting ₱3,800.0 million. The Parent Company's share in the total transaction costs incurred incidental to the IPO amounting ₱100.4 million, which is charged against 'Capital paid in excess of par value' in the parent statement of financial position. The registration statement was approved on October 11, 2010. The Group has 98 and 76 existing certified shareholders as of June 30, 2014 and December 31, 2013, respectively.

Treasury Shares

On February 28, 2011, the BOD of the Parent Company approved the creation and implementation of a share buyback program (SBP) up to ₱2,000.0 million worth of the Parent Company's common share. The SBP shall commence upon approval and shall end upon utilization of the said amount, or as may be otherwise determined by the BOD.

The Parent Company has outstanding treasury shares of 7,283,220 shares amounting to ₱529.3 million as of December 31, 2013 and 2012, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.

Appropriation of Retained Earnings

On March 8, 2013, April 19, 2012 and December 9, 2011, the Parent Company's BOD appropriated ₱2.5 billion, ₱483.3 million and ₱933.5 million, respectively, from its unrestricted retained earnings as of December 31, 2013 for purposes of the Group's re-fleeting program. The appropriated amount was used for settlement of pre delivery payments and aircraft lease commitments in 2013 (Notes 17, 28 and 29). Planned re-fleeting program over the next five years amount to an estimated \$1.7 billion.

Unappropriated Retained Earnings

The income of the subsidiaries and JV that are recognized in the statements of comprehensive income are not available for dividend declaration unless these are declared by the subsidiaries and JV. Likewise, retained earnings are restricted for the payment of dividends to the extent of the cost of common shares held in treasury.

On June 26, 2014, the BOD of the Parent Company approved the declaration of a regular cash dividend in the amount of ₱606.0 million or ₱1.00 per share from the unrestricted retained earnings of the Parent Company to all stockholders of record as of July 16, 2014 and payable on August 11, 2014.

On June 27, 2013, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱606.0 million or ₱1.00 per share and a special cash dividend in the amount of ₱606.0 million of ₱1.00 per share from the unrestricted retained earnings of the Parent Company to all stockholders of record as of July 17, 2013 and was paid on August 12, 2013. Total dividends declared and paid amounted to ₱1,211.9 million as of December 31, 2013.

On June 28, 2012, the Parent Company's BOD approved the declaration of a regular cash dividend in the amount of ₱606.0 million or ₱1.00 per common share to all stockholders of record as of July 18, 2012 and was paid on August 13, 2012.

On March 17, 2011, the BOD of the Parent Company approved the declaration of a regular cash dividend in the amount of ₱1,222.4 million or ₱2.00 per share and a special cash dividend in the amount of ₱611.2 million or ₱1.00 per share from the unrestricted retained earnings of the Parent Company to all stockholders of record as of April 14, 2011 and was paid on May 12, 2011.

After reconciling items which include fair value adjustments on financial instruments, foreign exchange gain and cost of common stocks held in treasury, the amount of retained earnings that is available for dividend declaration as of June 30, 2014 amounted to ₱8,470.0 million.

Under the Tax Code, publicly-held Corporations are allowed to accumulate retained earnings in excess of capital stock and are exempt from improperly accumulated earnings tax. After reconciling items, the retained earnings available for dividends declaration is below the paid up capital. The paid up capital amounted to ₱9,018.8 million.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure, which composed of paid up capital and retained earnings, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

The Group's ultimate parent monitors the use of capital structure using a debt-to-equity capital ratio which is gross debt divided by total capital. The ultimate parent includes within gross debt all interest-bearing loans and borrowings, while capital represent total equity.

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

	2014	2013
(a) Long term debt (Notes 17 and 23)	₱32,310,814,395	₱29,406,465,672
(b) Capital	24,259,398,888	21,081,577,314
(c) Debt-to-capital ratio (a/b)	1.3:1	1.4:1

The JGSHI Group's policy is to keep the debt to capital ratio at the 2:1 level as of June 30, 2014 and December 31, 2013. Such ratio is currently being managed on a group level by the Group's ultimate parent.

20. Ancillary Revenues

Ancillary revenues consist of:

	2014	2013
Excess baggage fee	₱2,055,783,017	₱1,620,001,972
Rebooking, refunds, cancellation fees, etc.	374,253,908	307,559,007
Others	1,997,923,421	1,596,213,098
	₱4,427,960,346	₱3,523,774,077

Others pertain to revenues from in-flight sales, advanced seat selection fee and commissions from credit cards, hotels and others

21. Operating Expenses

Flying Operations

This account consists of:

	2014	2013
Aviation fuel expense	₱11,668,778,796	₱9,421,645,971
Flight deck	1,195,083,674	1,070,713,332
Aviation insurance	148,358,109	78,711,066
Others	85,227,405	77,877,323
	₱13,097,447,984	₱10,648,947,692

Aircraft and Traffic Servicing

This account consists of:

	2014	2013
Airport charges	₱1,369,764,515	₱1,062,874,042
Ground handling	749,232,700	550,593,617
Others	210,733,243	205,996,901
	₱2,329,730,458	₱1,819,464,560

Others pertain to staff expenses incurred by the Group such as basic pay, employee training cost and allowances.

Repairs and maintenance

Repairs and maintenance expenses relate to the cost of maintaining, repairing and overhauling of all aircraft and engines, technical handling fees on pre-flight inspections and cost of aircraft spare parts and other related equipment. The account includes the related amortization of ARO asset and cost of other contractual obligation under the aircraft operating lease agreements (Note 28). These amounted to ₱238.0 million and ₱309.1 million for the six months ended June 30, 2014 and 2013, respectively (Note 18).

22. General and Administrative Expenses

This account consists of:

	2014	2013
Staff cost	₱231,385,934	₱177,994,773
Utilities	62,466,990	63,217,812
Security and professional fees	156,663,866	145,265,163
Others	163,115,420	209,534,842
	₱613,632,210	₱596,012,590

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

23. Employee Benefits

Employee Benefit Cost

Total personnel expenses, consisting of salaries, expense related to defined benefit plans and other employee benefits, are included in flying operations, aircraft traffic and servicing, repairs and maintenance, reservation and sales, general and administrative, and passenger service.

Defined Benefit Plan

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

24. Earnings Per Share

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

	2014	2013
(a) Net income attributable to common shareholders	₱3,177,821,573	₱1,414,205,089
(b) Weighted average number of common shares for basic EPS	605,953,330	605,953,330
(c) Basic/diluted earnings per share	₱5.24	₱2.33

The Group has no dilutive potential common shares in 2014 and 2013.

25. Related Party Transaction

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

The Group has entered into transactions with its ultimate parent, its JV and affiliates principally consisting of advances, sale of passenger tickets, reimbursement of expenses, regular banking transactions, maintenance and administrative service agreements.

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plans.

26. Financial Risk Management Objectives and Policies

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

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

Risk Management Structure

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

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

The Group and the ultimate parent with its other subsidiaries (JGSHI Group) created the following separate board-level independent committees with explicit authority and responsibility for managing and monitoring risks.

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

Audit Committee

The Group's Audit Committee assists the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems, and both the internal and external audit functions of the Group. Furthermore, it is also the Audit Committee's purpose to lead in the

general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The Audit Committee also aims to ensure that:

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

Enterprise Risk Management Group (ERMG)

The fulfillment of the risk management functions of the Group's BOD is delegated to the ERMG. The ERMG is primarily responsible for the execution of the Enterprise Risk Management (ERM) framework. The ERMG's main concerns include:

- formulation of risk policies, strategies, principles, framework and limits;
- management of the fundamental risk issues and monitoring of relevant risk decisions;
- support to management in implementing the risk policies and strategies; and
- development of a risk awareness program.

Corporate Governance Compliance Officer

Compliance with the principles of good corporate governance is one of the objectives of the Group's BOD. To assist the Group's BOD in achieving this purpose, the Group's BOD has designated a Compliance Officer who shall be responsible for monitoring the actual compliance of the Group with the provisions and requirements of good corporate governance, identifying and monitoring control compliance risks, determining violations, and recommending penalties for such infringements for further review and approval of the Group's BOD, among others.

Day-to-day Risk Management Functions

At the business unit or company level, the day-to-day risk management functions are handled by four different groups, namely:

1. Risk-taking personnel - this group includes line personnel who initiate and are directly accountable for all risks taken.
2. Risk control and compliance - this group includes middle management personnel who perform the day-to-day compliance check to approved risk policies and risks mitigation decisions.
3. Support - this group includes back office personnel who support the line personnel.
4. Risk management - this group pertains to the Group's Management Committee which makes risk mitigating decisions within the enterprise-wide risk management framework.

ERM Framework

The Group's BOD is also responsible for establishing and maintaining a sound risk management framework and is accountable for risks taken by the Group. The Group's BOD also shares the responsibility with the ERMG in promoting the risk awareness program enterprise-wide.

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

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

Risk Management Support Groups

The Group's BOD created the following departments within the Group to support the risk management activities of the Group and the other business units:

1. Corporate Security and Safety Board (CSSB) - under the supervision of ERMG, the CSSB administers enterprise-wide policies affecting physical security of assets exposed to various forms of risks.
2. Corporate Supplier Accreditation Team (CORPSAT) - under the supervision of ERMG, the CORPSAT administers enterprise-wide procurement policies to ensure availability of supplies and services of high quality and standards to all business units.
3. Corporate Management Services (CMS) - the CMS is responsible for the formulation of enterprise-wide policies and procedures.
4. Corporate Planning and Legal Affairs (CORPLAN) - the CORPLAN is responsible for the administration of strategic planning, budgeting and performance review processes of the business units.
5. Corporate Insurance Department (CID) - the CID is responsible for the administration of the insurance program of business units concerning property, public liability, business interruption, money and fidelity, and employer compensation insurances, as well as in the procurement of performance bonds.

Risk Management Policies

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk, namely foreign currency risk, commodity price risk and interest rate risk. The Group's policies for managing the aforementioned risks are summarized below.

Credit Risk

Credit risk is defined as the risk of loss due to uncertainty in a third party's ability to meet its obligation to the Group. The Group trades only with recognized, creditworthy third parties. It is

the Group's policy that all customers who wish to trade on credit terms are being subjected to credit verification procedures. In addition, receivable balances are monitored on a continuous basis resulting in an insignificant exposure in bad debts.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash in bank and cash equivalents and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

Collateral or credit enhancements

As collateral against trade receivables from sales ticket offices or agents, the Group requires cash bonds from major sales ticket offices or agents ranging from ₱50,000 to ₱2.1 million depending on the Group's assessment of sales ticket offices and agents' credit standing and volume of transactions. As of June 30, 2014 and December 31, 2013, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities' account in the consolidated statement of financial position) amounted to ₱201.1 million and ₱196.5 million, respectively (Note 16). There are no collaterals for impaired receivables.

Impairment assessment

The Group recognizes impairment losses based on the results of its specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal overdue beyond a certain threshold. These and the other factors, either singly or in tandem, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Group in assessing and measuring impairment include: (1) specific/individual assessment; and (2) collective assessment.

Under specific/individual assessment, the Group assesses each individually significant credit exposure for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment. Among the items and factors considered by the Group when assessing and measuring specific impairment allowances are: (a) the timing of the expected cash flows; (b) the projected receipts or expected cash flows; (c) the going concern of the counterparty's business; (d) the ability of the counterparty to repay its obligations during financial crises; (e) the availability of other sources of financial support; and (f) the existing realizable value of collateral. The impairment allowances, if any, are evaluated as the need arises, in view of favorable or unfavorable developments.

With regard to the collective assessment of impairment, allowances are assessed collectively for losses on receivables that are not individually significant and for individually significant receivables when there is no apparent nor objective evidence of individual impairment yet. A particular portfolio is reviewed on a periodic basis in order to determine its corresponding appropriate allowances. The collective assessment evaluates and estimates the impairment of the portfolio in its entirety even though there is no objective evidence of impairment yet on an individual assessment. Impairment losses are estimated by taking into consideration the following deterministic information: (a) historical losses/write-offs; (b) losses which are likely to occur but have not yet occurred; and (c) the expected receipts and recoveries once impaired.

Liquidity Risk

Liquidity is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they become due without recurring unacceptable losses or costs.

The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Fund raising activities may include obtaining bank loans and availing of export credit agency facilities.

Financial assets

The analysis of financial assets held for liquidity purposes into relevant maturity grouping is based on the remaining period at the statement of financial position date to the contractual maturity date or if earlier the expected date the assets will be realized.

Financial liabilities

The relevant maturity grouping is based on the remaining period at the statement of financial position date to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When an entity is committed to make amounts available in installments, each installment is allocated to the earliest period in which the entity can be required to pay.

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates, interest rates, commodity prices or other market changes. The Group's market risk originates from its holding of foreign exchange instruments, interest-bearing instruments and derivatives.

Foreign currency risk

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

The Group does not have any foreign currency hedging arrangements.

The exchange rates used to restate the Group's foreign currency-denominated assets and liabilities as of June 30, 2014 and December 31, 2013 follow:

	June 30, 2014	December 31, 2013
US dollar	₱43.650 to US\$1.00	₱44.395 to US\$1.00
Singapore dollar	₱35.019 to SGD1.00	₱35.000 to SGD1.00
Hong Kong dollar	₱5.632 to HKD1.00	₱5.727 to HKD1.00

The following table sets forth the impact of the range of reasonably possible changes in the US dollar - Philippine peso exchange value on the Group's pre-tax income for the six months ended June 30, 2014 and for the year ended December 31, 2013 (in thousands).

	June 30, 2014 (Unaudited)		December 31, 2013 (Audited)	
Changes in foreign exchange value	₱5	(₱5)	₱5	(₱5)
Change in pre-tax income	(₱3,903,399)	₱3,903,399	(₱3,479,057)	₱3,479,057

Other than the potential impact on the Group's pre-tax income and change in equity from AFS investments, there is no other effect on equity.

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

Commodity price risk

The Group enters into commodity derivatives to manage its price risks on fuel purchases. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Depending on the economic hedge cover, the price changes on the commodity derivative positions are offset by higher or lower purchase costs on fuel. A change in price by US\$10.00 per barrel of jet fuel affects the Group's fuel costs in pre-tax income by ₱804.5 million and ₱1,414.3 million as of June 30, 2014 and December 31, 2013, respectively, in each of the covered periods, assuming no change in volume of fuel is consumed.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments recognized in the consolidated statement of financial position and on some financial instruments not recognized in the consolidated statement of financial position (i.e., some loan commitments, if any). The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt (Note 17).

The following table sets forth the impact of the range of reasonably possible changes in interest rates on the Group's pre-tax income for the six months ended June 30, 2014 and for the year ended December 31, 2013.

	June 30, 2014 (Unaudited)		December 31, 2013 (Audited)	
Changes in interest rates	1.50%	(1.50%)	1.50%	(1.50%)
Changes in pre-tax income	(₱82,685,478)	₱82,685,478	(₱113,939,099)	₱113,939,099

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

27. Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of its financial instruments are:

Cash and cash equivalents (excluding cash on hand), Receivables and Accounts payable and other accrued liabilities

Carrying amounts approximate their fair values due to the relatively short-term maturity of these instruments.

Investments in quoted equity securities

Fair values are based on quoted prices published in markets.

Amounts due from and due to related parties

Carrying amounts of due from/to related parties, which are receivable/payable and due on demand, approximate their fair values.

Non-interest bearing refundable deposits

The fair values are determined based on the present value of estimated future cash flows using prevailing market rates. The Group used a discount rate of 3% to 4% in 2014 and 2013.

Derivative instruments

The fair values of fuel derivatives are based on quotes obtained from an independent counterparty.

Long-term debt

The fair value of long-term debt is determined using the discounted cash flow methodology, with reference to the Group's current incremental lending rates for similar types of loans. The discount curve used range from 2% to 6% as of June 30, 2014 and December 31, 2013.

28. Commitments and Contingencies

Operating Aircraft Lease Commitments

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

A320 aircraft

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

Date of Lease Agreement	Lessors	No. of Units	Lease Expiry
April 2007	Inishcrean Leasing Limited (Inishcrean)	1	October 2016
May 2007	CIT Aerospace International	1	October 2014
March 2008	GY Aviation Lease 0905 Co. Limited	2	January 2017
March 2008	APTREE Aviation Trading 2 Co. Ltd	1	October 2019
	Wells Fargo Bank Northwest National Assoc.	1	October 2019
July 2011	SMBC Aviation Capital Limited	2	February 2018
March 2014	Tiger Airways Singapore Pte. Ltd.	2	July 2014

Note: The lease agreements were amended, when applicable, to effect the novation of lease rights by the original lessors to new lessors as allowed under the lease agreements.

In 2007, the Group entered into operating lease agreement with Inishcrean for the lease of one Airbus A320, which was delivered in 2007, and with CIT Aerospace International for the lease of one Airbus A320 aircraft, which was delivered in 2008.

In March 2008, the Group entered into operating lease agreements for the lease of two Airbus A320 aircraft, which were delivered in 2009, and two Airbus A320 aircraft to be received in 2012. In November 2010, the Group signed an amendment to the operating lease agreements, advancing the delivery of the two Airbus A320 aircraft to 2011 from 2012.

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

A330 aircraft

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

Date of Lease Agreement	Lessors	No. of Units	Lease Term
February 2012	CIT Aerospace International	4	12 years with pre-termination option
July 2013	Intrepid Aviation	2	12 years with pre-termination option

On February 21, 2012, the Group entered into a lease agreement with CIT Aerospace International for four Airbus A330-300 aircraft, which are scheduled to be delivered from June 2013 to 2014. The lease term of the aircraft is 12 years with an early pre-termination option.

The first two A330 aircraft were delivered in June 2013 and September 2013. The third and fourth A330 aircraft were delivered in February 2014 and May 2014, respectively.

On July 19, 2013, the Group entered into an aircraft operating lease agreements with Intrepid Aviation for the lease of two Airbus A330-300 aircrafts, which are scheduled to be delivered from 2014 to 2015.

Lease expenses relating to aircraft leases (included in 'Aircraft and engine lease' account in the consolidated statements of comprehensive income) amounted to ₱1,735.4 million and ₱955.6 million in 2014 and 2013, respectively.

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

	2014		2013	
	In USD	In Php	In USD	In Php
Within one year	\$83,658,719	₱3,651,703,088	\$66,533,282	₱2,874,237,797
After one year but not more than five years	321,701,540	14,042,272,233	327,598,836	14,152,269,709
Over five years	430,149,259	18,776,015,170	496,415,116	21,445,132,996
	\$835,509,518	₱36,469,990,491	\$890,547,234	₱38,471,640,502

Operating Non-Aircraft Lease Commitments

The Group has entered into various lease agreements for its hangar, office spaces, ticketing stations and certain equipment. These leases have remaining lease terms ranging from one to ten years. Certain leases include a clause to enable upward revision of the annual rental charge ranging from 5.00% to 10.00%.

Future minimum lease payments under these noncancellable operating leases follow:

	2014	2013
Within one year	₱118,852,332	₱112,241,963
After one year but not more than five years	541,227,657	514,822,726
Over five years	887,987,218	1,033,244,481
	₱1,548,067,207	₱1,660,309,170

Lease expenses relating to both cancellable and non-cancellable non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱164.1 million and ₱145.2 million for the six months ended June 30, 2014 and 2013, respectively.

Service Maintenance Commitments

On June 21, 2012, the Company has entered into an agreement with Messier-Bugatti-Dowty (Safran group) to purchase wheels and brakes for its fleet of Airbus A319 and A320 aircraft. The contract covers the current fleet, as well as future aircraft to be acquired.

On June 22, 2012, the Group has entered into service contract with Rolls-Royce Total Care Services Limited (Rolls-Royce) for service support for the engines of the A330 aircraft. Rolls-Royce will provide long-term TotalCare service support for the Trent 700 engines on up to eight A330 aircraft.

On July 12, 2012, the Company has entered into a maintenance service contract with SIA Engineering Co. Ltd. for the maintenance, repair and overhaul services of its A319 and A320 aircraft.

Aircraft and Spare Engine Purchase Commitments

In 2007, the Group entered into a purchase agreement with Airbus S.A.S covering the purchase of ten A320 aircraft and the right to purchase five option aircraft.

In 2009, the Group exercised its option to purchase the five additional aircraft. Further, an amendment to the purchase agreement was executed, which provided the Group the right to purchase up to five additional option aircraft.

In 2010, the Group exercised its option to purchase five additional option Airbus A320 aircraft and entered into a new commitment to purchase two Airbus A320 aircraft to be delivered between 2011 and 2014. Six of these aircraft were delivered between September 2011 and December 2013.

On May 2011, the Group turned into firm orders its existing options for the seven Airbus A320 aircraft which are scheduled to be delivered in 2015 to 2016.

On August 2011, the Group entered in a new commitment to purchase firm orders of thirty new A321 NEO Aircraft and ten addition option orders. These aircraft are scheduled to be delivered from 2017 to 2021.

On June 28, 2012, the Group has entered into an agreement with United Technologies International Corporation Pratt & Whitney Division to purchase new PurePower® PW1100G-JM engines for its 30 firm and ten options A321 NEO aircraft to be delivered beginning 2017. The agreement also includes an engine maintenance services program for a period of ten years from the date of entry into service of each engine.

As of June 30, 2014, the Group will take delivery of 11 more Airbus A320, 3 Airbus A330 and 30 Airbus A321 NEO aircraft.

The above-indicated commitments relate to the Group's re-fleeting and expansion programs.

Capital Expenditure Commitments

The Group's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to P68.47 billion and P56.40 billion as of June 30, 2014 and, 2013, respectively.

	2014		2013	
	In USD	In Php	In USD	In Php
Within one year	\$210,375,561	P9,182,893,255	\$189,215,133	P8,174,093,726
After one year but not more than five years	1,471,484,407	64,230,294,368	\$1,116,166,267	48,218,382,714
	\$1,681,859,968	P73,413,187,623	\$1,305,381,400	P56,392,476,440

Contingencies

The Group has pending suits and claims for sums of money against certain general sales agents which are either pending decision by the courts or being contested, the outcome of which are not presently determinable. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations.

The Group has a pending tax pre-assessment, the outcome of which is not presently determinable.

29. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The principal noncash activities of the Group were as follows:

- a. On June 30, 2013, the Group recognized a liability based on the schedule of pre-delivery payments amounting to ₱345.0 million with a corresponding debit to 'Construction-in progress' account. The liability was paid on July 2013.
- b. On June 30, 2014, the Group recognized a liability based on the schedule of pre-delivery payments amounting to ₱376.9 million with a corresponding debit to 'Construction-in progress' account. The liability was paid on July 2014.

30. Events After the Statement of Financial Position Date

No material subsequent events to the end of the interim period have occurred that would require recognition disclosure in the consolidated financial statements for the interim period.